

**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 September 30, 2019

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

(State or other jurisdiction of
incorporation or organization)

**2 Canal Park, 4th Floor
Cambridge, Massachusetts**

(Address of principal executive offices)

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

04-3843478

(I.R.S. Employer
Identification No.)

02141

(Zip Code)

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

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Exchange on Which Registered</u>
Class A Common Stock, par value \$0.001 per share	CARG	The Nasdaq Stock Market LLC (Nasdaq Global Select Market)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Small reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 October 31, 2019, the registrant had 91,447,156 shares of Class A common stock, \$0.001 par value per share, and 20,502,084 shares of Class B common stock, par value \$0.001 per share, outstanding.

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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,” “likely,” “may,” “might,” “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 continue to expand internationally;
- our ability to realize benefits from our acquisition of PistonHeads and successfully implement the integration strategies in connection therewith;
- 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;
- the migration of some of our data-hosting to a different third-party data-hosting facility;
- 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;
- 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 or joint ventures in which we may be involved, 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 September 30, 2019	At December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	\$ 29,514	\$ 34,887
Investments	134,808	122,800
Accounts receivable, net of allowance for doubtful accounts of \$216 and \$479 at September 30, 2019 and December 31, 2018, respectively	17,892	13,614
Prepaid expenses and prepaid income taxes	8,381	10,144
Deferred contract costs	8,170	5,253
Other current assets	7,167	7,410
Restricted cash	250	750
Total current assets	206,182	194,858
Property and equipment, net	27,568	24,269
Intangible assets	3,982	—
Goodwill	14,828	—
Operating lease right-of-use assets	56,439	—
Restricted cash	1,914	1,921
Deferred tax assets	44,200	38,886
Deferred contract costs, net of current portion	9,944	7,252
Other long-term assets	4,326	1,104
Total assets	<u>\$ 369,383</u>	<u>\$ 268,290</u>
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 42,752	\$ 34,345
Accrued expenses, accrued income taxes and other current liabilities	14,022	18,654
Deferred revenue	7,781	8,811
Operating lease liabilities	7,823	1,693
Total current liabilities	72,378	63,503
Operating lease liabilities	57,806	9,395
Deferred tax liabilities	289	—
Other non-current liabilities	1,808	1,281
Total liabilities	132,281	74,179
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Class A common stock, \$0.001 par value per share; 500,000,000 shares authorized; 91,312,647 and 89,728,223 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	91	90
Class B common stock, \$0.001 par value per share; 100,000,000 shares authorized; 20,502,084 and 20,702,084 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	21	21
Additional paid-in capital	199,228	184,216
Retained earnings	38,688	9,713
Accumulated other comprehensive (loss) income	(926)	71
Total stockholders' equity	237,102	194,111
Total liabilities and stockholders' equity	<u>\$ 369,383</u>	<u>\$ 268,290</u>

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue	\$ 150,462	\$ 119,125	\$ 430,763	\$ 327,996
Cost of revenue ⁽¹⁾	9,392	6,412	25,740	17,940
Gross profit	141,070	112,713	405,023	310,056
Operating expenses:				
Sales and marketing	100,133	82,708	293,238	229,948
Product, technology, and development	17,745	12,771	51,063	33,713
General and administrative	12,322	10,630	36,622	28,042
Depreciation and amortization	1,166	727	3,413	2,064
Total operating expenses	131,366	106,836	384,336	293,767
Income from operations	9,704	5,877	20,687	16,289
Other income, net:				
Interest income	759	639	2,247	1,571
Other income (expense), net	251	(38)	1,258	15
Total other income, net	1,010	601	3,505	1,586
Income before income taxes	10,714	6,478	24,192	17,875
Provision for (benefit from) income taxes	330	(7,404)	(4,783)	(34,845)
Net income	\$ 10,384	\$ 13,882	\$ 28,975	\$ 52,720
Net income per share attributable to common stockholders: (Note 10)				
Basic	\$ 0.09	\$ 0.13	\$ 0.26	\$ 0.49
Diluted	\$ 0.09	\$ 0.12	\$ 0.26	\$ 0.47
Weighted-average number of shares of common stock used in computing net income per share attributable to common stockholders:				
Basic	111,662,949	109,628,692	111,257,271	108,367,270
Diluted	113,364,775	113,601,415	113,389,695	113,351,150

(1) Includes depreciation and amortization expense for the three months ended September 30, 2019 and 2018 and for the nine months ended September 30, 2019 and 2018 of \$952, \$581, \$2,246 and \$1,701, 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 10,384	\$ 13,882	\$ 28,975	\$ 52,720
Other comprehensive loss:				
Foreign currency translation adjustment	(929)	(12)	(997)	(92)
Comprehensive income	<u>\$ 9,455</u>	<u>\$ 13,870</u>	<u>\$ 27,978</u>	<u>\$ 52,628</u>

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 (Loss) Income	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2018	89,728,223	\$ 90	20,702,084	\$ 21	\$ 184,216	\$ 71	\$ 9,713	\$ 194,111
Net income	—	—	—	—	—	—	12,584	12,584
Stock-based compensation expense	—	—	—	—	7,995	—	—	7,995
Issuance of common stock upon exercise of stock options	447,210	—	—	—	697	—	—	697
Issuance of common stock upon vesting of restricted stock units	297,374	—	—	—	—	—	—	—
Payment of withholding taxes on net share settlements of equity awards	(102,034)	—	—	—	(3,954)	—	—	(3,954)
Foreign currency translation adjustment	—	—	—	—	—	(424)	—	(424)
Balance at March 31, 2019	90,370,773	90	20,702,084	21	188,954	(353)	22,297	211,009
Net income	—	—	—	—	—	—	6,007	6,007
Stock-based compensation expense	—	—	—	—	9,260	—	—	9,260
Issuance of common stock upon exercise of stock options	133,838	—	—	—	391	—	—	391
Issuance of common stock upon vesting of restricted stock units	362,447	1	—	—	(1)	—	—	—
Payment of withholding taxes and option costs on net share settlement of restricted stock units and stock options	(122,137)	—	—	—	(4,637)	—	—	(4,637)
Foreign currency translation adjustment	—	—	—	—	—	356	—	356
Balance at June 30, 2019	90,744,921	91	20,702,084	21	193,967	3	28,304	222,386
Net income	—	—	—	—	—	—	10,384	10,384
Stock-based compensation expense	—	—	—	—	9,085	—	—	9,085
Issuance of common stock upon exercise of stock options	144,760	—	—	—	368	—	—	368
Issuance of common stock upon vesting of restricted stock units	343,909	—	—	—	—	—	—	—
Payment of withholding taxes on net share settlements of equity awards	(120,943)	—	—	—	(4,192)	—	—	(4,192)
Conversion of common stock	200,000	—	(200,000)	—	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	(929)	—	(929)
Balance at September 30, 2019	91,312,647	\$ 91	20,502,084	\$ 21	\$ 199,228	\$ (926)	\$ 38,688	\$ 237,102
Balance at December 31, 2017	77,884,754	\$ 78	28,226,104	\$ 28	\$ 185,190	\$ 228	\$ (58,499)	\$ 127,025
Net income	—	—	—	—	—	—	5,495	5,495
Stock-based compensation expense	—	—	—	—	3,967	—	—	3,967
Issuance of common stock upon exercise of stock options	6,574	—	10,690	—	80	—	—	80
Cumulative adjustment from adoption of revenue recognition model	—	—	—	—	—	—	3,042	3,042
Conversion of common stock	7,534,710	7	(7,534,710)	(7)	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	72	—	72
Balance at March 31, 2018	85,426,038	85	20,702,084	21	189,237	300	(49,962)	139,681
Net income	—	—	—	—	—	—	33,343	33,343
Stock-based compensation expense	—	—	—	—	5,666	—	—	5,666
Issuance of common stock upon exercise of stock options	2,466,744	3	—	—	2,302	—	—	2,305
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)
Foreign currency translation adjustment	—	—	—	—	—	(152)	—	(152)
Balance at June 30, 2018	88,682,807	89	20,702,084	21	179,716	148	(16,619)	163,355
Net income	—	—	—	—	—	—	13,882	13,882
Stock-based compensation expense	—	—	—	—	5,617	—	—	5,617
Issuance of common stock upon exercise of stock options	411,731	—	—	—	676	—	—	676
Issuance of common stock upon vesting of restricted stock units	260,464	—	—	—	—	—	—	—
Payment of withholding taxes on net share settlements of equity awards	(93,933)	—	—	—	(4,379)	—	—	(4,379)
Foreign currency translation adjustment	—	—	—	—	—	(12)	—	(12)
Balance at September 30, 2018	89,261,069	\$ 89	20,702,084	\$ 21	\$ 181,630	\$ 136	\$ (2,737)	\$ 179,139

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

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	Nine Months Ended September 30,	
	2019	2018
Operating Activities		
Net income	\$ 28,975	\$ 52,720
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,659	3,765
Currency gain on foreign denominated transactions	(927)	(56)
Deferred taxes	(5,025)	(34,543)
Provision for doubtful accounts	695	1,246
Stock-based compensation expense	25,390	14,951
Amortization of deferred contract costs	5,797	2,355
Changes in operating assets and liabilities:		
Accounts receivable	(4,984)	(1,168)
Prepaid expenses, prepaid income taxes, and other assets	(871)	(8,648)
Deferred contract costs	(11,442)	(9,715)
Accounts payable	10,740	11,462
Accrued expenses, accrued income taxes, and other current liabilities	(2,047)	(2,964)
Deferred revenue	(1,027)	3,381
Lease obligations	(1,882)	1,466
Other non-current liabilities	500	347
Net cash provided by operating activities	<u>49,551</u>	<u>34,599</u>
Investing Activities		
Purchases of property and equipment	(10,765)	(1,873)
Capitalization of website development costs	(2,074)	(978)
Cash paid for acquisition	(19,139)	—
Investments in certificates of deposit	(134,808)	(130,000)
Maturities of certificates of deposit	122,800	110,000
Net cash used in investing activities	<u>(43,986)</u>	<u>(22,851)</u>
Financing Activities		
Proceeds from exercise of stock options	1,456	3,061
Financing cash flows from finance leases	(21)	—
Payment of initial public offering costs	—	(1,142)
Payment of withholding taxes and option costs on net share settlement of restricted stock units and stock options	(12,783)	(21,867)
Net cash used in financing activities	<u>(11,348)</u>	<u>(19,948)</u>
Impact of foreign currency on cash, cash equivalents, and restricted cash	(97)	(54)
Net decrease in cash, cash equivalents, and restricted cash	(5,880)	(8,254)
Cash, cash equivalents, and restricted cash at beginning of period	37,558	89,552
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 31,678</u>	<u>\$ 81,298</u>
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	<u>\$ 153</u>	<u>\$ 2,320</u>
Unpaid purchases of property and equipment and internal-use software	<u>\$ 244</u>	<u>\$ 2,201</u>
Capitalized stock-based compensation expense in website development and internal-use software costs	<u>\$ 950</u>	<u>\$ 299</u>
Cash paid for operating lease liabilities	<u>\$ 8,465</u>	<u>\$ —</u>

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

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 online marketplaces in Canada, the United Kingdom, Germany, Italy, and Spain. The Company has 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, 2018 included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission (“SEC”) on February 28, 2019 (the “2018 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 September 30, 2019 and December 31, 2018, results of operations, comprehensive income, and changes in shareholders’ equity for the three and nine months ended September 30, 2019 and 2018 and cash flows for the nine months ended September 30, 2019 and 2018. These interim period results are not necessarily indicative of the results to be expected for any other interim period or the full year.

The results of operations for the three and nine months ended September 30, 2018 and statement of cash flows for the nine months ended September 30, 2018, were adjusted due to the impact of the adoption of Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers* (“Topic 606”).

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 September 30, 2019, there have been no material changes in the Company’s significant accounting policies from those that were disclosed in the 2018 Annual Report, other than those resulting from the adoption of Accounting Standards Update (“ASU”) No. 2016-02, *Leases* (Topic 842) (as amended, “ASC 842”), which is described below.

Principles of Consolidation

The accompanying Unaudited Condensed Consolidated Financial Statements include the accounts of the Company and its 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 reserve, variable consideration, the valuation of goodwill and intangible assets, the capitalization of product, technology, and development costs for website development and internal-use software, 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.

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 three and nine months ended September 30, 2019 and 2018, no individual customer accounted for more than 10% of total revenue.

As of September 30, 2019, one customer accounted for 26% of net accounts receivable. As of December 31, 2018, two customers accounted for 21% and 14% of net accounts receivable, respectively. No other individual customer accounted for more than 10% of net accounts receivable at September 30, 2019 or December 31, 2018.

Included in net accounts receivable at September 30, 2019 and December 31, 2018, is \$6,509 and \$5,815, respectively, of unbilled accounts receivable primarily related to advertising customers billed within a quarter subsequent to services rendered.

Revenue Recognition

The following table summarizes revenue from contracts with customers by revenue source for the three and nine months ended September 30, 2019 and 2018.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue by Revenue Stream				
Marketplace subscription revenue	\$ 135,542	\$ 105,930	\$ 385,481	\$ 292,812
Advertising and other revenue	14,920	13,195	45,282	35,184
Total	<u>\$ 150,462</u>	<u>\$ 119,125</u>	<u>\$ 430,763</u>	<u>\$ 327,996</u>

The Company provides disaggregation of revenue based on the marketplace subscription versus advertising and other revenue classification in the table above and based on geographic region (see Note 12) as it believes these categories best depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

From time to time, the Company may enter into contracts that include variable consideration, for which the Company estimates the value of the variable consideration in determining the transaction price and allocates it to the appropriate performance obligation(s). The Company reassesses any estimates of variable consideration at each reporting period.

Topic 606 requires that the Company disclose the aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied as of the relevant quarter end.

For contracts with an original expected duration greater than one year, the aggregate amount of the transaction price allocated to the performance obligations that were unsatisfied as of September 30, 2019 was \$2,865, which the Company expects to recognize over an average of nine months.

For contracts with an original expected duration of one year or less, the Company has applied the practical expedient available under Topic 606 to not disclose the amount of transaction price allocated to unsatisfied performance obligations as of September 30, 2019. For performance obligations not satisfied as of September 30, 2019, and to which this expedient applies, the nature of the performance obligations, the variable consideration and any consideration from contracts with customers not included in the transaction price is consistent with performance obligations satisfied as of September 30, 2019. The remaining duration is less than one year.

Revenue recognized during the nine months ended September 30, 2019 from amounts included in deferred revenue at the beginning of the period was approximately \$8,811.

Recent Accounting Pronouncements Adopted

Lease Accounting

In February 2016, the Financial Accounting Standards Board (the "FASB") issued ASC 842. ASC 842 requires a lessee to recognize most leases on the Unaudited Condensed Consolidated Balance Sheet but recognize expenses on the Unaudited Condensed Consolidated 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. The Company adopted ASC 842 as of January 1, 2019, using the additional transition method offered through ASU No. 2018-11. This approach provides a method for recording existing leases at the adoption date and recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

Lease Overview

The Company's operating lease obligations consist of various leases for office space in: Cambridge, Massachusetts; Detroit, Michigan; Los Angeles, California; Dublin, Ireland; and London, United Kingdom. The Detroit, Los Angeles and London leases are immaterial to the Company. The Company also has an operating lease obligation for data center space in Needham, Massachusetts.

On August 30, 2019, the Company amended its operating lease agreement in Cambridge, Massachusetts at 55 Cambridge Parkway, which was originally entered into on March 11, 2016 and subsequently amended on July 30, 2016, for the lease of 51,923 square feet of office space. The 2019 amendment granted the Company an additional 36,689 square feet of office space and extended the non-cancellable lease term through 2025 for the office space currently occupied. The Company accounted for the additional 36,689 square feet of office space as a new lease as it provides an additional right-of-use asset that is not included in the original lease and the additional lease payments were determined to be commensurate with the standalone price of the additional space. The non-cancellable lease term of the additional space ends in 2025, with a portion ending in 2023. The term extension of the existing 51,923 square feet of office space was recorded as a lease modification within the Unaudited Condensed Consolidated Balance Sheet as of September 30, 2019. The lease, as amended, provides for (i) an option to extend the lease term with respect to a portion of the office space for an additional period of five-years, (ii) leasehold improvement incentives and (iii) annual rent increases through the term of the lease.

On May 1, 2019, the Company entered into an operating lease in Needham, Massachusetts for the lease of data center space with a non-cancellable term through 2022 with automatic renewal for one year thereafter if not terminated. The lease provides for annual rent increases through the term of the lease.

On June 19, 2018, the Company entered into an operating lease in Cambridge, Massachusetts at 121 First St. for the lease of 48,393 square feet of office space with a non-cancellable lease term through 2033 with an option to extend the lease term for two additional periods of five years each. The lease provided for leasehold improvement incentives and provides for annual rent increases through the term of the lease. The Company subleases the fifth floor and records the sublease income in other income (expense), net within the Unaudited Condensed Consolidated Income Statement. The sublease income is immaterial.

On September 26, 2017, the Company assumed an operating lease, which was entered into by the original lessee on August 12, 2013, in Dublin, Ireland at Styne House, Upper Hatch St. for the lease of 13,345 square feet of office space with a non-cancellable term through 2023. The lease provided for a rent increase at the end of year five of the original lease term.

On October 8, 2014, the Company entered into an operating lease in Cambridge, Massachusetts at 2 Canal Park for the lease of 48,059 square feet of office space with a non-cancellable lease term through 2022 with an option to extend the lease term for one additional period of five years. The lease provided for leasehold improvement incentives and provides for annual rent increases through the term of the lease.

The Company's financing lease obligations consist of a lease for office equipment and are immaterial.

The leases in Cambridge, Massachusetts have associated letters of credit, which are recorded as restricted cash within the Unaudited Condensed Consolidated Balance Sheet. At September 30, 2019 and December 31, 2018, restricted cash was \$2,164 and \$2,671, respectively, and primarily related to cash held at a financial institution in an interest-bearing cash account as collateral for the letters of credit related to the contractual provisions for the Company's building lease security deposits. At September 30, 2019 and December 31, 2018, portions of restricted cash were classified as a short-term asset and long-term asset. Additionally, the 121 First St. lease agreement has an associated security deposit, which is recorded in other assets, net within the Unaudited Condensed Consolidated Balance Sheet.

Prior to adoption of ASC 842

The Company categorized leases at their inception as either operating or capital leases. On certain lease arrangements, the Company may have received rent holidays or other incentives. The Company recognized lease costs on a straight-line basis once it achieved control of the space, without regard to deferred payment terms, such as rent holidays, that deferred the commencement date of required payments or escalating payment amounts. The Company recorded the difference between required lease payments and rent expense as deferred rent. Additionally, incentives received were treated as a reduction of costs over the term of the agreement, as they were considered an inseparable part of the lease agreement.

Post adoption of ASC 842

Upon adoption, the Company elected the transition relief package, permitted within the standard, pursuant to which the Company did not reassess the classification of existing leases, whether any expired or existing contracts contain a lease, and whether existing leases have any initial direct costs. The Company also elected the practical expedient on not separating lease components from non-lease components for all leases.

The Company reviews all material contracts for embedded leases to determine if they have a right-of-use asset.

The Company recognizes rent expense on a straight-line basis over the lease period. The depreciable life of assets and leasehold improvement are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

The Company also made an accounting policy election to not recognize a lease liability or right-of-use asset on its Unaudited Condensed Consolidated Balance Sheet for leases with an initial term of twelve months or less, and instead recognize lease payments on the Unaudited Condensed Consolidated Income Statement on a straight-line basis over the lease term and variable lease payments that do not depend on an index or rate as expense in the period in which the achievement of the specified target that triggers the variable lease payments becomes probable.

Adoption of the new standard resulted in the recording of net lease assets and lease liabilities of \$52,334 and \$63,280, respectively, as of January 1, 2019. The standard did not materially impact the Unaudited Condensed Consolidated Statement of Cash Flows and had no impact on the Unaudited Condensed Consolidated Income Statement.

During the three months ended September 30, 2019 and 2018 and nine months ended September 30, 2019 and 2018, the Company recognized \$2,514, \$1,610, \$7,404 and \$4,796, respectively, of lease costs for leases that have commenced. The Company allocates lease costs across all departments based on headcount in the respective location.

As of September 30, 2019, the weighted average remaining lease term was 9.4 years and the weighted average discount rate was 5.3%. As most of the Company's leases do not provide an implicit rate, the Company uses an estimated incremental borrowing rate based on the information available at lease commencement in determining the present value of lease payments. The Company estimated the incremental borrowing rate based on the rate of interest the Company would have to pay to borrow a similar amount on a collateralized basis over a similar term. The Company has no historical debt transactions and a collateralized rate is estimated based on a group of peer companies. The Company used the incremental borrowing rate on January 1, 2019 for leases that commenced prior to that date.

Future minimum lease payments as of September 30, 2019 are as follows:

<u>Year Ending December 31,</u>	<u>Operating Lease Commitments</u>
2019 (excluding the nine months ended September 30, 2019)	\$ 1,936
2020	11,219
2021	11,470
2022	11,369
2023	8,743
Thereafter	43,257
Total lease payments	\$ 87,994
Less imputed interest	(22,365)
Total	<u>\$ 65,629</u>

The chart above does not include options to extend lease terms that are not reasonably certain of being exercised or leases signed but not yet commenced as of September 30, 2019. Total estimated future minimum lease payments for leases signed but not yet commenced as of September 30, 2019 are estimated to be \$14,089 and have expected commencement dates ranging from November 2019 to December 2020.

Stock-Based Compensation

In June 2018, the FASB issued ASU 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. 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 Unaudited Condensed Consolidated Financial Statements and does not deem it to be material. The Company adopted the guidance on January 1, 2019.

Internal-Use Software

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40) Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This new standard requires companies to expense the capitalized implementation costs over the term of the hosting arrangement. Amounts expensed would be presented through operating expense, rather than depreciation or amortization. Accounting for the service component of a hosting arrangement remains unchanged. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted and an entity can elect to apply the new guidance on a prospective or retrospective basis. The Company adopted this standard effective January 1, 2019 and applied the guidance using a prospective transition method for each period presented. In the first quarter of 2019, the Company launched an initiative designed to evaluate and enhance its enterprise applications. As a result, \$2,943 of implementation costs associated with service contracts have been classified in other long-term assets in the Unaudited Condensed Balance Sheet as of September 30, 2019. The implementation costs relate to assets that had not been placed in service as of September 30, 2019.

Recent Accounting Pronouncements Not Yet Adopted

From time to time, new accounting pronouncements are issued by 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.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The new guidance simplifies the accounting for goodwill impairment by eliminating Step 2 of the goodwill impairment test. Under current guidance, Step 2 of the goodwill impairment test requires entities to calculate the implied fair value of goodwill in the same manner as the amount of goodwill recognized in a business combination by assigning the fair value of a reporting unit to all of the assets and liabilities of the reporting unit. The carrying value in excess of the implied fair value is recognized as goodwill impairment. Under the new standard, goodwill impairment is recognized based on Step 1 of the current guidance, which calculates the carrying value in excess of the reporting unit’s fair value. The new standard is effective beginning in January 2020, with early adoption permitted. The Company is currently assessing the impact that adopting this guidance will have on its Unaudited Condensed Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 and its subsequent related updates establish a new forward-looking "expected loss model" that requires entities to estimate current expected credit losses on accounts receivable and financial instruments by using all practical and relevant information. The new standard and its subsequent related updates are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption is permitted. The Company is currently assessing the impact that adopting this guidance will have on its Unaudited Condensed Consolidated Financial Statements.

3. Acquisitions

On January 8, 2019, the Company, through CarGurus UK Limited, a company incorporated in England & Wales and a wholly owned subsidiary of CarGurus Ireland Limited, a company incorporated in Ireland and a wholly owned subsidiary of the Company (the “Purchaser”), completed its acquisition of PistonHeads, a UK-based automotive website (“PistonHeads”), by acquiring the entire issued share capital of Haymarket New4 Ltd., a company incorporated in England & Wales and now known as PistonHeads Holdco Limited (“NewCo”), from Haymarket Media Group Ltd., a company incorporated in England & Wales (the “Seller”), on the terms and subject to the conditions set forth in the Put and Call Option Agreement dated December 3, 2018, by and among the Purchaser, the Seller and Haymarket Group Limited, a company incorporated in England & Wales. The PistonHeads website hosts used car classifieds, articles and forums. The Purchaser paid an aggregate of 15,000 GBP, or approximately \$19,139, to acquire the business, inclusive of 1,000 GBP, or approximately \$1,276, being held in escrow to secure post-closing claims, subject to the terms and conditions of an escrow agreement between the Purchaser and the Seller. Upon completion of the acquisition, NewCo became a wholly owned subsidiary of the Purchaser. The business combination is intended to expand the Company’s consumer audience in the UK. As of September 30, 2019, the Company has incurred total acquisition-related costs of \$747 related to the transaction.

The acquisition has been accounted for as a business combination under the acquisition method and, accordingly, the total purchase price is allocated to the intangible assets and goodwill. Acquired tangible assets and assumed liabilities are immaterial. The following table presents the preliminary purchase price allocation recorded in the Company's Unaudited Condensed Consolidated Balance Sheet as of the acquisition date, which is subject to finalization due to tax treatment for acquired intangible assets:

	Estimated Fair Value at Date of Acquisition	Adjustment	Adjusted Fair Value at Date of Acquisition
Intangible assets (1)	\$ 4,466	\$ —	\$ 4,466
Goodwill (2)	15,521	(655)	14,866
Deferred tax liabilities (3)	(848)	655	(193)
Total purchase price	<u>\$ 19,139</u>	<u>\$ —</u>	<u>\$ 19,139</u>

- (1) Identifiable definite-lived intangible assets were comprised of brand and customer relationships of \$3,445 and \$1,021, respectively, with estimated useful lives of 11 years and 3 years, respectively, which will be amortized on a straight-line basis over their estimated useful lives.
- (2) The goodwill represents the excess value of the purchase price over intangible assets acquired. The goodwill in this transaction is primarily attributable to future customer growth in the UK market as a result of acquiring an established platform and applying the Company's technology to help improve the website experience on such platform; thus, helping to drive additional traffic to the PistonHeads website in the future. All goodwill is assigned to the International segment. The acquisition of PistonHeads was a stock acquisition and goodwill is not deductible for tax purposes.
- (3) The deferred tax liability corresponds to the acquired intangible assets which do not have tax basis. As the Company continued to refine its purchasing price accounting, it determined to reduce the deferred tax liability which resulted in an adjustment to goodwill.

Actual and pro forma results for this acquisition have not been presented as the financial impact to the Company's Unaudited Condensed Consolidated Financial Statements is not material.

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

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 September 30, 2019 and at December 31, 2018:

	At September 30, 2019			
	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
Cash equivalents:				
Money market funds	\$ 5,056	\$ —	\$ —	\$ 5,056
Investments:				
Certificates of deposit	—	134,808	—	134,808
Total	<u>\$ 5,056</u>	<u>\$ 134,808</u>	<u>\$ —</u>	<u>\$ 139,864</u>

	At December 31, 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
Cash equivalents:				
Money market funds	\$ 24	\$ —	\$ —	\$ 24
Investments:				
Certificates of deposit	—	122,800	—	122,800
Total	<u>\$ 24</u>	<u>\$ 122,800</u>	<u>\$ —</u>	<u>\$ 122,824</u>

Certificates of deposit at September 30, 2019 and December 31, 2018 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. There were no liabilities that were measured at fair value as of September 30, 2019 and December 31, 2018. 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 and did not elect the fair value option for any financial assets transacted during the nine months ended September 30, 2019 or the year ended December 31, 2018.

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 September 30, 2019 and December 31, 2018:

	At September 30, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents due in 90 days or less	\$ 29,514	\$ —	\$ —	\$ 29,514
Investments:				
Certificates of deposit due in one year or less	134,808	—	—	134,808
Total cash, cash equivalents, and investments	<u>\$ 164,322</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 164,322</u>
	At December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents due in 90 days or less	\$ 34,887	\$ —	\$ —	\$ 34,887
Investments:				
Certificates of deposit due in one year or less	122,800	—	—	122,800
Total cash, cash equivalents, and investments	<u>\$ 157,687</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 157,687</u>

5. Property and Equipment, Net

Property and equipment consists of the following:

	At September 30, 2019	At December 31, 2018
Computer equipment	\$ 7,905	\$ 4,208
Capitalized software	181	252
Capitalized website development costs	9,767	6,907
Furniture and fixtures	6,648	4,584
Leasehold improvements	19,483	10,821
Construction in progress	—	8,971
Finance lease right-of-use assets	88	—
	44,072	35,743
Less accumulated depreciation and amortization	(16,504)	(11,474)
Property and equipment, net	<u>\$ 27,568</u>	<u>\$ 24,269</u>

Depreciation and amortization expense, excluding amortization of intangible assets, was \$1,951, \$1,308, \$5,173 and \$3,765 for the three months ended September 30, 2019 and 2018 and for the nine months ended September 30, 2019 and 2018, respectively. The increase of \$8,662 in leasehold improvements and the decrease of \$8,971 in construction in progress at September 30, 2019 were primarily due to costs incurred to build out the Company's new leased facility at 121 First St. in Cambridge, Massachusetts. The facility became occupied subsequent to December 31, 2018 at which time the assets ceased to be classified as construction in progress and became classified as leasehold improvement.

6. Goodwill and other intangible assets

Goodwill

The changes in the carrying value of goodwill were as follows:

Balance at December 31, 2018	\$	—
Initial value of PistonHeads acquisition		15,521
Foreign currency translation adjustment		(38)
Purchase price adjustment (1)		(655)
Balance at September 30, 2019	\$	<u>14,828</u>

(1) The purchase price adjustment corresponds to an adjustment for the deferred tax liability as the Company continues to refine income tax treatment.

The Company did not have a goodwill balance prior to the closing of the PistonHeads acquisition on January 8, 2019. The Company tests goodwill for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Other Intangible Assets

Intangible assets as of September 30, 2019 consist of the following:

	Weighted Average Remaining Useful Life (years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Brand	10.3	\$ 3,441	\$ 233	\$ 3,208
Customer relationships	2.3	1,027	253	774
Total		<u>\$ 4,468</u>	<u>\$ 486</u>	<u>\$ 3,982</u>

The Company did not have intangible assets prior to the closing of the PistonHeads acquisition on January 8, 2019. The Company recorded amortization expense related to intangible assets of \$167 and \$486 for the three and nine months ended September 30, 2019, respectively.

The estimated useful life of brand and customer relationships is 11 years and 3 years, respectively. The Company evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

Estimated amortization expense of intangible assets for future periods as of September 30, 2019, is as follows:

Year Ending December 31,	Amortization Expense
Remainder of 2019	\$ 161
2020	642
2021	642
2022	338
2023	310
2024 and thereafter	1,889
Total	<u>\$ 3,982</u>

7. Accrued expenses, accrued income taxes and other current liabilities

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

	At September 30, 2019	At December 31, 2018
Accrued bonus	\$ 5,245	\$ 8,266
Other accrued expenses, accrued income taxes and other current liabilities	8,777	10,388
Total	<u>\$ 14,022</u>	<u>\$ 18,654</u>

8. Commitments and Contingencies

Contractual Obligations and Commitments

As of September 30, 2019, there were no material changes in the Company's contractual obligations and commitments from those disclosed in the 2018 Annual Report, other than those discussed in Note 2. All of the Company's property, equipment, and internal-use software have been purchased with cash with the exception of \$244 of unpaid property, equipment, and internal-use software costs and immaterial amounts related to finance lease obligations as of September 30, 2019. The Company has no material long-term purchase obligations outstanding with any vendors or third parties.

Legal Matters

From time to time the Company may become involved in legal proceedings or be subject to claims arising in the ordinary course of its business. The Company is not presently subject to any pending or threatened litigation that it believes, if determined adversely to the Company, individually, or taken together, would reasonably be expected to have a material adverse effect on its business or financial results.

Guarantees and Indemnification Obligations

In the ordinary course of business, the Company enters into agreements with its customers that include commercial provisions with respect to licensing, infringement, indemnification, and other common 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 September 30, 2019 and December 31, 2018, the Company has not incurred any costs for guarantees or indemnities.

9. Stock-based Compensation

Total stock-based compensation expense was \$8,761, \$5,528, \$25,390 and \$14,951 for the three months ended September 30, 2019 and 2018 and for the nine months ended September 30, 2019 and 2018, 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Options	\$ 35	\$ 63	\$ 130	\$ 192
RSUs	8,726	5,465	25,260	14,759
Total stock-based compensation expense	<u>\$ 8,761</u>	<u>\$ 5,528</u>	<u>\$ 25,390</u>	<u>\$ 14,951</u>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Cost of revenue	\$ 92	\$ 83	\$ 268	\$ 264
Sales and marketing expense	2,520	1,216	7,392	3,762
Product, technology, and development expense	3,938	2,584	11,118	6,903
General and administrative expense	2,211	1,645	6,612	4,022
Total stock-based compensation expense	<u>\$ 8,761</u>	<u>\$ 5,528</u>	<u>\$ 25,390</u>	<u>\$ 14,951</u>

Excluded from stock-based compensation expense is \$324, \$89, \$950, and \$299 of capitalized website development and internal-use software costs for the three months ended September 30, 2019 and 2018 and for the nine months ended September 30, 2019 and 2018, respectively.

During the three months ended September 30, 2019 and 2018 and nine months ended September 30, 2019 and 2018, the Company withheld 120,943, 93,933, 345,114, and 565,403 shares of Class A common stock, respectively, to satisfy employee tax withholding requirements and option costs due to net share settlements. 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 for the employees' tax obligations to the taxing authorities and for option costs due to net share settlements were \$4,192, \$4,379, \$12,783, and \$21,867 for the three months ended September 30, 2019 and 2018 and for the nine months ended September 30, 2019 and 2018, respectively, and are reflected as a financing activity within the Unaudited Condensed Consolidated Statements of Cash Flows.

10. Earnings Per Share

Net income per share for the three and nine months ended September 30, 2019 and 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.

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 three and nine months ended September 30, 2019, holders of Class B common stock converted 200,000 shares of Class B common stock to Class A common stock. During the nine months ended September 30, 2018, holders of Class B common stock converted 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 nine months ended September 30, 2019 and 2018 consist of shares of common stock issuable upon the exercise of stock options and shares of common stock issuable upon the vesting of restricted stock units ("RSUs"). 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 nine months ended September 30, 2019 and 2018, diluted net income per share was 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.

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator:				
Net income	\$ 10,384	\$ 13,882	\$ 28,975	\$ 52,720
Denominator:				
Weighted-average number of shares of common stock used in computing net income per share attributable to common stockholders — basic	111,662,949	109,628,692	111,257,271	108,367,270
Dilutive effect of share equivalents resulting from stock options	1,052,758	2,259,533	1,232,754	3,396,906
Dilutive effect of share equivalents resulting from unvested restricted stock units	649,068	1,713,190	899,670	1,586,974
Weighted-average number of shares of common stock used in computing net income per share — diluted	113,364,775	113,601,415	113,389,695	113,351,150
Net income per share attributable to common stockholders:				
Basic	<u>\$ 0.09</u>	<u>\$ 0.13</u>	<u>\$ 0.26</u>	<u>\$ 0.49</u>
Diluted	<u>\$ 0.09</u>	<u>\$ 0.12</u>	<u>\$ 0.26</u>	<u>\$ 0.47</u>

The following potentially dilutive common stock equivalents have been excluded from the calculation of diluted weighted-average shares outstanding for the three and nine months ended September 30, 2019 and 2018, as their effect would have been anti-dilutive for the period presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Restricted stock units outstanding	1,421,473	90,460	1,191,286	83,787

11. Income Taxes

During the nine months ended September 30, 2019, the Company recorded an income tax benefit of \$4,783, representing an effective tax rate of (19.8)%. The effective tax rate for the nine months ended September 30, 2019 was lower than the statutory tax rate of 21% principally due to excess stock deductions from the taxable compensation of share-based awards and federal and state research and development tax credits, partially offset by state and local income taxes.

During the nine months ended September 30, 2018, the Company recorded an income tax benefit of \$34,845, representing an effective tax rate of (194.9)%. The effective tax rate for the nine months ended September 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 federal and state research and development tax credits, partially offset by state and local income taxes.

The Company and its subsidiaries are subject to various U.S. federal, state, and foreign income taxes. The Company is currently not subject to examination under the statute of limitations by the Internal Revenue Service and state jurisdictions for the tax years of 2014 and prior. The Company is currently open to examination in its foreign jurisdictions for tax years 2016 and after. In 2018, the Internal Revenue Service commenced a federal income tax audit with respect to the Company's 2016 tax year, which was concluded in October 2019 for an immaterial amount. In 2019, the Internal Revenue Service commenced a federal employment tax audit with respect to the 2016, 2017 and 2018 calendar years.

12. 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 (the "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 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<i>Segment revenue:</i>				
United States	\$ 141,637	\$ 114,677	\$ 407,050	\$ 316,108
International	8,825	4,448	23,713	11,888
Total revenue	\$ 150,462	\$ 119,125	\$ 430,763	\$ 327,996
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<i>Segment income (loss) from operations:</i>				
United States	\$ 19,956	\$ 14,456	\$ 51,456	\$ 40,384
International	(10,252)	(8,579)	(30,769)	(24,095)
Total income from operations	\$ 9,704	\$ 5,877	\$ 20,687	\$ 16,289

As of September 30, 2019, total assets held outside of the United States were \$30,540, primarily attributable to \$14,828 of goodwill and \$3,982 of intangible assets. As of December 31, 2018, total assets held outside the United States were 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, 2018, filed with the Securities and Exchange Commission, or SEC, on February 28, 2019, or our 2018 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 United States 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. We generated revenue of \$150.5 million in the three months ended September 30, 2019, a 26% increase from \$119.1 million of revenue in the three months ended September 30, 2018. Our revenue for the nine months ended September 30, 2019 was \$430.8 million, a 31% increase from \$328.0 million of revenue in the nine months ended September 30, 2018.

For the three months ended September 30, 2019, we generated net income of \$10.4 million and our Adjusted EBITDA was \$20.6 million, compared to net income of \$13.9 million and Adjusted EBITDA of \$12.7 million for the three months ended September 30, 2018. For the nine months ended September 30, 2019, we generated net income of \$29.0 million and our Adjusted EBITDA was \$51.7 million, compared to net income of \$52.7 million and Adjusted EBITDA of \$35.0 million for the nine months ended September 30, 2018. 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 net income.

We have two reportable segments, United States and International, as further discussed in Note 12 of our Unaudited Condensed Consolidated Financial Statements included elsewhere in this Quarterly 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 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 one of our websites 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 September 30,	
	2019	2018
	(in thousands)	
United States	38,062	37,023
International	10,187 (1)	4,443
Total	48,249	41,466

(1) Includes users from the PistonHeads website.

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 computer or mobile device and ending at the earliest of when a user closes their browser window, after 30 minutes of inactivity, or each night at midnight (i) Eastern Time for our United States and Canada websites, (ii) Greenwich Mean Time for our UK websites and (iii) Central European Time (or Central European Summer Time when daylight savings is observed) for our Germany, Italy, and Spain websites, as applicable. 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 September 30,	
	2019	2018
	(in thousands)	
United States	103,461	100,519
International	26,168 (1)	10,418
Total	129,629	110,937

(1) Includes sessions from the PistonHeads website.

Number of Paying Dealers

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

Number of Paying Dealers	At September 30,	
	2019	2018
United States	28,692	27,128
International	6,507 (1)	3,465
Total	35,199	30,593

(1) Includes paying dealers from the PistonHeads website.

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 September 30,	
	2019	2018
United States	\$ 16,967	\$ 13,993
International	\$ 5,079 (1)	\$ 4,820
Consolidated	\$ 15,288 (1)	\$ 13,077

- (1) Excludes AARSD from both the (i) PistonHeads website as it was acquired on January 8, 2019, and therefore, data for the trailing 12-month revenue calculation is not available and (ii) Italy website as it began earning marketplace subscription revenue in April 2019, and therefore, data for the trailing 12-month revenue calculation is not available.

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 provision for (benefit from) 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 other income, net, which primarily includes income earned on our cash, cash equivalents, and investments, sublease income and net foreign exchange gains and losses;
- Adjusted EBITDA does not reflect the provision for (benefit from) income taxes; 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 the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Reconciliation of Adjusted EBITDA:	(in thousands)		(in thousands)	
Net income	\$ 10,384	\$ 13,882	\$ 28,975	\$ 52,720
Depreciation and amortization	2,118	1,308	5,659	3,765
Stock-based compensation expense	8,761	5,528	25,390	14,951
Other income, net	(1,010)	(601)	(3,505)	(1,586)
Provision for (benefit from) income taxes	330	(7,404)	(4,783)	(34,845)
Adjusted EBITDA	<u>\$ 20,583</u>	<u>\$ 12,713</u>	<u>\$ 51,736</u>	<u>\$ 35,005</u>

Components of Unaudited Condensed Consolidated Income Statements

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 through the CarGurus websites: Basic Listing, which is free; and Enhanced or Featured Listing, which each require a paid subscription under a monthly, quarterly, semiannual, or annual subscription basis. Contractual subscriptions for customers generally auto-renew on a monthly basis and are cancellable by dealers with 30-days' advance notice. We also offer Listing dealers on the CarGurus websites with 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 inventory in the marketplace and providing access to the 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. This advertising can be targeted by geography, search history, and a number of other factors, and dealer search engine marketing, which helps dealers more effectively acquire customers through paid search, social media, and retargeted advertising.

We also offer paid listing and display products through the PistonHeads website.

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 advertising sold on a CPM basis, we also have advertising 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. Advertising and other revenue also includes revenue from a partnership with a financial services company pursuant to which we enable eligible consumers on our United States website to pre-qualify for financing on cars from dealerships that already offer financing through such company.

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. 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 and internal-use software costs as well as other 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 grow our business.

Depreciation and Amortization

Depreciation and amortization expenses consist of depreciation on property and equipment, which includes leasehold improvements, and internal-use software costs as well as intangible assets.

Other Income, Net

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

Provision for (Benefit from) 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 recognized a provision for income taxes for the three months ended September 30, 2019 and a benefit from income taxes for the three months ended September 30, 2018 as well as for the nine months ended September 30, 2019 and 2018. 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. Our valuation allowance against our net deferred tax assets as of September 30, 2019 was immaterial. We have not provided a valuation allowance against our net deferred tax assets at December 31, 2018.

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(dollars in thousands)		(dollars in thousands)	
Revenue:				
Marketplace subscription	\$ 135,542	\$ 105,930	\$ 385,481	\$ 292,812
Advertising and other	14,920	13,195	45,282	35,184
Total revenue	150,462	119,125	430,763	327,996
Cost of revenue	9,392	6,412	25,740	17,940
Gross profit	141,070	112,713	405,023	310,056
Operating expenses:				
Sales and marketing	100,133	82,708	293,238	229,948
Product, technology, and development	17,745	12,771	51,063	33,713
General and administrative	12,322	10,630	36,622	28,042
Depreciation and amortization	1,166	727	3,413	2,064
Total operating expenses	131,366	106,836	384,336	293,767
Income from operations	9,704	5,877	20,687	16,289
Other income, net:				
Interest income	759	639	2,247	1,571
Other income (expense), net	251	(38)	1,258	15
Total other income, net	1,010	601	3,505	1,586
Income before income taxes	10,714	6,478	24,192	17,875
Provision for (benefit from) income taxes	330	(7,404)	(4,783)	(34,845)
Net income	\$ 10,384	\$ 13,882	\$ 28,975	\$ 52,720

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(dollars in thousands)		(dollars in thousands)	
Additional Financial Data:				
Revenue				
United States	\$ 141,637	\$ 114,677	\$ 407,050	\$ 316,108
International	8,825	4,448	23,713	11,888
Total	\$ 150,462	\$ 119,125	\$ 430,763	\$ 327,996
Income (Loss) from Operations				
United States	\$ 19,956	\$ 14,456	\$ 51,456	\$ 40,384
International	(10,252)	(8,579)	(30,769)	(24,095)
Total	\$ 9,704	\$ 5,877	\$ 20,687	\$ 16,289

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue:				
Marketplace subscription	90%	89%	89%	89%
Advertising and other	10	11	11	11
Total revenue	100%	100%	100%	100%
Cost of revenue	6	5	6	5
Gross profit	94	95	94	95
Operating expenses:				
Sales and marketing	67	69	67	70
Product, technology, and development	12	11	12	10
General and administrative	8	9	9	9
Depreciation and amortization	1	1	1	1
Total operating expenses	88	90	89	90
Income from operations	6	5	5	5
Other income, net:				
Interest income	1	1	1	0
Other income (expense), net	0	(0)	0	0
Total other income, net	1	1	1	0
Income before income taxes	7	6	6	5
Provision for (benefit from) income taxes	0	(6)	(1)	(11)
Net income	7%	12%	7%	16%
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Additional Financial Data:				
Revenue				
United States	94%	96%	94%	96%
International	6	4	6	4
Total	100%	100%	100%	100%
Income (Loss) from Operations				
United States	13%	12%	12%	12%
International	(7)	(7)	(7)	(7)
Total	6%	5%	5%	5%

For the three months ended September 30, 2019 and 2018

Revenue

Revenue by Source

	Three Months Ended September 30,		Change	
	2019	2018	Amount	%
(dollars in thousands)				
Revenue				
Marketplace subscription	\$ 135,542	\$ 105,930	\$ 29,612	28%
Advertising and other	14,920	13,195	1,725	13
Total	<u>\$ 150,462</u>	<u>\$ 119,125</u>	<u>\$ 31,337</u>	<u>26%</u>
Percentage of total revenue:				
Marketplace subscription	90%	89%		
Advertising and other	10	11		
Total	<u>100%</u>	<u>100%</u>		

Overall revenue increased by \$31.3 million, or 26%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018. Marketplace subscription revenue increased by 28%, while advertising and other revenue grew by 13%.

Marketplace subscription revenue increased by \$29.6 million in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 and represented 90% of total revenue for the three months ended September 30, 2019 and 89% of total revenue for the three months ended September 30, 2018. This increase in marketplace subscription revenue was attributable primarily to a 21% growth in our AARSD for United States dealers to \$16,967 at September 30, 2019 from \$13,993 at September 30, 2018, and to a 15% growth in the number of total paying dealers to 35,199 at September 30, 2019 from 30,593 at September 30, 2018. The increase in our AARSD for United States dealers was driven by new products, unit pricing and packaging as well as the investments made in building our brand and growing our audience which resulted in growth in volume of connections. The increase in paying dealers was driven by 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 \$1.7 million in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 and represented 10% of total revenue for the three months ended September 30, 2019 and 11% of total revenue for the three months ended September 30, 2018. The increase in advertising and other revenue was driven by a 26% increase in the number of impressions delivered, which was partially offset by a 19% decline in the average price per thousand impressions in the three months ended September 30, 2019 compared to the three months ended September 30, 2018. The increase was also attributable to revenue earned from a partnership with a financial services company.

Revenue by Segment

	Three Months Ended September 30,		Change	
	2019	2018	Amount	%
(dollars in thousands)				
Revenue				
United States	\$ 141,637	\$ 114,677	\$ 26,960	24%
International	8,825	4,448	4,377	98
Total	<u>\$ 150,462</u>	<u>\$ 119,125</u>	<u>\$ 31,337</u>	<u>26%</u>
Percentage of total revenue:				
United States	94%	96%		
International	6	4		
Total	<u>100%</u>	<u>100%</u>		

United States revenue increased \$27.0 million, or 24%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018, due primarily to a 21% increase in AARSD for United States dealers and a 6% increase in the number of United States paying dealers.

International revenue increased \$4.4 million, or 98%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018, due primarily to an 88% increase in the number of International paying dealers and a 5% increase in AARSD for International dealers. The increase in International revenue was also partially attributable to revenue from PistonHeads, which was acquired during 2019.

Cost of Revenue

	Three Months Ended September 30,		Change	
	2019	2018	Amount	%
	(dollars in thousands)			
Cost of revenue	\$ 9,392	\$ 6,412	\$ 2,980	46%
Percentage of total revenue	6%	5%		

Cost of revenue increased \$3.0 million, or 46%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018. The increase was due primarily to a \$1.2 million increase in fees related to provisioning advertising campaigns on our websites, a \$0.8 million increase in data center and hosting costs, a \$0.5 million increase in costs related to connecting consumers with dealers through a variety of methods, including phone calls, email, and managed text and chat, and a \$0.4 million increase in costs to improve the content on our websites. These increases were partially offset by a \$0.4 million increase in vendor rebates during the three months ended September 30, 2019.

Operating Expenses

Sales and Marketing Expenses

	Three Months Ended September 30,		Change	
	2019	2018	Amount	%
	(dollars in thousands)			
Sales and marketing	\$ 100,133	\$ 82,708	\$ 17,425	21%
Percentage of total revenue	67%	69%		

Sales and marketing expenses increased \$17.4 million, or 21%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018. The increase was due primarily to an increase in advertising and search engine marketing costs of \$10.8 million as well as an increase of \$2.5 million in salaries and employee-related costs, exclusive of stock-based compensation expense and commissions expense, which increased \$1.3 million and \$1.0 million, respectively. The increase in salaries and employee-related costs and stock-based compensation expense was due primarily to a 27% increase in headcount and the increase in commissions expense was due primarily to an increase in amortization of deferred contract costs. The increase for the three months ended September 30, 2019 was also due in part to a \$0.7 million increase in consulting fees and a \$0.4 million increase in software subscriptions. The increase for the three months ended September 30, 2019 was also partially attributable to sales and marketing expenses associated with the acquisition of PistonHeads.

Product, Technology, and Development Expenses

	Three Months Ended September 30,		Change	
	2019	2018	Amount	%
	(dollars in thousands)			
Product, technology, and development	\$ 17,745	\$ 12,771	\$ 4,974	39%
Percentage of total revenue	12%	11%		

Product, technology, and development expenses increased \$5.0 million, or 39%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018. The increase was due primarily to a \$2.8 million increase in salaries and employee-related costs, exclusive of stock-based compensation expense, which increased \$1.4 million. The increase in salaries and employee-related costs and stock-based compensation expense was due primarily to a 41% increase in headcount to support our growth and product innovations. The increase for the three months ended September 30, 2019 was also due in part to a \$0.3 million increase in recruiting and consulting fees and a \$0.3 million increase in software subscriptions. The increase for the three months ended September 30, 2019 was also partially attributable to product, technology, and development expenses associated with the acquisition of PistonHeads.

General and Administrative Expenses

	Three Months Ended September 30,		Change	
	2019	2018	Amount	%
	(dollars in thousands)			
General and administrative	\$ 12,322	\$ 10,630	\$ 1,692	16%
Percentage of total revenue	8%	9%		

General and administrative expenses increased \$1.7 million, or 16%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018. The increase was due primarily to a \$0.4 million increase in salaries and employee-related costs, exclusive of stock-based compensation expense, which increased \$0.6 million. The increase in salaries and employee-related costs and stock-based compensation expense was due primarily to a 28% increase in headcount to support our expanded operations as we continue to grow our business. The increase for the three months ended September 30, 2019 was also due in part to a \$0.7 million increase in payment processing and billing costs due to increased customer transactions driven by strong revenue growth.

Depreciation and Amortization Expenses

	Three Months Ended September 30,		Change	
	2019	2018	Amount	%
	(dollars in thousands)			
Depreciation and amortization	\$ 1,166	\$ 727	\$ 439	60%
Percentage of total revenue	1%	1%		

Depreciation and amortization expenses increased \$0.4 million, or 60%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018, due primarily to an increase in depreciation related to the additional leasehold improvements required for the new office facilities at 121 First St. in Cambridge, Massachusetts as well as amortization of intangible assets.

Other Income, Net

	Three Months Ended September 30,		Change	
	2019	2018	Amount	%
	(dollars in thousands)			
Other income, net				
Interest income	\$ 759	\$ 639	\$ 120	19%
Other income (expense), net	251	(38)	289	761
Total other income, net	\$ 1,010	\$ 601	\$ 409	68%
Percentage of total revenue:				
Interest income	1%	1%		
Other income (expense), net	0	(0)		
Total other income, net	1%	1%		

Total other income, net increased \$0.4 million, or 68%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018. The \$0.1 million increase in interest income was primarily due to the investment of cash in certificates of deposit and money market funds arising from our increased cash from operations. The \$0.3 million increase in other income (expense), net was primarily due to sublease income.

Provision for (Benefit from) Income Taxes

	Three Months Ended September 30,		Change	
	2019	2018	Amount	%
	(dollars in thousands)			
Provision for (benefit from) income taxes	\$ 330	\$ (7,404)	\$ 7,734	NM
Percentage of total revenue	0%	(6)%		

NM — Not Meaningful

The provision for income taxes recorded during the three months ended September 30, 2019, as compared to the benefit from income taxes recorded during the three months ended September 30, 2018 was principally due to \$1.9 million of tax benefits related to excess stock-based compensation deductions recorded during the three months ended September 30, 2019, compared to \$7.0 million recorded during the three months ended September, 2018, as well as a decrease in federal and state research and development tax credits as compared to the three months ended September 30, 2018.

Income (Loss) from Operations by Segment

	Three Months Ended September 30,		Change	
	2019	2018	Amount	%
	(dollars in thousands)			
United States	\$ 19,956	\$ 14,456	\$ 5,500	38%
International	(10,252)	(8,579)	(1,673)	(20)
Total	\$ 9,704	\$ 5,877	\$ 3,827	65%
Percentage of segment revenue:				
United States	14%	13%		
International	NM	NM		

NM — Not Meaningful

United States income from operations increased \$5.5 million, or 38%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018. This increase was due to increases in revenue of \$27.0 million, offset by increases in operating expenses of \$19.0 million and cost of revenue of \$2.5 million.

International loss from operations increased \$1.7 million, or 20%, in the three months ended September 30, 2019 compared to the three months ended September 30, 2018. The increase in International loss from operations reflects our continued investment in international markets and expansion into new countries.

For the nine months ended September 30, 2019 and 2018

Revenue

Revenue by Source

	Nine Months Ended September 30,		Change	
	2019	2018	Amount	%
	(dollars in thousands)			
Revenue				
Marketplace subscription	\$ 385,481	\$ 292,812	\$ 92,669	32%
Advertising and other	45,282	35,184	10,098	29
Total	\$ 430,763	\$ 327,996	\$ 102,767	31%
Percentage of total revenue:				
Marketplace subscription	89%	89%		
Advertising and other	11	11		
Total	100%	100%		

Overall revenue increased by \$102.8 million, or 31%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. Marketplace subscription revenue increased by 32%, while advertising and other revenue grew by 29%.

Marketplace subscription revenue increased by \$92.7 million in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 and represented 89% of total revenue for both the nine months ended September 30, 2019 and 2018. This increase in marketplace subscription revenue was attributable primarily to a 21% growth in our AARSD for United States dealers to \$16,967 at September 30, 2019 from \$13,993 at September 30, 2018 and to a 15% growth in the number of total paying dealers to 35,199 at September 30, 2019 from 30,593 at September 30, 2018. The increase in our AARSD for United States dealers was driven by new products, unit pricing and packaging as well as the investments made in building our brand and growing our audience which resulted in growth in volume of connections. The increase in paying dealers was driven by 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 \$10.1 million in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 and represented 11% of total revenue for both the nine months ended September 30, 2019 and 2018. The increase in advertising and other revenue was due primarily to a 31% increase in the number of impressions delivered, partially offset by an 11% decrease in the average price per thousand impressions, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The increase was also attributable to revenue earned from a partnership with a financial services company.

Revenue by Segment

	Nine Months Ended September 30,		Change	
	2019	2018	Amount	%
(dollars in thousands)				
Revenue				
United States	\$ 407,050	\$ 316,108	\$ 90,942	29%
International	23,713	11,888	11,825	99
Total	\$ 430,763	\$ 327,996	\$ 102,767	31%
Percentage of total revenue:				
United States	94%	96%		
International	6	4		
Total	100%	100%		

United States revenue increased \$90.9 million, or 29%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, due primarily to a 21% increase in AARSD for United States dealers and a 6% increase in the number of United States paying dealers.

International revenue increased \$11.8 million, or 99%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, due primarily to an 88% increase in the number of International paying dealers and a 5% increase in AARSD for International dealers. The increase in International revenue was also partially attributable to revenue from PistonHeads, which was acquired during 2019.

Cost of Revenue

	Nine Months Ended September 30,		Change	
	2019	2018	Amount	%
(dollars in thousands)				
Cost of revenue	\$ 25,740	\$ 17,940	\$ 7,800	43%
Percentage of total revenue	6%	5%		

Cost of revenue increased \$7.8 million, or 43%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The increase was due primarily to a \$2.7 million increase in fees related to provisioning advertising campaigns on our websites, a \$2.4 million increase in data center and hosting costs, a \$1.8 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 \$0.8 million increase in employee-related costs for our customer support team to support the growth in customers, \$0.6 million increase in costs to improve the content on our websites and a \$0.5 million increase in amortization and depreciation. These increases were partially offset by a \$1.0 million increase in vendor rebates during the nine months ended September 30, 2019.

Operating Expenses

Sales and Marketing Expenses

	Nine Months Ended September 30,		Change	
	2019	2018	Amount	%
	(dollars in thousands)			
Sales and marketing	\$ 293,238	\$ 229,948	\$ 63,290	28%
Percentage of total revenue	67%	70%		

Sales and marketing expenses increased \$63.3 million, or 28%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. This increase was due primarily to an increase in advertising and search engine marketing costs of \$40.3 million as well as an increase of \$8.5 million in salaries and employee-related costs, exclusive of commissions expense and stock-based compensation expense, which increased \$4.0 million and \$3.6 million, respectively. The increase in salaries and employee-related costs and stock-based compensation expense was due primarily to a 27% increase in headcount. The increase in commissions expense was due primarily to an increase in amortization of deferred contract costs. The increase for the nine months ended September 30, 2019 was also due in part to a \$1.7 million increase in consulting fees, a \$1.2 million increase in marketing events and market research due to efforts to increase brand awareness, a \$1.0 million increase in software subscriptions, a \$0.9 million increase in lease costs due to new office facilities at 121 First St. in Cambridge, Massachusetts, a \$0.5 million increase in travel costs to support our business and a \$0.4 million increase in taxes. The increase for the nine months ended September 30, 2019 was also partially attributable to sales and marketing expenses associated with the acquisition of PistonHeads.

Product, Technology, and Development Expenses

	Nine Months Ended September 30,		Change	
	2019	2018	Amount	%
	(dollars in thousands)			
Product, technology, and development	\$ 51,063	\$ 33,713	\$ 17,350	51%
Percentage of total revenue	12%	10%		

Product, technology, and development expenses increased \$17.4 million, or 51%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The increase was due primarily to a \$10.7 million increase in salaries and employee-related costs, exclusive of stock-based compensation expense, which increased \$4.2 million. The increase in salaries and employee-related costs and stock-based compensation expense was due primarily to a 41% increase in headcount to support our growth and product innovations. The increase for the nine months ended September 30, 2019 was also due in part to a \$1.0 million increase in recruiting and consulting fees and a \$0.9 million increase in lease costs due to new office facilities at 121 First St. in Cambridge, Massachusetts. The increase for the nine months ended September 30, 2019 was also partially attributable to product, technology, and development expenses associated with the acquisition of PistonHeads.

General and Administrative Expenses

	Nine Months Ended September 30,		Change	
	2019	2018	Amount	%
	(dollars in thousands)			
General and administrative	\$ 36,622	\$ 28,042	\$ 8,580	31%
Percentage of total revenue	9%	9%		

General and administrative expenses increased \$8.6 million, or 31%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The increase was due to a \$2.9 million increase in salaries and employee-related costs, exclusive of stock-based compensation expense, which increased \$2.6 million. The increase in salaries and employee-related costs and stock-based compensation expense was due primarily to a 28% increase in headcount to support our expanded operations as we continue to grow our business. The increase for the nine months ended September 30, 2019 was also due in part to a \$1.6 million increase in payment processing and billing costs due to increased customer transactions driven by strong revenue growth, a \$0.7 million increase in recruiting, consulting, tax and audit fees, a \$0.6 million increase in software subscriptions, and a \$0.4 million increase in lease costs due to new office facilities 121 First St. in Cambridge, Massachusetts, offset by a \$0.6 million decrease in bad debt expense due to improved collections and focus on reducing churn.

Depreciation and Amortization Expenses

	Nine Months Ended September 30,		Change	
	2019	2018	Amount	%
	(dollars in thousands)			
Depreciation and amortization	\$ 3,413	\$ 2,064	\$ 1,349	65%
Percentage of total revenue	1%	1%		

Depreciation and amortization expenses increased \$1.3 million, or 65%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, due primarily to an increase in depreciation related to the additional leasehold improvements required for the new office facilities at 121 First St. in Cambridge, Massachusetts as well as amortization of intangible assets.

Other Income, Net

	Nine Months Ended September 30,		Change	
	2019	2018	Amount	%
	(dollars in thousands)			
Other income, net				
Interest income	\$ 2,247	\$ 1,571	\$ 676	43%
Other income, net	1,258	15	1,243	8,287
Total other income, net	\$ 3,505	\$ 1,586	\$ 1,919	121%
Percentage of total revenue:				
Interest income	1%	0%		
Other income, net	0	0		
Total other income, net	1%	0%		

Total other income, net increased \$1.9 million, or 121%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The \$0.7 million increase in interest income was primarily due to the investment of cash in certificates of deposit and money market funds arising from our increased cash from operations. The \$1.2 million increase in other income, net was primarily due to a \$0.6 million increase in realized foreign currency gain mainly resulting from the settlement of an intercompany note payable in connection with the PistonHeads acquisition during the nine months ended September 30, 2019, as well as \$0.6 million of sublease income.

Benefit from Income Taxes

	Nine Months Ended September 30,		Change	
	2019	2018	Amount	%
	(dollars in thousands)			
Benefit from income taxes	\$ (4,783)	\$ (34,845)	\$ 30,062	86%
Percentage of total revenue	(1)%	(11)%		

The benefit from income taxes recorded during the nine months ended September 30, 2019, as compared to the benefit from income taxes recorded during the nine months ended September 30, 2018, was principally due to \$9.6 million of tax benefits related to excess stock-based compensation deductions recorded during the nine months ended September 30, 2019, compared to \$35.9 million recorded during the nine months ended September 30, 2018, as well as a decrease in federal and state research and development tax credits as compared to the nine months ended September 30, 2018.

Income (Loss) from Operations by Segment

	Nine Months Ended September 30,		Change	
	2019	2018	Amount	%
	(dollars in thousands)			
United States	\$ 51,456	\$ 40,384	\$ 11,072	27%
International	(30,769)	(24,095)	(6,674)	(28)
Total	<u>\$ 20,687</u>	<u>\$ 16,289</u>	<u>\$ 4,398</u>	<u>27%</u>
Percentage of segment revenue:				
United States	13%	13%		
International	NM	NM		

NM — Not Meaningful

United States income from operations increased \$11.1 million or 27%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. This increase was due to an increase in revenue of \$90.9 million, offset by increases in operating expenses of \$73.2 million and cost of revenue of \$6.6 million.

International loss from operations increased \$6.7 million, or 28%, in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The increase in International loss from operations reflects our continued investment in international markets and expansion into new countries.

Liquidity and Capital Resources

Cash, Cash Equivalents and Investments

At September 30, 2019 and December 31, 2018, our principal sources of liquidity were cash and cash equivalents of \$29.5 million and \$34.9 million, respectively, and investments in certificates of deposit with terms of greater than 90 days but less than one year of \$134.8 million and \$122.8 million at September 30, 2019 and December 31, 2018, 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:

	Nine Months Ended September 30,	
	2019	2018
Net cash provided by operating activities	\$ 49,551	\$ 34,599
Net cash used in investing activities	(43,986)	(22,851)
Net cash used in financing activities	(11,348)	(19,948)
Impact of foreign currency on cash	(97)	(54)
Net decrease in cash, cash equivalents, and restricted cash	<u>\$ (5,880)</u>	<u>\$ (8,254)</u>

Our operations have been financed primarily from operating activities, sales of preferred stock and our initial public offering, or IPO. We generated cash from operating activities of \$49.6 million during the nine months ended September 30, 2019, and \$34.6 million during the nine months ended September 30, 2018, and we expect to generate cash from operations for the foreseeable future.

We believe that 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 of \$49.6 million during the nine months ended September 30, 2019 was due primarily to net income of \$29.0 million, adjusted for \$25.4 million of stock-based compensation expense, \$5.8 million of amortization of deferred contract costs and \$5.7 million of depreciation and amortization, partially offset by \$5.0 million of deferred taxes. Cash provided by operating activities was also attributable to a \$10.7 million increase in accounts payable, partially offset by an \$11.4 million increase in deferred contract costs, a \$5.0 million increase in accounts receivable, a \$2.0 million decrease in accrued expenses, accrued income taxes, and other current liabilities, a \$1.9 million decrease in lease obligations, and a \$1.0 million decrease in deferred revenue.

Cash provided by operating activities of \$34.6 million during the nine months ended September 30, 2018 was due primarily to net income of \$52.7 million, adjusted for \$15.0 million of stock-based compensation expense, \$3.8 million of depreciation and amortization and \$2.4 million of amortization of deferred contract costs, partially offset by \$34.5 million of deferred taxes. Cash provided by operating activities was also attributable to a \$11.5 million increase in accounts payable and a \$3.4 million increase in deferred revenue, partially offset by a \$9.7 million increase in deferred contract costs, an \$8.6 million increase in prepaid expenses, prepaid income taxes, and other assets, and a \$3.0 million decrease in accrued expenses, accrued income taxes, and other current liabilities.

Investing Activities

Cash used in investing activities of \$44.0 million during the nine months ended September 30, 2019 was due to \$134.8 million of investments in certificates of deposit, net of maturities of certificates of deposit of \$122.8 million, \$19.1 million of acquisition cash payments, \$10.8 million of purchases of property and equipment and \$2.1 million related to the capitalization of website development costs.

Cash used in investing activities of \$22.9 million during the nine months ended September 30, 2018 was due to \$130.0 million of investments in certificates of deposit, net of maturities of certificates of deposit of \$110.0 million, \$1.9 million related to investments in furniture, computer equipment, and leasehold improvements and \$1.0 million related to the capitalization of website development costs.

Financing Activities

Cash used in financing activities of \$11.3 million during the nine months ended September 30, 2019 was due primarily to the payment of withholding taxes and option costs on net share settlements of restricted stock units and stock options of \$12.8 million, partially offset by \$1.5 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 \$19.9 million during the nine months ended September 30, 2018 was due to payment of withholding taxes on net share settlements of equity awards of \$21.9 million and payment of IPO costs of \$1.1 million, partially offset by \$3.1 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 September 30, 2019, there were no material changes in our contractual obligations and commitments from those disclosed in our 2018 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.

Off-Balance Sheet Arrangements

As of September 30, 2019 and December 31, 2018, we did not have any off-balance sheet arrangements 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 reserve, variable consideration, the valuation of goodwill and intangible assets, the capitalization of product, technology, and development costs for website development and internal-use software, and the recoverability of our net deferred tax assets and related valuation allowance. Therefore, we consider these to be our critical accounting policies. 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 2018 Annual Report.

Recently Issued Accounting Pronouncements

Information concerning recently issued accounting pronouncements may be found in Note 2 to our Unaudited Condensed Consolidated Financial Statements appearing elsewhere 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 September 30, 2019 or at December 31, 2018.

We had cash, cash equivalents, and investments of \$164.3 million and \$157.7 million at September 30, 2019 and December 31, 2018, respectively, which consist of bank deposits, money market funds, and certificates of deposit with maturity dates ranging from six to nine 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 September 30, 2019 and December 31, 2018, we have foreign currency exposures in the British pound, the Euro and the Canadian dollar, although such exposure is not significant. During the nine months ended September 30, 2019, our foreign currency exposure increased due to an intercompany note payable in connection with the PistonHeads acquisition. The intercompany note payable was settled during the nine months ended September 30, 2019.

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 the heading, other income (expense), net.

As we expand internationally, our risks associated with fluctuation in currency rates will become greater, and we will continue to reassess our approach to managing these risks.

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.

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 Quarterly 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 we are transitioning many of these dealers to contracts with one-year committed terms, the majority of our contracts with dealers currently provide for one-month 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 business and financial results 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 materially and adversely affected.

If paying dealers do not experience the volume of consumer connections that they expect during their 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 materially and adversely affected.

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 materially and 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 applications 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 applications useful for consumers and dealers or that otherwise provide value to 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, negatively impact 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 management team and employees, 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 historically focused our marketing efforts on internet and mobile channels, we have implemented brand-focused campaigns using television, 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 historically focused our marketing efforts on internet and mobile channels, we now advertise through television, social media, online video, and other channels, 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 \$454.1 million for the year ended December 31, 2018 from \$316.9 million for the year ended December 31, 2017, representing a 43% increase between such periods, and increased to \$430.8 million for the nine months ended September 30, 2019 from \$328.0 million for the nine months ended September 30, 2018, representing a 31% 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 that 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 continue to expand internationally.

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' websites 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 additional 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 our websites 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;
- adverse changes in trade relationships among foreign countries and/or between the United States and such 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 United States online automotive marketplaces: AutoTrader.com, Cars.com, and TrueCar.com;
- other United States automotive websites, such as Edmunds.com, KBB.com, and Carfax.com;
- online automotive marketplaces and websites in international markets;
- internet search engines;
- digital marketing providers;
- 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, automotive 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 and strategic partners for many aspects of our business, and any failure to maintain these relationships or to successfully integrate certain third-party platforms could harm our business.

Our success will depend upon our relationships with third parties, including 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, our information integration platform providers, our marketing platform providers, our business intelligence and data analytics providers, our search engine and social media advertising providers, our invoice and expense provider, our equity administrator provider, and our general ledger provider, as well as our other strategic partners, including consumer and commercial lenders. If these third parties experience difficulty meeting our requirements or standards, have adverse audit results, violate the terms of our relationship or applicable law, fail to obtain or maintain applicable licenses, 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 or strategic partners were to cease operations, temporarily or permanently, face financial distress or other business disruptions, increase their fees, or if our relationships with these providers or partners 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.

Our enterprise systems require that we integrate the platforms hosted by certain third-party service providers. We are responsible for integrating these platforms and updating them to maintain proper functionality. Issues with these integrations, our failure to properly update third-party platforms or any interruptions to our internal enterprise systems could harm our business by causing delays in our ability to quote, activate service and bill new and existing customers on our platforms.

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. In addition, with further growth and expansion, our employee base will continue to spread outside of our headquarters in Cambridge, Massachusetts. 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, New Car Price Guidance 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, including price guidance for new car listings, or New Car Price Guidance. Revisions to our automated valuation models, or the algorithms that underlie them, may cause the IMV, the Deal Rating, New Car Price Guidance, or other features to vary from our expectations regarding the accuracy of these tools. In addition, from time to time, regulators, consumers, dealers and other industry participants may question or disagree with our IMV, Deal Rating, Dealer Rating or New Car Price Guidance. 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.

As we acquire other companies or technologies, such activities 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 will 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, cause us to be reluctant to engage in future transactions, and harm our business generally. 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.

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 United States federal, state and local 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.

The advertising and sale of new and 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 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.

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

United States federal 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 such 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 United States 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, competition, 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; rising interest rates, which may reduce the demand for consumer credit due to the higher cost of borrowing; 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 near Boston, Massachusetts, and in Europe near 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 or software. In addition, we do not own or control the operation of these facilities. We also use third-party hosting services to back up some data but do not maintain redundant systems or facilities for some of the services hosted at this data center. A disruption to one or more of these systems may cause us to experience an extended period of system unavailability, which could negatively impact our relationship with consumers, customers and advertisers. 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. We also process and store personal and confidential information of our vendors, partners and employees. 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 applications, and information systems are subject to computer viruses, break-ins, phishing attacks, attempts to overload the systems 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 applications, or the loss or unauthorized disclosure, access, acquisition, alteration, or use of confidential information, consumers, customers, advertisers, partners, vendors and employees may lose trust and confidence in us, and consumers may decrease the use of our websites or stop using our websites entirely, dealers may stop or decrease their subscriptions with us, and advertisers may decrease or stop advertising on our websites.

Further, outside parties have attempted and will continue to attempt to fraudulently induce employees, consumers, or advertisers to disclose sensitive information in order to gain access to our information or our consumers', dealers', advertisers' and employees' information. As cyber-attacks increase in frequency and sophistication, our cyber-security and business continuity plans may not be effective in anticipating, preventing and effectively responding to all potential cyber-risk exposures. In addition, 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 dealers and advertisers to cancel their contracts, cause employees to terminate their employment, cause employment candidates to be unwilling to accept employment offers, and 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, storage, sharing, disclosure, use, cross-border transfer, and protection of personal information and other data. These laws and regulations are evolving, are subject to differing interpretations, may be costly to comply with, may result in regulatory fines or penalties, may subject us to third-party lawsuits, 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. 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, including the General Data Protection Regulation in the EU, or the GDPR, which went into effect on May 25, 2018, and the new California Consumer Privacy Act, which is expected to become effective in January 2020. The GDPR in particular has already required, and may further require, us to change our policies and procedures and, if we are not in compliance, may seriously harm our business. Similarly, Brexit 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.

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. Also, while we have registered the CARGURUS and CG logos in the EU and the United Kingdom, as well as the word-mark CARGURUS in France, Spain, the United Kingdom and (for a subset of services) Ireland, we were not able to register the word-mark CARGURUS in the EU and Germany as the mark was deemed to be non-distinctive, and thus unregistrable. We may be unable to register CARGURUS, the word-mark, in certain other countries in the EU. 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.

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 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 and new product launches may cause our costs to increase in future periods as we continue to expend substantial financial resources to enter into those markets and promote the new products, as applicable. Our costs may also increase due to 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.

As 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 ceased being 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 devote and expect to continue 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. 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, as we are now a large accelerated filer, our independent registered public accounting firm is required to attest to the effectiveness of our internal control over financial reporting, pursuant to Section 404 of the Sarbanes-Oxley Act, or Section 404, and the cost of our compliance with Section 404 has correspondingly increased. Our compliance with applicable provisions of Section 404 requires that we incur substantial accounting expense and expend significant management time on compliance-related issues as we implement additional corporate governance practices and comply with reporting requirements.

We must maintain proper and effective internal controls over financial reporting and any failure to maintain the adequacy of these internal controls may adversely affect investor confidence in our company and, as a result, the value of our Class A common stock could decline.

We are required, pursuant to Section 404 and the related rules adopted by the SEC, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting on an annual basis. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. During the evaluation and testing process, if we identify and fail to remediate one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective.

In addition, our independent registered public accounting firm must attest to the effectiveness of our internal control over financial reporting under Section 404. Our independent registered public accounting firm may issue a report that is adverse to us in the event it is not satisfied with the level at which our controls are documented, designed or operating. We may not be able to remediate any future material weaknesses, or to complete our evaluation, testing and any required remediation in a timely fashion. We are also required to disclose significant changes made to our internal control procedures on a quarterly basis. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts.

Any failure to maintain internal control over financial reporting could severely inhibit our ability to accurately report our financial condition or results of operations. If we are unable to assert that our internal control over financial reporting is effective or our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal control over financial reporting when it is required to issue such opinion, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our Class A common stock could decline, and we could be subject to sanctions or investigations by Nasdaq, the SEC or other regulatory authorities.

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 generally 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.

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 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 obligations and constituents require significant attention from our management team and may 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, financial condition, and prospects could be adversely affected.

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.

We could be subject to adverse changes in applicable tax laws, regulations and interpretations, as well as challenges to our tax positions.

We are subject to taxation in the United States and certain other jurisdictions in which we operate. Changes in applicable tax laws or regulations may be proposed or enacted that could materially and adversely affect our effective tax rate, tax payments, results of operations, financial condition and cash flows.

In addition, tax laws and regulations are complex and subject to varying interpretations. On June 21, 2018, the United States Supreme Court issued its decision in *South Dakota v. Wayfair, Inc.*, the Wayfair Decision, which overturned prior case law that held that out-of-state merchants were not required to collect sales taxes unless they had a physical presence in the buyer's state. Although we currently believe that the Wayfair Decision is unlikely to have a material effect on our business, it has created uncertainty over sales tax liability, and could precipitate reactions by legislators, regulators and courts that could adversely increase our tax administrative costs and tax risk, and negatively affect our overall business, results of operations, financial condition and cash flows.

We are also regularly subject to audits by tax authorities. For example, we are currently under audit by the Internal Revenue Service with respect to our 2016, 2017 and 2018 federal employment taxes. Any adverse development or outcome in connection with these tax audits, and any other audits or litigation, could materially and adversely impact our effective tax rate, tax payments, results of operations, financial condition and cash flows.

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 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 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 the ability of our stockholders 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 the ability of our stockholders 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 has been and may continue to be volatile and the value of our stockholders' investment in our stock could decline.

The trading price of our Class A common stock has been and may continue to 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.

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 amended and restated certificate of incorporation and amended and restated 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 changes its 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, our stockholders may only receive a return on their investment in our Class A common stock if the trading price of their 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.

As of December 31, 2018, we ceased being an emerging growth company and, as a result, we have incurred and expect to continue to incur significant additional legal and financial compliance costs by complying 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 as of December 31, 2018 and our having filed our 2017 Annual Report with the SEC), we became a large accelerated filer and ceased being an emerging growth company. Therefore, we are 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 incurred significant additional legal and financial compliance costs in connection with our 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.

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	File Number	Filing Date	
10.1	Second Amendment to Lease, dated as of August 30, 2019 by and between 55 Cambridge Parkway, LLC and the Registrant.				X
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	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded with the Inline XBRL document.				
101.SCH	Inline XBRL Taxonomy Extension Schema Document.				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.				X
104	The cover page from the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in Inline XBRL.				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.

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: November 5, 2019

By: /s/ Langley Steinert

Langley Steinert

Chief Executive Officer

(Principal Executive Officer)

Date: November 5, 2019

By: /s/ Jason Trevisan

Jason Trevisan

Chief Financial Officer

(Principal Financial and Accounting Officer)

SECOND AMENDMENT TO LEASE

THIS SECOND AMENDMENT TO LEASE (this “**Amendment**”) is made as of this 30th day of August 2019 (the “**Effective Date**”), by and between 55 CAMBRIDGE PARKWAY, LLC, a Delaware limited liability company, having an address c/o Invesco Real Estate, 1166 Avenue of the Americas, New York, New York 10036, as landlord (“**Landlord**”), and CARGURUS, INC., a Delaware corporation, having an address at Two Canal Park, Suite 4, Cambridge, MA 02141, as tenant (“**Tenant**”).

WHEREAS, Landlord and Tenant are landlord and tenant, respectively, under that certain Office Lease Agreement dated as of March 11, 2016, as amended by that certain First Amendment to Lease (the “**First Amendment**”) dated as of July 30, 2016 (as amended, the “**Lease**”), for certain premises in the building located at 55 Cambridge Parkway, Cambridge, Massachusetts (the “**Building**”), containing approximately 51,923 rentable square feet in the aggregate (collectively, the “**Existing Premises**”), consisting of (i) approximately 15,267 rentable square feet of space on the fifth (5th) floor of the West Wing of the Building (the “**Existing Fifth Floor West Wing Premises**”), (ii) approximately 15,267 rentable square feet on the sixth (6th) floor of the West Wing of the Building (the “**Existing Sixth Floor West Wing Premises**”) and (iii) approximately 21,389 rentable square feet of space on the fifth (5th) floor of the East Wing of the Building (the “**Existing Fifth Floor East Wing Premises**”), all as further described in the Lease.

WHEREAS, the parties desire to (i) add to the Existing Premises (a) approximately 15,300 additional rentable square feet of space on the third (3rd) floor of the West Wing of the Building and (b) approximately 21,389 additional rentable square feet of space on the sixth (6th) floor of the East Wing of the Building; and (ii) amend the Lease in certain other respects, all as hereinafter set forth. Capitalized terms not defined herein shall have the same meanings ascribed to them in the Lease.

WITNESSETH

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Inclusion of Additional Premises.

(i) Effective as of the Third Floor West Wing Premises Commencement Date (as hereinafter defined), there shall be added to the Premises under the Lease the space shown on **Exhibit A-1** hereto, which space consists of approximately 15,300 rentable square feet of floor area on the third (3rd) floor of the West Wing of the Building (the “**Third Floor West Wing Premises**”).

(ii) Notwithstanding any provisions of the Lease to the contrary, the Original Term of the Lease for the Third Floor West Wing Premises shall be the period commencing on the date that the existing lease to MediaMath (as hereinafter defined) for the Third Floor West Wing Premises has terminated and MediaMath has vacated the Third Floor West Wing Premises (the “**Third Floor West Wing Premises Commencement Date**”), which is estimated to occur on or about October 1, 2019, and ending on August 31, 2023 at 5:00 pm local time (the “**Third Floor West Wing Premises Original Term**”).

(iii) Effective as of the Sixth Floor East Wing Premises Commencement Date (as hereinafter defined), there shall be added to the Premises under the Lease the space shown on **Exhibit A-2** hereto, which space consists of approximately 21,389 rentable square feet of floor area on the sixth (6th) floor of the East Wing of the Building (the “**Sixth Floor East Wing Premises**”).

The Original Term of the Lease for the Sixth Floor East Wing Premises shall be the period commencing on the day after the date that the existing lease to IHS (as hereinafter defined) for the Sixth Floor East Wing Premises expires (*i.e.*, December 31, 2020) and IHS has vacated the Sixth Floor East Wing Premises (the “**Sixth Floor East Wing Premises Commencement Date**”), and ending on January 31, 2025 at 5:00 pm local time (the “**Sixth Floor East Wing Premises Original Term**”). Notwithstanding the foregoing, in the event that Landlord and IHS enter into an early termination agreement for IHS’s existing lease and Landlord is able to deliver the Sixth Floor East Wing Premises earlier pursuant to the terms thereof, then Landlord shall have the right to accelerate the Sixth Floor East Wing Premises Commencement Date upon sixty (60) days’ advance written notice to Tenant, and the accelerated date set forth in such notice shall be deemed to be the Sixth Floor East Wing Premises Commencement Date for all purposes herein.

(iv) The Sixth Floor East Wing Premises and the Third Floor West Wing Premises are hereinafter collectively referred to as the “**Additional Premises**”. Except as otherwise provided herein and except to the extent inconsistent herewith, all terms and provisions of the Lease shall be applicable to Tenant’s leasing of the Additional Premises, except that (i) Exhibit D of the Lease shall not be applicable to Tenant’s leasing of the Additional Premises and (ii) Exhibit E of the Lease shall not be applicable to Tenant’s leasing of the Additional Premises.

(v) Notwithstanding anything to the contrary in the Lease, the Original Term of the Lease with respect to the Existing Premises shall be extended to be coterminous with the Sixth Floor East Wing Premises Original Term. Accordingly, (A) the Original Term of the Lease with respect to the Existing Fifth Floor West Wing Premises and the Existing Sixth Floor West Wing Premises is hereby extended beyond the current term expiring on November 30, 2022, for the period commencing on December 1, 2022 and ending on January 31, 2025, and (B) the Original Term of the Lease with respect to the Existing Fifth Floor East Wing Premises is hereby extended beyond the current term expiring on January 31, 2024, for the period commencing on February 1, 2024 and ending on January 31, 2025. The Existing Premises are being leased to Tenant hereunder in their “AS-IS,” “WHERE-IS” condition as of the Effective Date.

2. Delivery Condition for Additional Premises; Landlord's Allowance for Additional Premises. Tenant hereby acknowledges and agrees that it shall accept the Additional Premises in their "AS-IS" condition as of the date of this Amendment, with the Building's Systems (as defined in the Lease) serving the Additional Premises in good working condition, and Landlord shall have no obligation to perform any work therein (including, without limitation, the construction of any tenant finish-work or other improvements therein), and Landlord shall not be obligated to reimburse Tenant or provide an allowance for any costs related to the demolition or construction of improvements therein other than the Landlord's Third Floor West Wing Premises Allowance and the Landlord's Sixth Floor East Wing Premises Allowance (as such terms are defined in **Exhibit B** hereto) pursuant to the terms and provisions of **Exhibit B** hereto. Landlord shall deliver the Sixth Floor East Wing Premises in vacant condition on the Sixth Floor East Wing Premises Commencement Date.

Notwithstanding the foregoing, Tenant hereby acknowledges and agrees that Tenant and MediaMath have agreed that MediaMath will convey to Tenant certain furniture located within the Third Floor West Wing Premises and set forth on the inventory attached hereto as **Exhibit C** to the extent such items are shown in white thereon, and with respect to the items shown in red thereon, only to the extent that **Exhibit C** expressly notes that MediaMath is not taking or removing all of such red items (collectively, the "**MediaMath Furniture**"), which MediaMath Furniture shall remain in the Third Floor West Wing Premises on the Third Floor West Wing Premises Commencement Date without Landlord or MediaMath being obligated to remove the same from the Third Floor West Wing Premises. Tenant further acknowledges that Landlord makes no warranty, guaranty, or representation concerning the ownership, nature, fitness, or condition of the MediaMath Furniture and Tenant accepts them in "as is" condition with all faults and defects, and that Landlord shall not maintain any insurance covering the MediaMath Furniture and shall have no liability to Tenant with respect to the MediaMath Furniture. Tenant shall be obligated to remove, at Tenant's sole cost and expense, any then remaining MediaMath Furniture from the Third Floor West Wing Premises upon the expiration or earlier termination of this Lease with respect to the Third Floor West Wing Premises.

Notwithstanding anything to the contrary contained herein, Tenant acknowledges that:

(a) (i) all or a portion of the Third Floor West Wing Premises are currently occupied by MediaMath, Inc., a Delaware corporation ("**MediaMath**"), (ii) Landlord shall not be liable to Tenant for failing to deliver the Third Floor West Wing Premises, or any portion thereof, to Tenant by any particular date, and (iii) Tenant shall not have the right to terminate the Lease for Landlord's failure to timely deliver the Third Floor West Wing Premises, or any portion thereof, to Tenant by any particular date, but shall accept delivery of such Third Floor West Wing Premises when delivered by Landlord; provided, however, that if MediaMath fails to vacate by December 1, 2019, Landlord agrees to use reasonable efforts to obtain possession of the Third Floor West Wing Premises; and

(b) (i) all or a portion of the Sixth Floor East Wing Premises are currently occupied by IHS Global Inc., a Delaware corporation (“**IHS**”), (ii) Landlord shall not be liable to Tenant for failing to deliver the Sixth Floor East Wing Premises, or any portion thereof, to Tenant by any particular date, and (iii) Tenant shall not have the right to terminate the Lease for Landlord’s failure to timely deliver the Sixth Floor East Wing Premises, or any portion thereof, to Tenant by any particular date, but shall accept delivery of such Sixth Floor East Premises when delivered by Landlord. Notwithstanding the foregoing, in the event that Landlord has not delivered the Sixth Floor East Wing Premises to Tenant in vacant condition by February 1, 2021 (as extended for any delays caused by Tenant or force majeure), then as Tenant’s sole remedy therefor, the Sixth Floor East Wing Premises Rent Commencement Date (as defined in Section 4(c) below) shall be further postponed for a period equal to the number of days after February 1, 2021 until the delivery of the Sixth Floor East Wing Premises in vacant condition.

3. Base Years for Additional Premises. Notwithstanding anything to the contrary contained in the Lease, the Base Year for Operating Costs for the Additional Premises shall be calendar year 2020, and the Tax Base Year for the Additional Premises shall be the period of July 1, 2019 through June 30, 2020. The Base Years for the Existing Premises shall remain as set forth in the Lease.

4. Amendments to the Lease.

(a) Premises.

- (i) Effective as of the Third Floor West Wing Premises Commencement Date, the first sentence of the definition of “Premises” in the Basic Lease Information Section of the Lease shall be amended in its entirety to read as follows:

“Premises: Approximately 67,223 rentable square feet, consisting of (i) 15,267 rentable square feet of space on the fifth (5th) floor of the West Wing of the Building (the “**Existing Fifth Floor West Wing Premises**”), (ii) approximately 15,267 rentable square feet on the sixth (6th) floor of the West Wing of the Building (the “**Existing Sixth Floor West Wing Premises**”), (iii) approximately 21,389 rentable square feet of space on the fifth (5th) floor of the East Wing of the Building (the “**Existing Fifth Floor East Wing Premises**”) and (iv) approximately 15,300 rentable square feet of space on the third floor of the West Wing of the Building (the “**Third Floor West Wing Premises**”). The Premises are located in the building commonly known as 55 Cambridge Parkway (the “**Building**”), having a street address of 55 Cambridge Parkway, Cambridge, MA. The Premises are outlined on the plans attached to the Lease as **Exhibit A** and **Exhibit A-1**. The land on which the Building is located (the “**Land**”) is described on **Exhibit B**. The term “**Project**” shall collectively refer to the Building, the Land and the driveways, parking facilities, and similar improvements and easements associated with the foregoing or the operation thereof, including without limitation the Common Areas (as defined in Section 7(c)).”

- (ii) Effective as of the Sixth Floor East Wing Premises Commencement Date, the first sentence of the definition of “Premises” in the Basic Lease Information Section of the Lease shall be further amended in its entirety to read as follows:

“Premises: Approximately 88,612 rentable square feet, consisting of (i) 15,267 rentable square feet of space on the fifth (5th) floor of the West Wing of the Building (the “**Existing Fifth Floor West Wing Premises**”), (ii) approximately 15,267 rentable square feet on the sixth (6th) floor of the West Wing of the Building (the “**Existing Sixth Floor West Wing Premises**”), (iii) approximately 21,389 rentable square feet of space on the fifth (5th) floor of the East Wing of the Building (the “**Existing Fifth Floor East Wing Premises**”), (iv) approximately 15,300 rentable square feet of space on the third floor of the West Wing of the Building (the “**Third Floor West Wing Premises**”) and (v) approximately 21,389 rentable square feet of space on the sixth (6th) floor of the East Wing of the Premises (the “**Sixth Floor East Wing Premises**”). The Premises are located in the building commonly known as 55 Cambridge Parkway (the “**Building**”), having a street address of 55 Cambridge Parkway, Cambridge, MA. The Premises are outlined on the plans attached to the Lease as **Exhibit A**, **Exhibit A-1** and **Exhibit A-2**. The land on which the Building is located (the “**Land**”) is described on **Exhibit B**. The term “**Project**” shall collectively refer to the Building, the Land and the driveways, parking facilities, and similar improvements and easements associated with the foregoing or the operation thereof, including without limitation the Common Areas (as defined in Section 7(c)).”

- (b) Original Term. As of the Effective Date, the definition of “Original Term” in the Basic Lease Information Section of the Lease is amended in its entirety to read as follows:

“Original
Term: (a) Existing Fifth Floor West Wing Premises and Existing Sixth Floor West Wing Premises: April 23, 2016 until 5:00 pm local time on January 31, 2025.

(b) Existing Fifth Floor East Wing Premises: February 1, 2017 until 5:00 pm local time on January 31, 2025.

(c) Third Floor West Wing Premises: The period beginning on the Third Floor West Wing Premises Commencement Date and ending at 5:00 pm local time on August 31, 2023.

(d) Sixth Floor East Wing Premises: The period beginning on the Sixth Floor East Wing Premises Commencement Date and ending at 5:00 pm local time on January 31, 2025.”

- (c) Base Rent Commencement Date. As of the Effective Date, the definition of “Base Rent Commencement Date” in the Basic Lease Information Section of the Lease shall be amended in its entirety to read as follows:

Existing Sixth Floor West Wing Premises: September 1, 2016 (the “**Existing Sixth Floor West Wing Premises Rent Commencement Date**”)

Existing Fifth Floor West Wing Premises: November 1, 2016 (the “**Existing Fifth Floor West Wing Premises Rent Commencement Date**”)

Existing Fifth Floor East Wing Premises: February 1, 2017 (the “**Existing Fifth Floor East Wing Premises Rent Commencement Date**”)

Third Floor West Wing Premises: The earlier to occur of (i) the date that the Additional Premises Tenant Improvements to the Third Floor West Wing Premises have been Substantially Completed and (ii) that date that is two (2) months after the Third Floor West Wing Premises Commencement Date (such earlier date, the “**Third Floor West Wing Premises Rent Commencement Date**”).

Sixth Floor East Wing Premises: The earlier to occur of (i) the date that the Additional Premises Tenant Improvements to the Sixth Floor East Wing Premises have been Substantially Completed (as defined in **Exhibit B**) and (ii) that date that is six (6) months after the Sixth Floor East Wing Premises Commencement Date (such earlier date, the “**Sixth Floor East Wing Premises Rent Commencement Date**”).

- (d) Base Rent. As of the Effective Date, the definition of “Base Rent” in the Basic Lease Information Section of the Lease shall be amended by adding the following new section at the end thereof:

“*Base Rent for Third Floor West Wing Premises only:

(i) For the period commencing on December 1, 2019 and ending on November 30, 2020: \$1,453,500.00 per annum (\$121,125.00 per month);

(ii) For the period commencing on December 1, 2020 and ending on November 30, 2021: \$1,482,570.00 per annum (\$123,547.50 per month);

(iii) For the period commencing on December 1, 2021 and ending on November 30, 2022: \$1,512,221.40 per annum (\$126,018.45 per month);

(iv) For the period commencing on December 1, 2022 and ending on August 31, 2023: \$1,542,465.83 per annum (\$128,538.82 per month); and

(v) Extension Term for Third Floor West Wing Premises (if duly exercised): See **Exhibit J** to Second Amendment to Lease.

****Base Rent for Sixth Floor East Wing Premises only:**

(i) For Sixth Floor East Lease Year 1: \$2,031,955.00 per annum (\$169,329.58 per month);

(ii) For Sixth Floor East Lease Year 2: \$2,072,594.10 per annum (\$172,716.18 per month);

(iii) For Sixth Floor East Lease Year 3: \$2,114,045.98 per annum (\$176,170.50 per month);

(iv) For Sixth Floor East Lease Year 4: \$2,156,326.90 per annum (\$179,693.91 per month);

(v) For the period beginning on the first day after the expiration of Sixth Floor East Lease Year 4 and ending on January 31, 2025:

(A) for the first twelve (12) months of such period: \$2,199,453.44 per annum (\$183,287.79 per month),

(B) and if such period is longer than twelve (12) months, the Base Rent for such portion after such twelve (12) months shall be: \$2,243,442.51 per annum (\$186,953.54 per month); and

(vi) Extension Term for Sixth Floor East Wing Premises (if duly exercised): See **Exhibit J** to Second Amendment to Lease.

Effective as of December 1, 2022, Base Rent for the Existing Fifth Floor West Wing Premises and the Existing Sixth Floor West Wing Premises shall be as follows:

(i) For the period commencing on December 1, 2022 and ending on November 30, 2023: \$3,078,132.54 per annum (\$256,511.05 per month); and

(ii) For the period commencing on December 1, 2023 and ending on November 30, 2024: \$3,139,695.19 per annum (\$261,641.27 per month);

(iii) For the period commencing December 1, 2024 and ending on January 31, 2025: \$3,202,489.09 per annum (\$266,874.09 per month); and

(iv) Extension Term for Existing Fifth Floor West Wing Premises and Existing Sixth Floor West Wing Premises (if duly exercised): See **Exhibit J** to Second Amendment to Lease.

Effective as of February 1, 2024, Base Rent for the Existing Fifth Floor East Wing Premises shall be as follows:

(i) For the period commencing on February 1, 2024 and ending on January 31, 2025: \$2,199,430.87 per annum (\$183,285.91 per month); and

(ii) Extension Term for Existing Fifth Floor East Wing Premises and Existing Sixth Floor West Wing Premises (if duly exercised): See **Exhibit J** to Second Amendment to Lease.

*The foregoing anticipates a Third Floor West Wing Premises Rent Commencement Date of December 1, 2019. In the event the actual Third Floor West Wing Premises Rent Commencement Date is a different date, the rental periods for the Third Floor West Wing Premises shall be adjusted as necessary.

As used herein, the first “Sixth Floor East Lease Year**” shall commence on the Sixth Floor East Wing Premises Rent Commencement Date and end on the day immediately preceding the first anniversary thereof (provided that if the Sixth Floor East Wing Premises Rent Commencement Date does not occur on the first day of a calendar month, the first Sixth Floor East Lease Year shall further include the balance of the calendar month such first anniversary occurs), and each subsequent Sixth Floor East Lease Year shall mean each successive period of twelve (12) calendar months following the first Sixth Floor East Lease Year during the Original Term for the Sixth Floor East Wing Premises, provided that the last period for the Sixth Floor East Wing Premises shall end on the expiration of the Original Term for the Sixth Floor East Wing Premises as set forth above. Upon the determination of the actual Sixth Floor East Wing Premises Rent Commencement Date, the rental periods for the Sixth Floor East Wing Premises shall be adjusted as necessary.”

(e) Tenant's Proportionate Share.

- (i) Effective as of the Third Floor West Wing Premises Commencement Date, the definition of "Tenant's Proportionate Share" in the Basic Lease Information Section of the Lease shall be amended by adding the following new section at the end thereof.

"Tenant's
Proportionate
Share for Third Floor

West Wing Premises: 5.6%, which is the percentage obtained by dividing (a) the number of rentable square feet in the Third Floor West Wing Premises as stated above by (b) the rentable square feet in the Building at the time a respective charge was incurred, which at the time of execution of that certain Second Amendment to Lease between Landlord and Tenant is 274,235 rentable square feet."

- (ii) Effective as of the Sixth Floor East Wing Premises Commencement Date, the definition of "Tenant's Proportionate Share" in the Basic Lease Information Section of the Lease shall be amended by adding the following new section at the end thereof.

"Tenant's
Proportionate
Share for Sixth Floor

East Wing Premises: 7.8%, which is the percentage obtained by dividing (a) the number of rentable square feet in the Sixth Floor East Wing Premises as stated above by (b) the rentable square feet in the Building at the time a respective charge was incurred, which at the time of execution of that certain Second Amendment to Lease between Landlord and Tenant is 274,235 rentable square feet."

(f) Exhibit A.

- (i) Effective as of the Third Floor West Wing Premises Commencement Date, Exhibit A to the Lease shall be amended to include Exhibit A-1 attached hereto.
- (ii) Effective as of the Sixth Floor East Wing Premises Commencement Date, Exhibit A shall be further amended to include Exhibit A-2 attached hereto.

(g) Parking.

- (i) Effective as of the Third Floor West Wing Premises Commencement Date, Exhibit I of the Lease is hereby amended by deleting the words “seventy-two (72) parking spaces” and by substituting the words “ninety-four (94) parking spaces” therefor.
- (ii) Effective as of the Sixth Floor East Wing Premises Commencement Date, Exhibit I of the Lease shall be further amended by deleting the words “ninety-four (94) parking spaces” and by substituting the words “one hundred twenty-four (124) parking spaces” therefor.

Upon the effective date of each such increase in the number of parking spaces as set forth above, Tenant shall be obligated to pay Landlord the Parking Charges for the maximum amount of spaces available to Tenant as set forth above, regardless of whether Tenant or any invitees, employees or contractors actually use such spaces.

- (h) Extension Option. Section 1 (Extension Option) of **Exhibit J** to the Lease is hereby deleted in its entirety and is replaced with the Extension Option set forth on **Exhibit J** attached hereto. Additionally, Exhibit D of the First Amendment is hereby deleted in its entirety and shall be of no further force or effect.

5. Additional Regulations. The parties acknowledge that the expansion of the Premises hereunder will result in increased deliveries (including meal deliveries) to Tenant and disposals from the Premises, and increased maintenance and janitorial tasks for the Premises and the Building. Accordingly, in furtherance of Tenant’s existing obligations under the Lease to maintain and repair the Premises, clean all food-service areas, prevent undue burden on Landlord’s standard janitorial services, and properly dispose of refuse generated by Tenant, effective as of the Third Floor West Wing Premises Commencement Date, Tenant shall be subject to the following additional requirements and regulations:

- (i) Tenant shall contract directly, at Tenant’s sole cost and expense, with the base building cleaning company to retain a day porter for the Premises (as expanded hereunder);
- (ii) In connection with Tenant’s obligation not to unreasonably interfere with other tenants or with Landlord in its management of the Building, Tenant agrees to reasonably cooperate with Landlord in connection with establishing reasonable protocols to coordinate and manage Tenant’s deliveries and disposals;
- (iii) Tenant shall enter into a facilities maintenance contract with a third party (DENS Facility Services or equivalent) for the performance of Tenant’s repair and maintenance responsibilities under the Lease with respect to the plumbing, electrical, lighting, carpentry and painting within the Premises; and

- (iv) Tenant and Landlord agree to reasonably cooperate with each other to coordinate and manage Tenant's deliveries to the Building, including deliveries of meals, snacks, drinks (including alcohol) and any other consumables, in an efficient manner that does not unreasonably interfere with other tenants or with Landlord; and to facilitate such efforts, Tenant shall deliver to Landlord, upon request from Landlord from time to time, a list of Tenant's preferred vendors for common deliverables and a general schedule of the customary days and times for such deliveries.

In addition, Landlord intends to furnish a micromobility storage area in the parking garage for the Building for the non-exclusive use of the Building tenants and occupants (the "**Micromobility Storage Area**"). Upon completion of such Micromobility Storage Area, Tenant shall be required, and shall cause its employees, to store all bicycles, scooters, segways, skateboards, hoverboards, and any other non-automobile forms of individual transportation in such Micromobility Storage Area. The foregoing storage requirement shall constitute a part of the rules and regulations for the Building and shall be applicable to all tenants and occupants of the Building.

6. **Broker.** Landlord and Tenant hereby represent and warrant to each other that, other than CBRE and Lincoln Property Company (the "**Brokers**"), neither has dealt with any real estate broker or agent in connection with the procurement of this Amendment. Other than the Brokers, whose commissions shall be payable by Landlord pursuant to a separate agreement, Tenant shall indemnify and hold Landlord harmless from any costs, expense or liability (including costs of suit and reasonable attorneys' fees) for any compensation, commission or fees claimed by any real estate broker or agent in connection with the procurement of this Amendment because of any act or statement by Tenant.

7. **Ratification of Lease Provisions; Estoppel.** Except as otherwise expressly amended, modified and provided for in this Amendment, Landlord and Tenant hereby ratify all of the provisions, covenants and conditions of the Lease, and such provisions, covenants and conditions shall be deemed to be incorporated herein and made a part hereof and shall continue in full force and effect. Landlord and Tenant each acknowledge that, to each party's knowledge (but without investigation or inquiry), as of the date hereof the other is not in any material default under the terms of the Lease.

8. **Entire Amendment.** This Amendment contains all the agreements of the parties with respect to the subject matter hereof and supersedes all prior dealings between the parties with respect to such subject matter.

9. **Binding Amendment.** This Amendment shall be binding upon, and shall inure to the benefit of the parties hereto, and their respective successors and assigns.

10. Amendment to Notice of Lease. Upon request by Tenant, Landlord shall execute an amendment to the Notice of Lease that references the Lease and that was previously recorded with the Middlesex South District Registry of Deeds, which amendment shall reflect Tenant's leasing of the Sixth Floor East Wing Premises and the Third Floor West Wing Premises.

11. Governing Law. This Amendment shall be governed by the laws of the Commonwealth of Massachusetts without regard to conflict of laws principles.

12. Authority; Landlord's Representation Regarding Mortgages And Primary Leases. Landlord and Tenant each warrant to the other that the person or persons executing this Amendment on its behalf has or have authority to do so and that such execution has fully obligated and bound such party to all terms and provisions of this Amendment. Landlord represents and warrants that, as of the Effective Date, there are no Mortgages or Primary Leases encumbering the Building.

13. No Reservation. Submission of this Amendment for examination or signature is without prejudice and does not constitute a reservation, option or offer, and this Amendment shall not be effective until execution and delivery by each of the parties hereto.

14. Counterparts. This Amendment may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. An electronic mail or facsimile version of an executed original of this Amendment shall be deemed an original, and each of the parties hereto intends to be bound by an electronic mail or facsimile version of a fully-executed original hereof or of an electronic mail or facsimile version of executed counterpart originals hereof.

[SIGNATURES ON FOLLOWING PAGE]

EXECUTED under seal as of the date first above written.

LANDLORD:

55 CAMBRIDGE PARKWAY, LLC,
a Delaware limited liability company

By: Invesco ICRE Massachusetts REIT Holdings, LLC, its sole
member

By: /s/ Peter Feinberg

Name: Peter Feinberg
Title: Vice President

TENANT:

CARGURUS, INC.,
a Delaware corporation

By: /s/ Jason Trevisan

Name: Jason Trevisan
Title: CFO

EXHIBIT A-1

Outline Plan of Third Floor West Wing Premises

Exhibit A-1 is intended only to show the general outline of the Third Floor West Wing Premises as of the Third Floor West Wing Premises Commencement Date. The depiction of interior windows, cubicles, modules, furniture and equipment in this Exhibit is for illustrative purposes only, but does not mean that such items exist. Landlord is not required to provide, install or construct any such items. It does not in any way supersede any of Landlord's rights set forth in the Lease (as amended) with respect to arrangements and/or locations of public parts of the Building and changes in such arrangements and/or locations. It is not to be scaled; any measurements or distances shown should be taken as approximate. The inclusion of elevators, stairways electrical and mechanical closets, and other similar facilities for the benefit of occupants of the Building does not mean such items are part of the Premises.

[See Attached Plan]

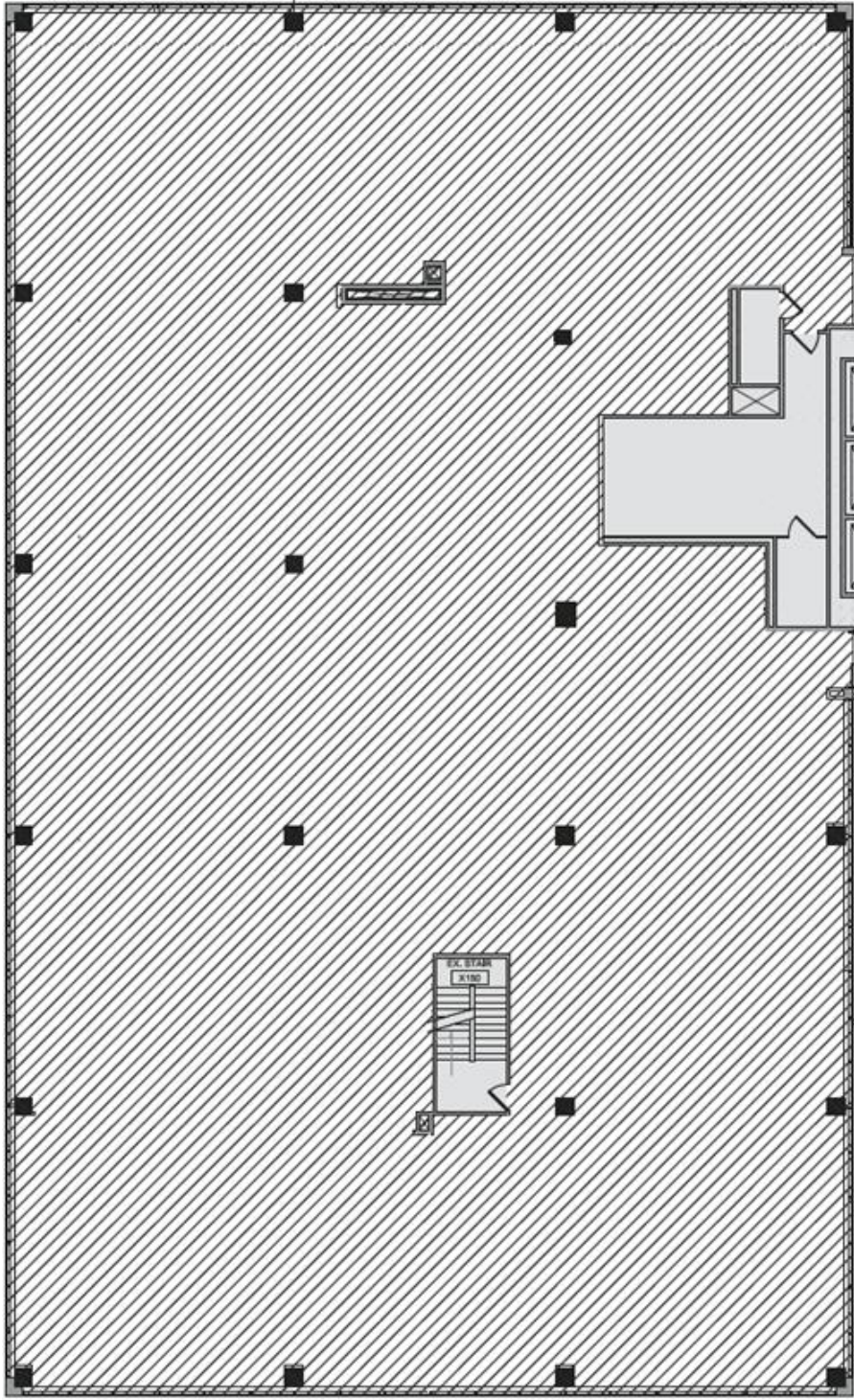


EXHIBIT A-2

Outline Plan of Sixth Floor East Wing Premises

Exhibit A-2 is intended only to show the general outline of the Sixth Floor East Wing Premises as of the Sixth Floor East Wing Premises Commencement Date. The depiction of interior windows, cubicles, modules, furniture and equipment in this Exhibit is for illustrative purposes only, but does not mean that such items exist. Landlord is not required to provide, install or construct any such items. It does not in any way supersede any of Landlord's rights set forth in the Lease (as amended) with respect to arrangements and/or locations of public parts of the Building and changes in such arrangements and/or locations. It is not to be scaled; any measurements or distances shown should be taken as approximate. The inclusion of elevators, stairways electrical and mechanical closets, and other similar facilities for the benefit of occupants of the Building does not mean such items are part of the Premises.

[See Attached Plan]

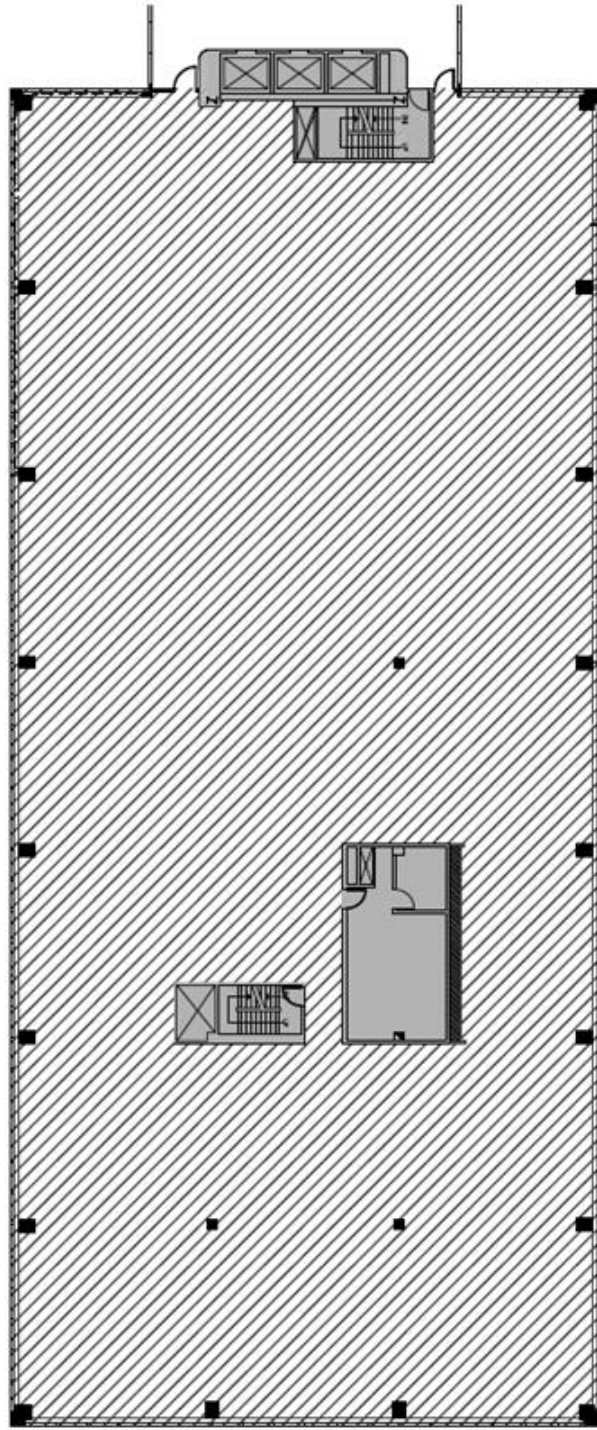


EXHIBIT B

ADDITIONAL PREMISES TENANT IMPROVEMENTS: LANDLORD'S ADDITIONAL PREMISES ALLOWANCE

This **Exhibit B** forms a part of that certain Second Amendment to Lease (the “**Amendment**”) by and between 55 Cambridge Parkway, LLC, a Delaware limited liability company (“**Landlord**”), and CarGurus, Inc., a Delaware corporation (“**Tenant**”), to which this Exhibit is attached. If there is any conflict between this Exhibit and the Lease regarding the construction of the Additional Premises Tenant Improvements (hereinafter defined), this Exhibit shall govern. All capitalized terms referred to in this Exhibit shall have the same meaning provided in the Lease, except where expressly provided to the contrary in this Exhibit.

ARTICLE 1 DEFINITIONS

1. **Additional Definitions.** Each of the following terms shall have the following meaning:

Architect: The architectural firm selected by Tenant and approved by Landlord in its good faith discretion to prepare the “Preliminary Plans” and “Final Plans” (as such terms are hereinafter defined).

Contractor: The general contractor selected by Tenant and approved by Landlord in its sole and absolute discretion to construct the Additional Premises Tenant Improvements. Landlord shall have the right to require any contractor or subcontractor performing work at the Building to employ union labor, and any construction manager utilized by Tenant to be a union-associated construction manager. The general contractor must be licensed and bondable in the Commonwealth of Massachusetts. Tenant may request that Landlord approve three (3) or more Contractors prior to competitive bidding, in which case Tenant may select any one of the Contractors approved by Landlord.

Construction Contract: The construction contract to be entered into by Tenant and its Contractor in form, scope and substance satisfactory to Tenant.

Landlord's Third Floor West Wing Premises Allowance: A total amount equal to Two Hundred Twenty-Nine Thousand Five Hundred and No/100 Dollars (\$229,500.00) to be paid by Landlord for the Construction Costs for the Additional Premises Tenant Improvements for the Third Floor West Wing Premises, as provided in this Exhibit. Any unused portion of Landlord's Third Floor West Wing Premises Allowance shall remain the property of Landlord, and Tenant shall have no interest in said funds. Landlord's Third Floor West Wing Premises Allowance under this Exhibit may only be used for Additional Premises Tenant Improvements for the Third Floor West Wing Premises; provided, however, that Tenant shall have the right to apply any unused portion of the Third Floor West Wing Premises Allowance toward the Construction Costs for the Additional Premises Tenant Improvements for the Sixth Floor East Wing Premises.

Landlord's Sixth Floor East Wing Premises Allowance: A total amount equal to One Million One Hundred Seventy-Six Thousand Three Hundred Ninety-Five and No/100 Dollars (\$1,176,395.00) to be paid by Landlord for the Construction Costs for the Additional Premises Tenant Improvements for the Sixth Floor East Wing Premises, as provided in this Exhibit. Any unused portion of Landlord's Sixth Floor East Wing Premises Allowance shall remain the property of Landlord, and Tenant shall have no interest in said funds. Landlord's Sixth Floor East Wing Premises Allowance under this Exhibit may only be used for Additional Premises Tenant Improvements for the Sixth Floor East Wing Premises; provided, however, that Tenant shall have the right to apply any unused portion to the Sixth Floor East Wing Premises Allowance toward the Construction Costs for the Additional Premises Tenant Improvements for the Third Floor West Wing Premises. The Landlord's Sixth Floor East Wing Premises Allowance and the Landlord's Third Floor West Wing Premises Allowance are hereinafter referred to collectively as the "**Additional Premises Allowance**".

Substantial Completion, Substantially Complete, and Substantially Completed (or similar phrase): The foregoing shall mean when the following have occurred or would have occurred with respect to the Additional Premises Tenant Improvements for the Third Floor West Wing Premises or the Additional Premises Tenant Improvements for the Sixth Floor East Wing Premises, as applicable, but for any delay cause by Tenant:

(a) Tenant has delivered to Landlord a certificate from the Architect, in a form reasonably approved by Landlord, that the Additional Premises Tenant Improvements for the Third Floor West Wing Premises or the Sixth Floor East Wing Premises, as applicable, have been Substantially Completed substantially in accordance with the Final Plans, except for "punch list" items which may be completed within thirty (30) days following the completion of the applicable punchlist pursuant to Section 4.2 below without impairing Tenant's use of the applicable Premises or a material portion thereof, and Landlord has approved of the work in its sole and absolute discretion; and

(b) Tenant has (i) with respect to the Third Floor West Wing Premises, obtained from the appropriate governmental authority a final certificate of occupancy (or all building permits with all inspections approved or the equivalent) (a "**Certificate of Occupancy**") and all other approvals and permits for the Third Floor West Wing Premises permitting Tenant's occupancy and use of the Third Floor West Wing Premises for the Permitted Use under the Lease, and (ii) with respect to the Sixth Floor East Wing Premises, obtained from the appropriate governmental authority a Certificate of Occupancy and all other approvals and permits for the Sixth Floor East Wing Premises permitting Tenant's occupancy and use of the Sixth Floor East Wing Premises for the Permitted Use under the Lease.

Additional Premises Tenant Improvements: The improvements to be constructed in the Third Floor West Wing Premises and the Sixth Floor East Wing Premises in accordance with the Final Plans. Said work shall include architectural, mechanical and electrical work and life safety systems, and shall be in accordance with the criteria, procedures and schedules referred to in this Exhibit. The Additional Premises Tenant Improvements shall comply in all respects with all applicable Laws.

Construction Costs: All costs, expenses, fees, taxes and charges to construct the Additional Premises Tenant Improvements, including, without limitation, the following:

- (1) surveys, reports, environmental and other tests and investigations of the site and any improvements thereon;
 - (2) architectural and engineering fees;
 - (3) labor, materials, equipment and fixtures supplied by the Contractor, its subcontractors and/or materialmen, including, without limitation, charges for a job superintendent and project representative;
 - (4) the furnishing and installation of all heating, ventilation and air conditioning duct work, terminal boxes, distributing defusers and accessories required for completing the heating, ventilation and air-conditioning system in the Additional Premises, including costs of meter and key control for after-hour usage, if required by Landlord;
 - (5) all electrical circuits, wiring, lighting fixtures, data cabling and tube outlets furnished and installed throughout the Additional Premises, including costs of meters;
 - (6) all window and floor coverings in the Additional Premises, including, without limitation, all treatment and preparatory work required for the installation of floor coverings over the concrete or other structural floor;
 - (7) all fire and life safety control systems, such as fire walls, wiring and accessories installed within the Additional Premises;
 - (8) all plumbing, fixtures, pipes and accessories installed within the Additional Premises;
 - (9) fees charged by the city and/or county where the Building is located (including, without limitation, fees for building permits and approvals and plan checks) required for the work in the Additional Premises;
 - (10) all taxes, fees, charges and levies by governmental and quasi-governmental agencies for authorization, approvals, licenses and permits; and all sales, use and excise taxes for the materials supplied and services rendered in connection with the installation and construction of the Additional Premises Tenant Improvements; and
 - (11) all costs and expenses incurred to comply with all Laws of any governmental authority for any work at the Additional Premises in order to construct the Additional Premises Tenant Improvements.
-

The term “Construction Costs” under this Exhibit shall not include (i) any fees, costs, expenses, compensation or other consideration payable to Tenant, or any of its officers, directors, employees or affiliates or (ii) the cost of any of Tenant’s furniture, artifacts, trade fixtures, telephone and computer systems and related facilities except as provided for above in clause (5), or equipment. Any fees or costs referred to in clauses (i) through (ii) above shall be paid by Tenant without resort to the Additional Premises Allowance.

ARTICLE 2 CONSTRUCTION OF ADDITIONAL PREMISES TENANT IMPROVEMENTS

2.1 Preparation of Plans.

(a) **Preliminary Plans.** As soon as is reasonably possible after the date of the Amendment, Tenant shall submit to its Architect all additional information, including occupancy requirements for the Additional Premises (“**Information**”), necessary to enable the Architect to prepare preliminary plans for the Additional Premises Tenant Improvements showing, among other things, all demising walls, corridors, entrances, exits, doors, interior design and partition, and the locations of all display and storage rooms and bathrooms. As soon as is commercially reasonable after the date hereof, Tenant shall cause the Architect to prepare preliminary plans for the Additional Premises Tenant Improvements and shall deliver two copies of same to Landlord for its review and written approval in its good faith discretion. Within ten (10) days after receipt of the preliminary plans, Landlord shall notify Tenant in writing that (i) Landlord approves of such preliminary plans or (ii) Landlord disapproves of such preliminary plans, the basis for disapproval and the changes requested by Landlord. Tenant shall cause the preliminary plans to be revised and shall submit the revised plans to Landlord for its review and approval as provided in this section. After approval of the preliminary plans as provided above, the preliminary plans shall be referred to as the “**Preliminary Plans.**”

(b) **Final Plans.** Tenant shall cause the Architect to prepare final working drawings, which shall be consistent with the Preliminary Plans, compatible with the design, construction and equipment of the Building, comply with all applicable Laws, capable of logical measurement and construction, and contain all such information as may be required for obtaining all permits and other governmental approvals for the construction of the Additional Premises Tenant Improvements (the “**Working Drawings**”). As soon as is commercially reasonable after the Preliminary Plans are approved by the parties as provided above, Tenant shall submit two copies of the Working Drawings to Landlord for its review and approval in its good faith discretion. Within ten (10) days after receipt of the Working Drawings, Landlord shall notify Tenant in writing that (i) Landlord approves of such Working Drawings, or (ii) Landlord disapproves of such Working Drawings, the basis for disapproval and the changes requested by Landlord. Tenant shall cause the Working Drawings to be revised and shall submit the revised Working Drawings to Landlord for its review and approval as provided in this section. The Working Drawings approved in writing by the parties shall be referred to as the “**Final Plans.**”

(c) **General.** It is the responsibility of Tenant to assure that the Final Plans and the Additional Premises Tenant Improvements constructed thereunder conform to all applicable Laws. Tenant shall submit to Landlord one (1) reproducible and four (4) prints of the Final Plans and, if applicable, an electronic unlocked version in CAD format.

2.2 Selection and Approval of Certain Contractors. Any subcontractor performing any work on the life safety or alarm systems or work affecting the roof shall be subject to Landlord's prior written approval in its sole and absolute discretion and Landlord may require the Tenant use Landlord's contractor or a specific subcontractor for any such work. Landlord shall provide written notice of approval or disapproval within five (5) Business Days after Tenant's request for such approval. The construction contract shall require, among other things, that the Contractor (a) obtain and deliver to Landlord evidence of insurance required by Landlord, (b) execute, obtain and deliver to Tenant within ten (10) days after the date of Substantial Completion lien waivers from the Contractor and all of its subcontractors holding contracts in excess of \$10,000 ("**Major Subcontractors**") and suppliers holding contracts in excess of \$10,000, and (c) monthly progress payments, with a ten percent (10%) retention until the construction is fifty (50%) complete.

2.3 Information Provided by Landlord. Acceptance or approval of any plan, drawing or specification, including, without limitation, the Preliminary Plans and the Final Plans, by Landlord shall not constitute the assumption of any responsibility by Landlord for the accuracy or sufficiency of such plans and materials and Tenant shall be solely responsible therefor. Tenant agrees and understands that the review of all plans pursuant to the Lease or this Exhibit by Landlord is to protect the interests of Landlord in the Building, and Landlord shall not be the guarantor of, nor be responsible for, the correctness, completeness or accuracy of any such plans or compliance of such plans with applicable Laws. Any information that may have been furnished to Tenant by Landlord or others about the mechanical, electrical, structural, plumbing or geological (including soil and sub-soil) characteristics of the Building or Project (hereinafter referred to as the "**Site Characteristics**") are for Tenant's convenience only, and Landlord does not represent or warrant that the Site Characteristics are accurate, complete or correct or that the Site Characteristics are as indicated. Any information that has been furnished by Landlord to Tenant has been delivered on the expressed condition and understanding that Tenant will independently verify whether such information is accurate, complete or correct and not rely on such information provided by Landlord.

2.4 No Responsibility of Landlord. Landlord's approval of any plans, including, without limitation, the Preliminary Plans or the Final Plans, shall not: (i) constitute an opinion or agreement by Landlord that such plans and Additional Premises Tenant Improvements are in compliance with all applicable Laws, (ii) impose any present or future liability on Landlord, including, without limitation, with respect to the Building's Structure and/or Building's Systems; (iii) constitute a waiver of Landlord's rights hereunder or under the Lease or this Exhibit except that Landlord shall be bound by any approval given in accordance with the Lease or this Exhibit; (iv) impose on Landlord any responsibility for a design and/or construction defect or fault in the Additional Premises Tenant Improvements; or (v) constitute a representation or warranty regarding the accuracy, completeness or correctness thereof.

2.5 Changes. After approval of the Preliminary Plans or Final Plans by Landlord and Tenant, any changes in the Preliminary Plans or Final Plans shall require the prior written consent of Landlord which shall not be unreasonably withheld, delayed or conditioned and the parties shall follow the same process as was required under Section 2.1 for approval of plans. Any change requested by Tenant that is approved in writing by Landlord shall be prepared by the Architect and shall be subject to the review and approval of Landlord's architect which shall not be unreasonably withheld, delayed or conditioned. The cost of such changes, including the cost to revise such plans, obtain any additional permits and construct any additional improvements required as a result thereof, and the cost for materials and labor, shall be included as part of the Construction Costs for the Additional Premises Tenant Improvements.

2.6 Construction Budget for Additional Premises Tenant Improvements. After approval of the Final Plans for each of the Third Floor West Wing Premises and the Sixth Floor East Wing Premises, as applicable, by Landlord and Tenant as provided above, Tenant shall prepare a detailed estimate of the Construction Costs for such Additional Premises Tenant Improvements (the “**Construction Budget**”). Tenant shall deliver a copy of the Construction Budget to Landlord for Landlord’s approval, which shall not be unreasonably withheld, conditioned or delayed.

2.7 Building Permits and Approvals. Not later than fifteen (15) days after approval by Landlord and Tenant of the Final Plans and Construction Budget for the Third Floor West Wing Premises or the Sixth Floor East Wing Premises, as applicable, as provided above, Tenant or its Contractor shall submit such Final Plans to the appropriate governmental body for plan checking and all building permits and other governmental and quasi-governmental approvals.

2.8 Conduct of Work. Tenant shall confine the construction activity to within the Additional Premises as much as possible and shall work in an orderly manner removing trash and debris from the Additional Premises on a daily basis. At no time will pipes, wires, boards or other construction materials cross public areas where harm could be caused to the public. All such work shall be undertaken in strict compliance with all applicable Laws and this Lease. If Tenant fails to comply with these requirements, Landlord shall have the right, but not the obligation, to cause remedial action (at Tenant’s cost) as deemed necessary by Landlord to protect the public. Tenant shall complete construction of the Additional Premises Tenant Improvements free and clear of all liens, security interests and encumbrances of any kind.

(a) Pre-construction Submittals to Landlord. Prior to the commencement of construction in the Third Floor West Wing Premises or the Sixth Floor East Wing Premises, as applicable, Tenant shall submit the following items to Landlord:

- (1)** A certificate setting forth the proposed commencement date of construction and the estimated completion dates of the construction work, fixturing work and projected date of Substantial Completion for the Third Floor West Wing Premises or the Sixth Floor East Wing Premises, as applicable;
- (2)** Certificates of all insurance required under the Lease and this Exhibit; and
- (3)** Copies of all building permits, and all other permits and approvals required by governmental agencies to construct the applicable Additional Premises Tenant Improvements;

(b) Delays. Tenant shall, with reasonable diligence, prosecute construction of the Additional Premises Tenant Improvements to complete all work in the Third Floor West Wing Premises and the Sixth Floor East Wing Premises by the applicable Rent Commencement Date. Any delay in completing such work, including any delay as a result of governmental delays, force majeure and other events beyond the control of Tenant, excepting only acts or failures to act of Landlord or persons claiming under Landlord shall not extend or delay the time for the commencement of payment Rent or any other sum under the Lease.

(c) Correction of Work. Landlord may reject any portion of the Additional Premises Tenant Improvements which is not in material conformity with the Final Plans. Landlord shall not be responsible for correcting the portions of the Additional Premises Tenant Improvements which were defective or not in compliance with the Final Plans; all such work shall be the responsibility of Tenant at its sole cost and expense.

2.9 Copy of Record set of Plans. At the conclusion of construction for each of the Third Floor West Wing Premises and the Sixth Floor East Wing Premises: (i) Tenant shall cause the Architect and Contractor (A) to update the applicable Final Plans as necessary to reflect all changes made to such Final Plans during the course of construction, (B) to certify to the best of their knowledge that the “record-set” of as-built drawings are true and correct, which certification shall survive the expiration or termination of this Lease, and (C) to deliver to Landlord two (2) sets of copies of such record set of drawings within ninety (90) days following issuance of a Certificate of Occupancy for the Third Floor West Wing Premises or the Sixth Floor East Wing Premises, as applicable; and (ii) Tenant shall deliver to Landlord a copy of all signed building permits and certificates of occupancy, and all warranties, guaranties, and operating manuals and information relating to the improvements, equipment and systems in the Third Floor West Wing Premises or the Sixth Floor East Wing Premises, as applicable.

2.10 Tenant’s Parties and Insurance. The Contractor and all subcontractors, laborers, materialmen, and suppliers used by Tenant collectively shall be referred to in this **Exhibit C** as “**Tenant’s Parties**”.

(a) **Indemnity.** Tenant’s indemnity of Landlord as set forth in the Lease shall also apply with respect to any and all costs, losses, damages, injuries and liabilities related in any way to any act or omission of Tenant or Tenant’s Parties, or any one directly or indirectly employed by any of them, or in connection with Tenant’s non-payment of any amount arising out of the Additional Premises Tenant Improvements and/or Tenant’s disapproval of all or any portion of any request for payment.

(b) **Requirements of Tenant’s Parties.** Each of Tenant’s Parties shall guarantee to Tenant and shall be requested to also guarantee for the benefit of Landlord that the portion of the Additional Premises Tenant Improvements for which it is responsible shall be free from any defects in workmanship and materials for a period of not less than one (1) year from the date of completion thereof. Each of Tenant’s Parties shall be responsible for the replacement or repair, without additional charge, of all work done or furnished in accordance with its contract that shall become defective within one (1) year after the later to occur of (i) completion of the work performed by such contractor or subcontractors, and (ii) the date when the Additional Premises Tenant Improvements have been Substantially Completed. The correction of such work shall include, without additional charge, all additional expenses and damages incurred in connection with such removal or replacement of all or any part of the Additional Premises Tenant Improvements, and/or the Building and/or Common Areas that may be damaged or disturbed thereby. All such warranties or guarantees as to material or workmanship of or with respect to the Additional Premises Tenant Improvements shall be contained in the construction contract or subcontract and shall be written such that such guarantees or warranties shall inure to the benefit of Tenant and shall be requested to inure to the benefit of Landlord, as their respective interests may appear, so as to be directly enforced by either.

(c) **Insurance Requirements.** In addition to the insurance requirements set forth in the Lease, Tenant shall comply with the following requirements:

(1) **General Coverages.** All of Tenant’s Parties shall carry worker’s compensation insurance covering all of their respective employees, and shall also carry commercial liability insurance, including property damage, all with limits, in form and with companies as are required to be carried by Tenant as set forth in the Lease.

(2) **Special Coverage.** Tenant's Contractor, or in the case of a construction management contract Tenant's Major Subcontractors shall carry "Builder's All Risk" insurance in an amount approved by Landlord covering the construction of the Additional Premises Tenant Improvements, and such other insurance as Landlord may require. Such insurance shall be in amounts and shall include such extended coverage endorsements including the requirement that all of Tenant's Parties shall carry excess liability and Products and Completed Operation Coverage insurance, each in amounts not less than \$1,000,000 per incident, \$2,000,000 in aggregate, and in form and with companies as are required to be carried by Tenant as set forth in the Lease.

(3) **General Terms.** Certificates for all insurance carried pursuant to the foregoing sections shall be delivered to Landlord before the commencement of construction of the Additional Premises Tenant Improvements and before the Contractor's equipment is moved onto the site. All such policies of insurance must contain a provision that the company writing said policy will give Landlord thirty (30) days' prior written notice of any cancellation or lapse of the effective date or any reduction in the amounts of such insurance. In the event that the Additional Premises Tenant Improvements are damaged by any cause during the course of the construction thereof, Tenant shall immediately repair the same at Tenant's sole cost and expense. Tenant's Parties shall maintain all of the foregoing insurance coverage in force until the Additional Premises Tenant Improvements are fully completed except for any Products and Completed Operation Coverage insurance required by Landlord, which is to be maintained for six (6) years following completion of the work and acceptance by Landlord and Tenant. All policies carried under this section shall insure Landlord and Tenant, as their interests may appear, as well as Contractor and Tenant's Parties. All insurance, except Workers' Compensation, maintained by Tenant's Parties shall preclude or waive subrogation claims by the insurer against anyone insured thereunder. Such insurance shall provide that it is primary insurance as respects the Landlord and that any other insurance maintained by Landlord is excess and noncontributing with the insurance required hereunder. The requirements for the foregoing insurance shall not derogate from the provisions for indemnification of Landlord by Tenant under the Lease or this Exhibit.

2.11 Labor Matters. Tenant shall perform or cause Tenant's Contractor to perform all work in the making and/or installation of any repairs, alterations or improvements in a manner so as to avoid any labor dispute which causes or is likely to cause stoppage or impairment of work or delivery service or any other services in the Project. In the event there shall be any such stoppage or impairment as the result of any such labor dispute or potential labor dispute caused by Tenant's Contractor, Tenant shall immediately undertake such actions as may be necessary to eliminate such dispute or potential dispute, including, but not limited to, (a) removing all disputants from the job site until such time as the labor dispute no longer exists, (b) seeking an injunction in the event of a breach of contract between Tenant and Tenant's contractor, and (c) filing appropriate unfair labor practice charges in the event of a union jurisdictional dispute. Without limiting the generality of the foregoing, Landlord shall have the right to require any contractor or subcontractor performing work at the Building to employ union labor, and any construction manager utilized by Tenant to be a union-associated construction manager.

2.12 Temporary Facilities During Construction. Tenant shall obtain in its name and pay for all temporary utility facilities, and the removal of debris, as necessary and required in connection with the construction of the Additional Premises Tenant Improvements. Storage of Tenant's contractors' construction material, tools, equipment and debris shall be confined to the Premises and any other areas which may be designated for such purposes by Landlord. Landlord shall not be responsible for any loss or damage to Tenant's and/or Tenant's contractors' equipment. In no event shall any materials or debris be stored in the malls or service or exit corridors of the Project.

2.13 Miscellaneous. The Additional Premises Tenant Improvements shall be subject to the inspection and approval of Landlord and its supervisory personnel. All contractors engaged by Tenant shall be bondable, licensed contractors, possessing good labor relations, capable of performing quality workmanship.

2.14 Construction Management Fee. Landlord, or an agent of Landlord, shall provide construction management services in connection with the construction of the Additional Premises Tenant Improvements and the change orders. Such construction management services shall be performed for a fee (the “**Construction Management Fee**”) equal to one percent (1%) of the amount of the Additional Premises Allowance, including the costs of any permits and approvals associated therewith. Landlord shall deduct from Landlord’s Sixth Floor East Wing Premises Allowance and Landlord’s Third Floor West Wing Premises Allowance, on a pro rata basis, and pay its agent the amount of Construction Management Fee on a monthly basis prorated over the duration of construction of the Additional Premises Tenant Improvements. Tenant shall be responsible for payment of the Construction Management Fee to the extent Construction Costs exceed the Additional Premises Allowance.

ARTICLE 3 PAYMENT OF CONSTRUCTION COSTS

3.1 Payment of Construction Costs. Tenant shall pay for the Construction Costs for the Additional Premises Tenant Improvements, except as provided in the next sentence. Landlord shall only be responsible to Tenant for payment of the Construction Costs for the Additional Premises Tenant Improvements up to the lesser of the (a) actual Construction Costs for the Additional Premises Tenant Improvements for the Sixth Floor East Wing Premises and the Third Floor West Wing Premises, and (b) the amount of the Additional Premises Allowance (the lesser thereof shall be referred to herein as “**Landlord’s Maximum Construction Cost Obligation**”). If the aggregate Construction Costs for the Additional Premises Tenant Improvements are greater than Landlord’s Maximum Construction Cost Obligation, then Tenant shall be solely responsible for such additional costs above Landlord’s Maximum Construction Cost Obligation.

3.2 Payment By Landlord of Landlord’s Allowance.

(a) Payment by Landlord of Landlord’s Allowance. So long as there shall not then be an Event of Default of Tenant under the Lease and the below conditions for each installment of the Landlord’s Sixth Floor East Wing Premises Allowance and the Landlord’s Third Floor West Wing Premises Allowance are satisfied as set forth below, the Landlord’s Sixth Floor East Wing Premises Allowance and the Landlord’s Third Floor West Wing Premises Allowance shall be disbursed by Landlord, based upon requests for payment submitted by Tenant upon receipt of then appropriate invoices and forms required and submitted by Tenant not more often than once per month (except if applicable, in the case of the final disbursement of the Landlord’s Sixth Floor East Wing Premises Allowance or the Landlord’s Third Floor West Wing Premises Allowance); provided, however, that in no event shall Landlord be obligated to disburse to Tenant in the aggregate for Construction Costs for the Additional Premises Tenant Improvements more than Landlord’s Maximum Construction Cost Obligation. Each request for payment by Tenant shall be accompanied by a written certification satisfactory to Landlord by the Architect that all work up to the date of the request for payment has been completed in accordance with the Schedule of Values contained in Tenant’s construction contract(s) with the Contractor, along with releases (partial or complete) of liens from all of Tenant’s contractors and subcontractors for all work performed and materials furnished up to the date of Tenant’s immediately prior request for payment (and Tenant’s final request for payment

shall also be accompanied by the applicable items required below under clause (b) of this Section 3.2 below), along with any other supporting documentation reasonably required by Landlord in connection therewith and the calculation of retainage provided for in the construction contract. Upon receipt of each applicable complete payment request by Tenant, Landlord shall pay to Tenant, within twenty-one (21) days after submission of such complete payment request to Landlord, the amount of such request for payment; provided, however, that Landlord's aggregate obligation to pay for such requests for payment shall in no event exceed Landlord's Maximum Construction Cost Obligation, less any retainage withheld pursuant to the Construction Contract. Upon final completion of the Additional Premises Tenant Improvements for each of the Sixth Floor East Wing Premises and the Third Floor West Wing Premises, as applicable, and receipt by Landlord of the items required under clause (b) of this Section 3.2 below, Landlord shall pay to Tenant, within twenty-one (21) days following Tenant's written request, the remaining unadvanced retainage portion of Landlord's Maximum Construction Cost Obligation; provided, however, that the retainage shall not have to be released by Landlord until the punchlist items have been completed as provided in Section 4.2 below. Any and all costs for the construction of the Additional Premises Tenant Improvements in excess of the Landlord's Maximum Construction Cost Obligation shall be paid by Tenant to the Contractor and other applicable contractors, subcontractors, and material suppliers. Landlord reserves the right to make any payment (or portion thereof) of Landlord's Maximum Construction Cost Obligation payable jointly to Tenant and the Contractor (or subcontractor or supplier) or directly to the Contractor or any subcontractor or supplier.

(b) The final disbursement of Landlord's Sixth Floor East Wing Premises Allowance and the final disbursement of the Landlord's Third Floor West Wing Premises Allowance by Landlord each shall be subject to Tenant delivering to Landlord: (i) the applicable final Certificate of Occupancy for the Sixth Floor East Wing Premises or the Third Floor West Wing Premises, as applicable, (ii) copies of all applicable building permits and inspection approvals reflecting final sign-off by the local governmental authority with respect to the applicable Additional Premises Tenant Improvements, (iii) a copy of the as-built Final Plans for the such Additional Premises Tenant Improvements, (iv) such Additional Premises Tenant Improvements and Tenant's furniture, fixture and equipment in the the Sixth Floor East Wing Premises or the Third Floor West Wing Premises, as applicable, (v) receipt of the Architect's certificate for such Additional Premises Tenant Improvements referred to in the definition of Substantial Completion in this Exhibit.

(c) In no event shall Landlord be obligated to reimburse any portion of the Landlord's Maximum Construction Cost Obligation that Tenant requests from Landlord after the date that is twelve (12) months after the Sixth Floor East Wing Premises Commencement Date.

ARTICLE 4 GENERAL PROVISIONS

4.1 Bonds. Upon the request of Landlord prior to commencing construction of the Additional Premises Tenant Improvements, Tenant shall deliver to Landlord certified copies of a payment and performance bond issued by a surety company authorized to do business in the Commonwealth of Massachusetts in a principal amount not less than the full amount of the Construction Costs, issued on behalf of Tenant's Contractor, naming Tenant and Landlord (and if requested by Landlord, Landlord's Mortgagee under any Mortgage or other financing instrument affecting the Project or any portion thereof) as dual obligees. Notwithstanding the delivery by Tenant of such bond, Tenant shall pay promptly for all labor and materials supplied to Tenant in connection with the construction of the Additional Premises Tenant Improvements, shall not cause or permit any liens for such labor or materials to attach to the Land or the Building, and shall bond or discharge any such lien which may be filed or recorded except for any lien caused by any action of Landlord or any person claiming under Landlord within fifteen (15) days after Tenant receives actual notice of such filing or recording.

4.2 Completion of Punchlist Items. In or within seven (7) Business Days following Substantial Completion of the Additional Premises Tenant Improvements for each of the Sixth Floor East Wing Premises and the Third Floor West Wing Premises, as applicable, the parties shall schedule a meeting(s) to jointly inspect the Sixth Floor East Wing Premises or the Third Floor West Wing Premises, as applicable, and the applicable Additional Premises Tenant Improvements in order to identify those incomplete items or unfinished details that will be part of the punch list for such Additional Premises Tenant Improvements. Such punch list items shall be completed by Tenant as soon as practicable thereafter and in any event not later than thirty (30) days following the completion of the applicable punchlist (except for such item(s) that, by its nature or due to circumstances beyond the reasonable control of the party charged with doing such work, cannot be completed within such 30 day period).

4.3 Tenant's Representative. Tenant hereby authorizes Kevin Rockett, as Tenant's representative to act on its behalf and represents its interests with respect to all matters which pertain to the construction of Additional Premises Tenant Improvements, and to make decisions binding upon Tenant with respect to such matters.

EXHIBIT C

INVENTORY OF MEDIAMATH FURNITURE

Item Type	Count	Location	Condition	DIMENSIONS	Dispose, Keep, Sell?
Conf Room Tables (10 Seaters)	5		Good	120" x 54" x 29"	
Conf Room Credenzas	5		Excellent	48" x 18" x 36"	
Conference Room Chairs (Grey Seat)	35		Excellent	84" x 30" x 26"	
Conf Room Credenza (Bash)	1		Excellent	216" x 54" x 30"	
Conference Room Table (Bash)	1	Library	Excellent	120" x 19" x 72"	
Bookcase	1	Library	Excellent	100" x 77" x 40"	
Sectional (Long)	1	Library	Excellent	104x26" x 30"	
Sectional (Short)	1	Library	Excellent	53" x 46" x 17"	
Wood Top Coffee Table (Common Area)	1	Library	Excellent	26" x 26" x 15.5"	
Small White Table	1	Pantry	Excellent	24" x 27" x 30"	MM to take both
Grey Arm Chairs	2	Pantry	Good	47" x 27" x 36"	
Alphabet Credenza	1	Pantry	Good	35" x 18" x 31"	
Empire Reception Cart	1	Pantry	Good	26" x 16" x 22"	
Small White Table Stand	2	Pantry	Excellent	96" x 46" x 42"	
High top tables	2	Pantry	Good	34" x 17" x 36"	
Highseaters/Seater	38	Urrison	Good	31" x 33" x 68"	MM to take 38
Refridgerator	2	Pantry	Fair	53" x 35" x 17"	
Dishwasher	2	Pantry	Fair	194" x 28" x 30"	
Sectional (Square)	1	Pantry	Good	51" x 25" x 17"	
Wood Top Coffee Table (Pantry)	1	Pantry	Good	18" x 12" x 36"	
Half Wood-Half Cation Ottoman	1	Pantry	Good	60" x 108" x 32"	
White Credenza (Pantry)	1	Pantry	Good	18" x 70" x 18"	MM to take 34 wood credenzas
Small Cushion Ottoman (Blue)	3	Pantry	Fair	24" x 12" x 36"	MM to take 34 seats
Adjustable White Credenza (Cubicle Area)	1		Excellent	47" x 12" x 18.5"	MM to take all
Mini Square Coffee Table	1		Excellent	16" x 18"	MM to take all
White Credenza (Cubicle)	1		Excellent	42" x 12" x 63.5"	MM to take the following displays Bash, Seals, Python, Pantry
Knitting Whiteboard	3		Fair	47" x 1" x 16"	
Light Up White Boards (Huddle Rooms)	6		Good	46"	MM to take 12 chairs
Velvet/Leather Huddle Room Chairs	12		Good	79" x 22"	
Huddle Room Desk (Fixed)	6		Good	24" x 19" x 77"	MM to remove
Fast White Cabinet (Executive Offices)	5		Excellent	43" x 137" x 26"	MM to remove
Speed White Cabinet (Executive Offices)	5		Excellent	77" x 39" x 30"	MM to remove
Height-adjustable Desks (Executive Offices)	5		Excellent	79" x 26" x 48"	
Purple Reception Couches	2		Excellent	47" x 47" x 16"	
Reception Coffee Table	1		Excellent	MM	
Adjustable Huddle Room Chairs	48		Fair	MM	MM to take 34 seat covers
Reception TV	1		Good	53 inches	MM to take
Cubicle Area TV	2		Excellent	22" x 38"	
Marble Reception Credenza (Fixed)	1		Excellent	107" x 27" x 35"	
Reception Desk (Fixed)	1		Excellent	107" x 30" x 43"	
Colored Stools (orange and green)	2		Excellent	53" x 29" x 32"	
Small Reception Refridgerator	1		Excellent	17.5" x 19" x 24"	
Water Juge (FAC Room)	1		Excellent	17" x 17" x 18"	
Credenza (FAC Room)	1		Excellent	36" x 30" x 37"	

EXHIBIT J

EXTENSION OPTION

1. Extension Option

So long as there shall not then be an Event of Default under this Lease, Tenant may extend this Lease with respect to one of the following (the “**Extension Premises**”): (a) the Third Floor West Wing Premises, (b) the Existing Fifth Floor West Wing Premises, the Existing Sixth Floor West Wing Premises, the Existing Fifth Floor East Wing Premises and the Sixth Floor East Wing Premises, (c) the Existing Fifth Floor West Wing Premises and the Existing Sixth Floor West Wing Premises, (d) the Existing Fifth Floor East Wing Premises and the Sixth Floor East Wing Premises; for one (1) additional period of five (5) years (the “**Extension Term**”), by delivering written notice of the exercise thereof to Landlord not later than fifteen (15) months (nor earlier than eighteen (18) months) before the expiration of the Original Term therefor. The Base Rent payable for each month during the Extension Term shall be the prevailing rental rate (the “**Prevailing Rental Rate**”), at the commencement of the Extension Term, for renewals of space in Cambridge, Massachusetts of equivalent quality, size, utility and location, taking into account prevailing concessions including, but not be limited to, tenant improvements, tenant improvement allowances, rental abatement, the length of the Extension Term, size of the premises, condition of the premises, escalation charges, location of the premises, location and age of the building, free rent periods, brokerage commissions and lease term. Within fourteen (14) days after receipt of Tenant’s notice to extend, Landlord shall deliver to Tenant written notice of the Prevailing Rental Rate and shall advise Tenant of the required adjustment to Base Rent, if any, and the other terms and conditions offered. Tenant shall, within twenty-one (21) days after receipt of Landlord’s notice, notify Landlord in writing whether Tenant accepts or rejects Landlord’s determination of the Prevailing Rental Rate (“**Tenant Notice**”). If Tenant timely notifies Landlord that Tenant accepts Landlord’s determination of the Prevailing Rental Rate, then, on or before the commencement date of the Extension Term, Landlord and Tenant shall execute an amendment to this Lease extending the Term for the Extension Premises on the same terms provided in this Lease, except as follows:

- (a) Base Rent shall be adjusted to the Prevailing Rental Rate;
- (b) Tenant shall have no further extension option unless expressly granted by Landlord in writing; and
- (c) Landlord shall lease to Tenant the Extension Premises in their then-current condition, and Landlord shall not provide to Tenant any allowances (e.g., moving allowance, construction allowance, and the like) or other tenant inducements.

If Tenant rejects Landlord’s determination of the Prevailing Rental Rate, then the Base Rent payable for each month during the Extension Term (“**Fair Market Rent**”) shall be established by appraisal in the following manner. By not later than the thirtieth (30th) day after the Tenant Notice, Landlord and Tenant shall each appoint one (1) qualified appraiser (as hereinafter defined) and the two (2) qualified appraisers so appointed shall determine the Fair Market Rent within thirty (30) days following their appointment. As used herein, the term “qualified appraiser” shall mean any independent person (a) who is employed by an appraisal or brokerage firm of recognized competence in the greater Boston area and (b) who has not less than ten (10) years’ experience in commercial office leasing with respect to, or in appraising and valuing properties of, the general location, type and character as the Premises. If either Landlord or Tenant fails to appoint a qualified appraiser within

said thirty (30) day period, then the other party shall have the power to appoint the qualified appraiser for the defaulting party. If said qualified appraisers are unable to agree on the Fair Market Rent within said thirty (30) day period, then they jointly shall appoint a third qualified appraiser within ten (10) days of the expiration of such thirty (30) day period. If the first two appraisers shall fail to appoint a third appraiser within such ten (10) day period, either appraiser may request the President of the Boston Bar Association to appoint the third appraiser. Within thirty (30) days after the appointment of the third appraiser, all three qualified appraisers shall meet and determine the Fair Market Rent. If all three qualified appraisers are unable unanimously to agree upon the Fair Market Rent, then the first two qualified appraisers simultaneously shall deliver their final Fair Market Rent numbers to the third qualified appraiser, and the third qualified appraiser shall select the number as the Fair Market Rent number that is closest to the Fair Market Rent number determined by the third appraiser, and the Fair Market Rent so selected shall be conclusive and binding upon the Landlord and Tenant. Each party shall bear the cost of its qualified appraiser, and the cost of the third qualified appraiser shall be borne equally between the parties. Until such time as the Fair Market Rent is so determined, from and after the commencement date of the Extension Term, Tenant shall pay Base Rent at the average of Landlord's and Tenant's appraisers' designations of fair market rent, with an appropriate retroactive adjustment once the Fair Market Rent has been determined.

Tenant's rights under this Exhibit J shall terminate if (1) this Lease or Tenant's right to possession of the Premises is terminated, (2) Tenant assigns any of its interest in this Lease or sublets more than fifty percent (50%) of the Premises leased under this Second Amendment, or (3) Tenant fails to timely exercise its option under this Exhibit, time being of the essence with respect to Tenant's exercise thereof.

**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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(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: November 5, 2019

By: /s/ Langley Steinert

Langley Steinert
Chief Executive Officer
(Principal Executive Officer)

**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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(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: November 5, 2019

By: /s/ Jason Trevisan

Jason Trevisan
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

**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 September 30, 2019 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 results of operations of the Company.

Date: November 5, 2019

By: /s/ Langley Steinert

Langley Steinert

Chief Executive Officer

(Principal Executive Officer)

**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 September 30, 2019 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 results of operations of the Company.

Date: November 5, 2019

By: /s/ Jason Trevisan

Jason Trevisan

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)