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

FORM 10-Q

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

For the quarterly period ended September 30, 2020

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: 001-39315

VROOM, INC.
(Exact name of registrant as specified in its charter)

Delaware	**901112566**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

1375 Broadway, Floor 11
New York, New York 10018
(Address of principal executive offices) (Zip code)

(855) 524-1300
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value	VRM	Nasdaq Global Select

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
		Emerging growth company	☐

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

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

As of November 12, 2020, 130,241,341 shares of the registrants’ common stock were outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q, including statements regarding our future results of operations and financial condition, business strategy, and plans and objectives of management for future operations, are forward-looking statements. In some cases, forward-looking statements may be identified by words such as "anticipate," "believe," “contemplate,” "continue," "could," "design," "estimate," "expect," "intend," "may," "plan," "potentially," "predict," "project," "should," “target,” "will," “would,” or the negative of these terms or other similar terms or expressions, although not all forward-looking statements contain these identifying words.

The forward-looking statements in this Quarterly Report on Form 10-Q are only predictions. Forward-looking statements are based on our management’s beliefs and assumptions and on information currently available. These forward-looking statements are subject to a number of known and unknown risks, uncertainties, assumptions, and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements, including risks described in the section titled "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q, regarding, among other things:

- the impact of the COVID-19 pandemic caused by the novel coronavirus;
- we have a history of losses and we may not achieve or maintain profitability in the future;
- we may not be able to generate sufficient revenue to generate positive cash flow on a sustained basis, and our revenue growth rate may decline;
- we have a limited operating history and are still building out our foundational systems;
- our recent, rapid growth may not be indicative of our future growth and, if we continue to grow rapidly, we may not be able to manage our growth effectively;
- our business is subject to certain risks related to the operation of, and concentration of our revenues and gross profit from, Texas Direct Auto;
- we have entered into outsourcing arrangements with a third party related to our customer experience team, and any difficulties experienced in these arrangements could result in an interruption of our ability to sell our vehicles and value-added products;
- we face a variety of risks associated with the operation of our proprietary vehicle reconditioning centers by us and our third-party service providers, any of which could materially and adversely affect our business, financial condition and results of operations;
- we rely primarily on third-party carriers to transport our vehicle inventory throughout the United States. Thus, we are subject to business risks and costs associated with such carriers and with the transportation industry, many of which are out of our control;
- we are expanding our proprietary logistics operations, which will further expose us to increased risks related to ownership of infrastructure and the transportation of vehicles;
- the current geographic concentration where we provide reconditioning services and store inventory creates an exposure to local and regional downturns or severe weather or catastrophic occurrences that may materially and adversely affect our business, financial condition and results of operations;
- if we sustain cyber-attacks or other privacy or data security incidents that result in security breaches, we could suffer a loss of sales and increased costs, exposure to significant liability, reputational harm and other negative consequences; and
- our actual operating results may differ significantly from our guidance.

Other sections of this Quarterly Report on Form 10-Q include additional factors that could harm our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time, and it is not possible for our management to predict all risk factors nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ from those contained in, or implied by, any forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this report or to conform these statements to actual results or to changes in our expectations. You should read this Quarterly Report on Form 10-Q and the documents that we reference or incorporate by reference in this Quarterly Report on Form 10-Q and have filed as exhibits to this report with the understanding that our actual future results, levels of activity, performance, and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

VROOM, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)
(unaudited)

	As of December 31, 2019	As of September 30, 2020
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 217,734	$ 1,161,362
Restricted cash	1,853	27,961
Accounts receivable, net of allowance of $789 and $1,809, respectively	30,848	33,799
Inventory	205,746	299,411
Prepaid expenses and other current assets	9,149	16,257
Total current assets	465,330	1,538,790
Property and equipment, net	7,828	10,051
Intangible assets, net	572	160
Goodwill	78,172	78,172
Operating lease right-of-use assets	—	14,337
Other assets	11,485	13,433
Total assets	$ 563,387	$ 1,654,943
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current Liabilities:		
Accounts payable	$ 18,987	$ 29,630
Accrued expenses	38,491	47,641
Vehicle floorplan	173,461	248,967
Deferred revenue	17,323	17,299
Operating lease liabilities, current	—	4,621
Other current liabilities	11,572	16,375
Total current liabilities	259,834	364,533
Operating lease liabilities, excluding current portion	—	10,674
Other long-term liabilities	3,073	1,886
Total liabilities	262,907	377,093
Commitments and contingencies (Note 8)		
Redeemable convertible preferred stock, $0.001 par value; 86,123,364 and 10,000,000 shares authorized as of December 31, 2019 and September 30, 2020, respectively; 83,568,628 and zero shares issued and outstanding as of December 31, 2019 and September 30, 2020, respectively	874,332	—
Stockholders' (deficit) equity:		
Common stock, $0.001 par value; 113,443,854 and 500,000,000 shares authorized as of December 31, 2019 and September 30, 2020, respectively; 8,650,922 and 130,230,591 shares issued and outstanding as of December 31, 2019 and September 30, 2020, respectively	8	130
Additional paid-in-capital	—	1,994,929
Accumulated deficit	(573,860)	(717,209)
Total stockholders' (deficit) equity	(573,852)	1,277,850
Total liabilities, redeemable convertible preferred stock and stockholders' (deficit) equity	$ 563,387	$ 1,654,943

See accompanying notes to these unaudited condensed consolidated financial statements.

VROOM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Revenue:				
Retail vehicle, net	$ 273,743	$ 249,518	$ 652,895	$ 754,380
Wholesale vehicle	59,054	63,972	165,705	170,469
Product, net	7,029	9,198	16,265	25,979
Other	447	317	1,364	1,043
Total revenue	340,273	323,005	836,229	951,871
Cost of sales	324,602	297,560	794,701	900,432
Total gross profit	15,671	25,445	41,528	51,439
Selling, general and administrative expenses	50,934	61,127	131,209	167,418
Depreciation and amortization	1,517	1,191	4,551	3,239
Loss from operations	(36,780)	(36,873)	(94,232)	(119,218)
Interest expense	3,797	2,259	9,903	6,382
Interest income	(1,190)	(1,289)	(4,454)	(3,960)
Revaluation of preferred stock warrant	373	—	515	20,470
Other income, net	(44)	(26)	(75)	(111)
Loss before provision for income taxes	(39,716)	(37,817)	(100,121)	(141,999)
Provision for income taxes	48	33	122	138
Net loss	$ (39,764)	$ (37,850)	$ (100,243)	$ (142,137)
Accretion of redeemable convertible preferred stock	(65,686)	—	(109,529)	—
Net loss attributable to common stockholders	$ (105,450)	$ (37,850)	$ (209,772)	$ (142,137)
Net loss per share attributable to common stockholders, basic and diluted	$ (12.24)	$ (0.31)	$ (24.42)	$ (2.65)
Weighted-average number of shares outstanding used to compute net loss per share attributable to common stockholders, basic and diluted	8,615,682	121,123,472	8,591,554	53,731,475

See accompanying notes to these unaudited condensed consolidated financial statements.

VROOM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' (DEFICIT) EQUITY
(in thousands, except share amounts)
(unaudited)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' (Deficit) Equity
	Shares	Amount	Shares	Amount			
Balance at December 31, 2018	66,825,300	$ 519,100	8,571,386	$ 8	$ —	$ (296,874)	$ (296,866)
Stock-based compensation	—	$ —	—	$ —	$ 869	$ —	$ 869
Exercise of stock options	—	—	101,950	—	347	—	347
Repurchase of common stock	—	—	(93,186)	—	(1,216)	674	(542)
Accretion of redeemable convertible preferred stock	—	17,964	—	—	—	(17,964)	(17,964)
Net loss	—	—	—	—	—	(27,139)	(27,139)
Balance at March 31, 2019	66,825,300	$ 537,064	8,580,150	$ 8	$ —	$ (341,303)	$ (341,295)
Stock-based compensation	—	$ —	—	$ —	$ 667	$ —	$ 667
Repurchase of common stock	—	—	—	—	(667)	667	—
Accretion of redeemable convertible preferred stock	—	25,879	—	—	—	(25,879)	(25,879)
Net loss	—	—	—	—	—	(33,340)	(33,340)
Balance at June 30, 2019	66,825,300	$ 562,943	8,580,150	$ 8	$ —	$ (399,855)	$ (399,847)
Stock-based compensation	—	$ —	—	$ —	$ 619	$ —	$ 619
Exercise of stock options	—	—	4,000	—	18	—	18
Vesting of restricted stock awards	—	—	36,772	—	—	—	—
Repurchase of common stock	—	—	—	—	(637)	637	—
Accretion of redeemable convertible preferred stock	—	65,686	—	—	—	(65,686)	(65,686)
Net loss	—	—	—	—	—	(39,764)	(39,764)
Balance at September 30, 2019	66,825,300	$ 628,629	8,620,922	$ 8	$ —	$ (504,668)	$ (504,660)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' (Deficit) Equity
	Shares	Amount	Shares	Amount			
Balance at December 31, 2019	83,568,628	$ 874,332	8,650,922	$ 8	$ —	$ (573,860)	$ (573,852)
Stock-based compensation	—	$ —	—	$ —	$ 600	$ —	$ 600
Exercise of stock options	—	—	2,774	—	6	—	6
Repurchase of common stock	—	—	(200,000)	—	(606)	(1,212)	(1,818)
Issuance of Series H redeemable convertible preferred stock, net of issuance costs	1,964,766	26,714	—	—	—	—	—
Net loss	—	—	—	—	—	(41,059)	(41,059)
Balance at March 31, 2020	85,533,394	$ 901,046	8,453,696	$ 8	$ —	$ (616,131)	$ (616,123)
Issuance of common stock	—	$ —	183,870	$ —	$ 2,127	$ —	$ 2,127
Conversion of redeemable convertible preferred stock to common stock	(85,533,394)	(901,046)	85,533,394	86	900,960	—	901,046
Conversion of redeemable convertible preferred stock warrant to common stock warrant	—	—	—	—	21,873	—	21,873
Issuance of common stock in IPO, net of offering costs	—	—	24,437,500	24	496,486	—	496,510
Stock-based compensation	—	—	—	—	4,100	—	4,100
Exercise of stock options	—	—	500	—	7	—	7
Exercise of common stock warrants	—	—	636,112	1	—	—	1
Vesting of restricted stock units	—	—	133,334	—	—	—	—
Common stock shares withheld to satisfy employee tax withholding obligations	—	—	(41,818)	—	(878)	—	(878)
Net loss	—	—	—	—	—	(63,228)	(63,228)
Balance at June 30, 2020	—	$ —	119,336,588	$ 119	$ 1,424,675	$ (679,359)	$ 745,435
Issuance of common stock in follow-on public offering, net of offering costs	—	$ —	10,800,000	$ 11	567,941	$ —	$ 567,952
Stock-based compensation	—	—	—	—	4,230	—	4,230
Exercise of stock options	—	—	31,100	—	120	—	120
Vesting of restricted stock units	—	—	104,000	—	—	—	—
Common stock shares withheld to satisfy employee tax withholding obligations	—	—	(41,097)	—	(2,037)	—	(2,037)
Net loss	—	—	—	—	—	(37,850)	(37,850)
Balance at September 30, 2020	—	$ —	130,230,591	$ 130	$ 1,994,929	$ (717,209)	$ 1,277,850

See accompanying notes to these unaudited condensed consolidated financial statements.

VROOM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2019	**2020**
Operating activities		
Net loss	$ (100,243)	$ (142,137)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,683	3,255
Amortization of debt issuance costs	269	656
Stock-based compensation expense	2,155	8,930
Loss on disposal of property and equipment	824	46
Provision for inventory obsolescence	3,872	2,917
Revaluation of preferred stock warrant	515	20,470
Other	226	1,285
Changes in operating assets and liabilities:		
Accounts receivable	(15,029)	(4,297)
Inventory	(97,524)	(96,582)
Prepaid expenses and other current assets	(3,168)	(6,639)
Other assets	(2,389)	(2,246)
Accounts payable	8,769	10,478
Accrued expenses	9,995	15,679
Deferred revenue	2,530	(24)
Other liabilities	4,487	5,335
Net cash used in operating activities	(180,028)	(182,874)
Investing activities		
Purchase of property and equipment	(2,024)	(5,057)
Net cash used in investing activities	(2,024)	(5,057)
Financing activities		
Repayments of long-term debt	(5,835)	—
Proceeds from vehicle floorplan	705,281	842,865
Repayments of vehicle floorplan	(611,838)	(767,359)
Payment of vehicle floorplan upfront commitment fees	—	(1,125)
Proceeds from the issuance of redeemable convertible preferred stock, net	—	21,694
Repurchase of common stock	(542)	(1,818)
Common stock shares withheld to satisfy employee tax withholding obligations	—	(2,915)
Proceeds from the issuance of common stock in connection with IPO, net of underwriting discount	—	504,023
Payments of costs related to IPO	—	(6,791)
Proceeds from the issuance of common stock in connection with follow-on public offering, net of underwriting discount	—	569,471
Payments of costs related to follow-on public offering	—	(196)
Proceeds from exercise of stock options	365	133
Other financing activities	221	(315)
Net cash provided by financing activities	87,652	1,157,667
Net (decrease) increase in cash, cash equivalents and restricted cash	(94,400)	969,736
Cash, cash equivalents and restricted cash at the beginning of period	163,509	219,587
Cash, cash equivalents and restricted cash at the end of period	$ 69,109	$ 1,189,323
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 8,713	$ 5,340
Cash paid for income taxes	$ 209	$ 163
Supplemental disclosure of non-cash investing and financing activities:		
Accretion of redeemable convertible preferred stock	$ 109,529	$ —
Costs related to IPO included in accrued expenses and accounts payable	$ 113	$ —
Costs related to follow-on public offering included in accrued expenses and accounts payable	$ —	$ 1,323
Conversion of redeemable convertible preferred stock warrant to common stock warrant	$ —	$ 21,873
Issuance of common stock as upfront payment to nonemployee	$ —	$ 2,127
Accrued property and equipment expenditures	$ 342	$ 55

See accompanying notes to these unaudited condensed consolidated financial statements.

1. Description of Business and Basis of Presentation

Description of Business and Organization

Vroom, Inc., and its wholly owned subsidiaries (collectively, “the Company”) is an innovative, end-to-end ecommerce platform that is transforming the used vehicle industry by offering a better way to buy and a better way to sell used vehicles.

In December 2015, the Company acquired Houston-based Left Gate Property Holding, LLC (d/b/a Texas Direct Auto and Vroom) which operates the Company’s sole physical retail location under the Texas Direct Auto brand (“TDA”).

The Company currently is organized into three reportable segments: Ecommerce, TDA, and Wholesale. The Ecommerce reportable segment represents retail sales of used vehicles through the Company’s ecommerce platform and fees earned on sales of value-added products associated with those vehicles sales. The TDA reportable segment represents retail sales of used vehicles from TDA and fees earned on sales of value-added products associated with those vehicles sales. The Wholesale reportable segment represents sales of used vehicles through wholesale auctions.

The Company was incorporated in Delaware on January 31, 2012 under the name BCM Partners III, Corp. On June 25, 2013, the Company changed its name to Auto America, Inc. and on July 9, 2015, the Company changed its name to Vroom, Inc.

Stock Split

In connection with the closing of the Company’s initial public offering (“IPO”) on June 11, 2020, the Company effected a 2-for-1 forward stock split of the Company’s common stock, which became effective immediately prior to the consummation of the IPO. All shares of the Company’s common stock, stock-based instruments, and per-share data included in these condensed consolidated financial statements have been retroactively adjusted as though the stock split has been effected prior to all periods presented.

Initial Public Offering

The Company closed its IPO on June 11, 2020 in which it sold 24,437,500 shares of common stock at the public offering price of $22.00 per share, including 3,187,500 shares sold pursuant to exercise by the underwriters of their option to purchase additional shares. The Company received proceeds of $504.0 million from the IPO, net of the underwriting discount and before deducting offering expenses of $7.5 million. In addition, in accordance with their terms and consistent with the conversion rates discussed in Note 10 - Redeemable Convertible Preferred Stock and Stockholders’ (Deficit) Equity, all shares of the Company’s outstanding redeemable convertible preferred stock were automatically converted into common stock upon the closing of the IPO.

Follow-on Public Offering

The Company closed its follow-on public offering on September 15, 2020 in which it sold 10,800,000 shares of common stock at the public offering price of $54.50 per share. The Company received proceeds of $569.5 million from the offering, net of the underwriting discount and before deducting offering expenses of $1.5 million.

Basis of Presentation

The interim condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and applicable rules and regulations of the U.S. Securities and Exchange Commission ("SEC") regarding interim financial reporting. The condensed consolidated balance sheet as of December 31, 2019, included herein, was derived from the audited consolidated financial statements as of that date. Certain information and note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the final prospectus dated September 10, 2020 and filed with the SEC pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended, (the "Securities Act"), on September 11, 2020 (the "Prospectus").

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements, and in management's opinion, include all adjustments, which consist of only normal recurring adjustments necessary for the fair statement of the Company's condensed consolidated balance sheet as of September 30, 2020 and its results of operations for the three and nine months ended September 30, 2019 and 2020. The results for the three and nine months ended September 30, 2020 are not necessarily indicative of the results expected for the current fiscal year or any other future periods. Certain prior year amounts have been reclassified to conform to the current year presentation.

Except as described elsewhere in Note 2 to the condensed consolidated financial statements, there have been no material changes to the Company's significant accounting policies as described in the Prospectus.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of condensed consolidated financial statements in accordance with U.S. GAAP requires management to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue, and expenses and related disclosures. On an ongoing basis, the Company evaluates its estimates, including, among others, those related to income taxes, the realizability of inventory, stock-based compensation, contingencies, revenue-related reserves, fair value measurements, goodwill, and useful lives of property and equipment and intangible assets. The Company bases its estimates on historical experience, market conditions, and on various other assumptions that are believed to be reasonable. Actual results may differ from these estimates.

Beginning in the first quarter of 2020, the COVID-19 pandemic caused by the novel coronavirus has negatively impacted, and may continue to negatively impact, the macroeconomic environment in the United States and globally, as well as the Company's business, financial condition and results of operations. Due to the evolving and uncertain nature of COVID-19, it is reasonably possible that it could materially impact the Company's estimates, particularly those noted above that require consideration of forecasted financial information, in the near to medium term. The ultimate impact will depend on numerous evolving factors that the Company may not be able to accurately predict, including the duration and extent of the pandemic, the impact of federal, state, local and foreign governmental actions, consumer behavior in response to the pandemic and other economic and operational conditions the Company may face.

Comprehensive Loss

The Company did not have any other comprehensive income or loss for the three and nine months ended September 30, 2019 and 2020. Accordingly, net loss and comprehensive loss are the same for the periods presented.

Restricted Cash

Restricted cash includes cash deposits required under letter of credit agreements as explained in Note 8 – Commitments and Contingencies. As of September 30, 2020, restricted cash also includes a $26.1 million cash deposit required under the Company's 2020 Vehicle Floorplan Facility as explained in Note 7 – Vehicle Floorplan Facilities.

Advertising

Advertising costs are expensed as incurred and are included within "Selling, general and administrative expenses" in the condensed consolidated statements of operations. Advertising expenses were $14.6 million and $15.3 million for the three months ended September 30, 2019 and 2020, respectively, and $34.4 million and $44.8 million for the nine months ended September 30, 2019 and 2020, respectively.

Shipping and Handling

The Company's logistics costs related to transporting its used vehicle inventory primarily include third-party transportation fees. The portion of these costs related to inbound transportation from the point of acquisition to the relevant reconditioning facility is included in cost of sales when the related used vehicle is sold. Logistics costs not included in cost of sales are accounted for as costs to fulfil contracts with customers and are included in "Selling, general and administrative expenses" in the condensed consolidated statements of operations and were $4.3 million and $8.5 million for the three months ended September 30, 2019 and 2020, respectively, and $9.2 million and $19.8 million for the nine months ended September 30, 2019 and 2020, respectively.

Concentration of Credit Risk and Significant Customers

The Company's principal financial instruments subject to potential concentration of credit risk are cash and cash equivalents and accounts receivable, which are unsecured. The Company's cash balances are maintained at various large financial institutions. Deposits held with financial institutions may at times exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and, therefore, management believes they bear minimal risk. The Company's cash equivalents primarily consist of money market funds that hold investments in highly liquid US treasury securities. Concentration of credit risk with respect to accounts receivable is generally mitigated by a large customer base.

For the three and nine months ended September 30, 2019 and 2020, no customer represented 10% or more of the Company's revenues and no customer represented more than 10% of the Company's accounts receivable as of December 31, 2019 and September 30, 2020.

Liquidity

The Company has had negative cash flows and losses from operations since inception which it has funded primarily through issuances of common and preferred stock. The Company has historically funded vehicle inventory purchases through a vehicle floorplan facility. As further discussed in Note 7 – Vehicle Floorplan Facilities, the Company entered into a new facility in March 2020 which increased the borrowing capacity up to $450.0 million. In October 2020, the Vehicle Floorplan Facility was amended to extend the maturity date to September 2022.

Nonemployee Share-Based Payments

On May 15, 2020, the Company entered into an agreement with Rocket Auto LLC and certain of its affiliates (collectively, "Rocket") providing for the launch of an ecommerce platform under the "Rocket Auto" brand for the marketing and sale of vehicles directly to consumers (the "RA Agreement"). The Company will list its used vehicle inventory for sale on the Rocket Auto platform, but all sales of the Company's inventory will be conducted through the Company's platform. Rocket Auto is expected to launch publicly during the first quarter of the year ending December 31, 2021 and, during the term of the RA Agreement, Rocket has agreed to ensure that not less than a minimum percentage of all used vehicles sold or leased through the platform on a monthly basis will be Vroom inventory. The Company issued Rocket 183,870 shares of the Company's common stock upon execution of the RA Agreement. The Company will pay Rocket a combination of cash and stock for vehicle sales made through the platform. Rocket may earn up to 8,641,914 shares of common stock over a four-year period based upon sales volume of Vroom inventory through the Rocket Auto platform.

The Company accounts for the issuance of its common stock under the RA agreement in accordance with ASC 718, *Compensation – Stock Compensation*, including the provisions that apply to share-based payments issued to nonemployees for goods or services. The Company determined that the grant date was May 15, 2020 for both the upfront shares issued and the additional shares that potentially are to be issued based on sales volume through the Rocket Auto platform. The fair value of the Company's common stock on the grant date was determined to be $11.57 per share. The grant date fair value of the upfront shares issued was initially recognized as an asset within "Other assets" in the condensed consolidated balance sheet, which will subsequently be amortized within "Selling, general and administrative expenses" over the term of the RA agreement commencing on the launch date. The grant date fair value of the potential shares to be issued will be recognized within "Selling, general and administrative expenses" as sales of Vroom's inventory associated with the Rocket Auto platform occur and such shares are earned.

Accounting Standards Adopted

In February 2016, the FASB issued, ASU 2016-02*, Leases (Topic 842)*, which amends the accounting guidance on leases. The new standard requires a lessee to recognize right-of-use assets and lease obligations on the balance sheet for most lease agreements. Leases are classified as either operating or finance, with classification affecting the pattern of expense recognition in the statement of operations. The FASB also subsequently issued amendments to the standard to provide additional practical expedients and an additional transition method option.

The Company adopted Topic 842 as of January 1, 2020 using the modified retrospective approach with a cumulative-effect adjustment to opening retained earnings (accumulated deficit) with no restatement of comparative periods. Upon adoption, the Company recognized $18.4 million of operating lease liabilities and $17.4 million of operating lease right-of-use assets. The adoption of Topic 842 did not result in a cumulative effect adjustment to accumulated deficit.

Topic 842 provides various optional practical expedients for transition. The Company elected to utilize the package of practical expedients for transition which permitted the Company to not reassess its prior conclusions regarding whether a contract is or contains a lease, lease classification and initial direct costs. The Company did not elect the hindsight practical expedient to determine lease terms.

Topic 842 also provides optional practical expedients for an entity’s ongoing lease accounting. The Company elected the short-term lease recognition exemption for all leases that qualify and the practical expedient to not separate lease and non-lease components of leases.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement,* related to updated requirements over the disclosures of fair value measurements. Under ASU 2018-13, certain disclosure requirements for fair value measurements were eliminated, modified or added to facilitate better disclosure regarding recurring and non-recurring fair value measurements. The Company adopted the guidance on January 1, 2020 which did not have a material impact on the Company’s consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial instruments, Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which amends the guidance on the impairment of financial instruments by requiring measurement and recognition of expected credit losses for most financial assets, including trade receivables, and other instruments that are not measured at fair value through net income. The Company adopted the guidance on January 1, 2020 which did not have a material impact on the Company’s consolidated financial statements and related disclosures.

Accounting Standards Issued But Not Yet Adopted

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which enhances and simplifies various aspects of the income tax accounting guidance including the elimination of certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The guidance will be effective for fiscal years beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements and related disclosures.

3. Revenue Recognition

The Company recognizes revenue upon transfer of control of goods or services to customers, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company may collect sales taxes and other taxes from customers on behalf of governmental authorities at the time of sale as required. These taxes are accounted for on a net basis and are not included in revenues or cost of sales.

The Company’s revenue is disaggregated within the condensed consolidated statements of operations and is generated from customers throughout the United States. The Company recognizes revenue at a point in time as described below.

Retail Vehicle Revenue

The Company sells used vehicles to its retail customers through its ecommerce platform and TDA retail location. The transaction price for used vehicles is a fixed amount as set forth within the customer contract at the time of sale. Customers frequently trade-in their existing vehicle to apply toward the transaction price of a used vehicle. Trade-in vehicles represent non-cash consideration which the Company measures at fair value based on external and internal market data for each specific vehicle. The Company satisfies its performance obligation and recognizes revenue for used vehicle sales generally at a point in time when the vehicles are delivered to the customer for ecommerce sales or picked up by the customer for TDA sales. The revenue recognized by the Company includes the agreed upon transaction price, including any delivery charges stated within the customer contract. Revenue excludes any sales taxes, title and registration fees, and other government fees that are collected from customers.

The Company receives payment for used vehicle sales directly from the customer at the time of sale or from third-party financial institutions within a short period of time following the sale if the customer obtains financing. Payments received prior to delivery or pick-up of used vehicles are recorded as “Deferred revenue” within the condensed consolidated balance sheets.

The Company offers a return policy for used vehicle sales and establishes a provision for estimated returns based on historical information and current trends. The reserve for estimated returns is presented gross on the condensed consolidated balance sheets, with an asset recorded in “Prepaid expenses and other current assets” and a refund liability recorded in “Other current liabilities.”

Wholesale Vehicle Revenue

The Company sells vehicles that do not meet its retail sales criteria through third-party wholesale auctions. Vehicles sold at auction are acquired from customers who trade-in their vehicles when making a purchase from the Company, from customers who sell their vehicles to the Company in direct-buy transactions, and from liquidation of vehicles previously listed for retail sale. The transaction price for wholesale vehicles is a fixed amount that is determined at the auction. The Company satisfies its performance obligation and recognizes revenue for wholesale vehicle sales at a point in time when the vehicle is sold at auction. The transaction price is typically due and collected within a short period of time following the vehicle sales.

Product Revenue

The Company’s product revenue consists of fees earned on selling extended warranty contracts, guaranteed asset protection (“GAP”) and wheel and tire coverage. The Company sells these products pursuant to arrangements with the third parties that provide these products and are responsible for their fulfillment. The Company concluded that it is an agent for these transactions because it does not control the products before they are transferred to the customer. The Company recognizes product revenues on a net basis when the customer enters into an arrangement for the products, which is typically at the time of a used vehicle sale.

Customers may enter into a retail installment sales contract to finance the purchase of used vehicles. The Company sells these contracts on a non-recourse basis to various financial institutions. The Company receives a fee from the financial institution based on the difference between the interest rate charged to the customer that purchased the used vehicle and the interest rate set by the financial institution. These fees are recognized upon sale and assignment of the installment sales contract to the financial institution, which occurs concurrently at the time of a used vehicle sale.

A portion of the fees earned on these products is subject to chargebacks in the event of early termination, default, or prepayment of the contracts by end-customers. The Company’s exposure for these events is limited to the fees that it receives. An estimated refund liability for chargebacks against the revenue recognized from sales of these products is recorded in the period in which the related revenue is recognized and is based primarily on the Company’s historical chargeback experience. The Company updates its estimates at each reporting date. As of December 31, 2019 and September 30, 2020, the Company’s reserve for chargebacks was $3.3 million and $4.0 million, respectively, of which $1.8 million and $2.1 million, respectively, are included within “Accrued expenses” and $1.5 million and $1.9 million, respectively, are included in “Other long-term liabilities.”

The Company also is contractually entitled to receive profit-sharing revenues based on the performance of the extended warranty policies once a required claims period has passed. The Company recognizes profit-sharing revenues to the extent it is probable that it will not result in a significant revenue reversal. The Company estimates the revenue based on historical claims and cancellation data from its customers, as well as other qualitative assumptions. The Company reassesses the estimate at each reporting period with any changes reflected as an adjustment to revenues in the period identified. As of December 31, 2019 and September 30, 2020, the Company recognized $6.9 million and $9.4 million, respectively, related to cumulative profit-sharing payments to which it expects to be entitled, of which $0.3 million and $0.8 million, respectively, are included within “Prepaid expenses and other current assets” and $6.6 million and $8.6 million, respectively, are included within “Other assets.”

Other Revenue

Other revenue primarily consists of labor and parts revenue earned by the Company for vehicle repair services at TDA.

Contract Costs

The Company has elected, as a practical expedient, to expense sales commissions when incurred because the amortization period would have been less than one year. These costs are recorded within “Selling, general and administrative expenses” in the condensed consolidated statements of operations.

4. Inventory

Inventory consisted of the following (in thousands):

	December 31, 2019	September 30, 2020
Vehicles	$ 203,290	$ 297,512
Parts and accessories	2,456	1,899
Total inventory	$ 205,746	$ 299,411

As of December 31, 2019 and September 30, 2020, “Inventory” includes an adjustment of $6.3 million, and $9.2 million, respectively, to record the balances at the lower of cost or net realizable value.

5. Property and Equipment, Net

Property and equipment, net consisted of the following (in thousands):

	December 31, 2019	September 30, 2020
Equipment	$ 930	$ 991
Furniture and fixtures	1,725	1,646
Company vehicles	1,151	1,151
Leasehold improvements	6,556	6,431
Internal-use software	4,406	9,234
Other	2,580	2,759
	17,348	22,212
Accumulated depreciation and amortization	(9,520)	(12,161)
Property and equipment, net	$ 7,828	$ 10,051

Depreciation and amortization expense was $0.6 million and $1.1 million for the three months ended September 30, 2019 and 2020, respectively, and $2.0 million and $2.8 million for the nine months ended September 30, 2019 and 2020, respectively. Depreciation and amortization expense of $0.1 million was included within “Cost of sales” in the condensed consolidated statements of operations for the nine months ended September 30, 2019. For the three months ended September 30, 2019 and the three and nine months ended September 30, 2020, depreciation and amortization expense included within “Cost of sales” was immaterial.

6. Accrued Expenses and Other Current Liabilities

The Company's accrued expenses consisted of the following (in thousands):

	December 31, 2019	September 30, 2020
Accrued marketing expenses	$ 3,158	$ 7,391
Vehicle related expenses	8,923	9,522
Sales taxes	7,455	13,180
Accrued compensation and benefits	3,386	7,030
Accrued professional services	2,964	2,403
Accrued Series H preferred stock issuance costs	5,020	—
Other	7,585	8,115
Total accrued expenses	$ 38,491	$ 47,641

The Company's other current liabilities consisted of the following (in thousands):

	December 31, 2019	September 30, 2020
Vehicle payable	$ 8,904	$ 13,744
Other	2,668	2,631
Total other current liabilities	$ 11,572	$ 16,375

7. Vehicle Floorplan Facilities

In March 2020, the Company entered into a new vehicle floorplan facility with Ally Bank and Ally Financial (the "2020 Vehicle Floorplan Facility"), which replaced the Company's previous vehicle floorplan facility. The 2020 Vehicle Floorplan Facility provides a committed credit line of up to $450.0 million which originally expires in March 2021.The amount of credit available is determined on a monthly basis based on a calculation that considers average outstanding borrowings and vehicle units paid off by the Company within the immediately preceding three-month period. The Company may elect to increase its monthly credit line availability by an additional $25.0 million during any three months of each year. As of September 30, 2020, the borrowing capacity of the 2020 Vehicle Floorplan Facility was $261.1 million, of which $12.1 million was unutilized.

Outstanding borrowings related to the 2020 Vehicle Floorplan Facility are due as the vehicles financed are sold, or in any event, on the maturity date. The 2020 Vehicle Floorplan Facility bears interest at a rate equal to the 1-Month LIBOR rate applicable in the immediately preceding month plus a spread of 425 basis points. The 2020 Vehicle Floorplan Facility is collateralized by the Company's vehicle inventory and certain other assets and the Company is subject to covenants that require it to maintain a certain level of equity in the vehicles that are financed, to maintain at least 10% of the outstanding borrowings in cash and cash equivalents, to maintain 10% of the monthly credit line availability on deposit with Ally Bank and to maintain a minimum tangible adjusted net worth of $167.0 million, which is defined as shareholder (deficit) equity plus redeemable convertible preferred stock as determined under U.S. GAAP. The Company was required to pay an upfront commitment fee of $1.1 million upon execution of the 2020 Vehicle Floorplan Facility.

In October 2020, the Company amended its 2020 Vehicle Floorplan Facility to extend the maturity date to September 30, 2022. The amendment requires the Company to pay an availability fee each quarter on the average unused capacity from the prior quarter if it was greater than 50% of the calculated floorplan allowance, as defined. The amendment reduces the minimum liquidity requirement to maintain in cash and cash equivalents a percentage of the credit line from 10.0% to 7.5%. The amendment eliminated the minimum tangible adjusted net worth covenant. The Company was required to pay an upfront commitment fee upon execution of the amendment.

The Company previously entered into a vehicle floorplan (the "2016 Vehicle Floorplan Facility") with Ally Bank and Ally Financial in April 2016, as subsequently amended. The 2016 Vehicle Floorplan Facility consisted of a revolving line of credit with a borrowing capacity of $220.0 million as of December 31, 2019, which could be used to finance the Company's vehicle inventory.

The interest rate on the 2016 Vehicle Floorplan Facility was equal to the 1-Month LIBOR rate applicable in the immediately preceding month plus a spread of 425 basis points and was payable on a monthly basis.

As of December 31, 2019 and September 30, 2020, outstanding borrowings on the vehicle floorplan facilities were $173.5 million and $249.0 million, respectively.

Interest expense incurred by the Company for the vehicle floorplan facilities was $3.0 million and $2.0 million for the three months ended September 30, 2019 and 2020, respectively, and $7.4 million and $5.7 million for the nine months ended September 30, 2019 and 2020, respectively, which are recorded within “Interest expense” in the condensed consolidated statements of operations. The weighted average interest rate on the vehicle floorplan borrowings was 6.00% and 4.41% as of December 31, 2019 and September 30, 2020, respectively.

As of December 31, 2019 and September 30, 2020, the Company was in compliance with all covenants related to the vehicle floorplan facilities.

In connection with the vehicle floorplan facilities, the Company entered into credit balance agreements with Ally Bank and Ally Financial that permit the Company to deposit cash with the bank for the purpose of reducing the amount of interest payable for borrowings. Interest credits earned by the Company were $1.2 million and $1.2 million for the three months ended September 30, 2019 and 2020, respectively, and $4.0 million and $3.6 million for the nine months ended September 30, 2019 and 2020, respectively, which are recorded within “Interest income” in the condensed consolidated statements of operations.

8. Commitments and Contingencies

Litigation

From time to time, the Company is involved in various claims and legal actions that arise in the ordinary course of business. The Company accrues a liability when a loss is considered probable and the amount can be reasonably estimated. When a material loss contingency is reasonably possible but not probable, the Company does not record a liability, but instead discloses the nature and the amount of the claim, and an estimate of the loss or range of loss, if such an estimate can be made. Legal fees are expensed as incurred. As of December 31, 2019 and September 30, 2020, the Company was not a party to any legal proceedings that, individually or in the aggregate, are reasonably expected to have a material adverse effect on the Company’s consolidated results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more matters could have a material adverse effect on the Company’s consolidated results of operations, financial condition or cash flows.

Letters of Credit

The Company has obtained stand-by letters of credit totaling $1.9 million to satisfy conditions under two lease agreements. The Company is required to maintain a cash deposit of $1.9 million with the financial institution that issued the stand-by letters of credit, which is classified as “Restricted cash” within the condensed consolidated balance sheets as of December 31, 2019 and September 30, 2020, respectively.

Other Matters

The Company enters into agreements with third parties in the ordinary course of business that may contain indemnification provisions. In the event that an indemnification claim is asserted, the Company’s liability, if any, would be limited by the terms of the applicable agreement. Historically, the Company has not incurred material costs to defend lawsuits or settle claims related to indemnification provisions.

9. Leases

The Company’s leasing activities primarily consist of real estate leases for its operations, including office space, the Company’s reconditioning facility, the TDA retail location, the Company’s Sell Us Your Car centers, parking lots and other facilities. The real estate leases have terms ranging from six months to eight years. The Company also has leases for various types of equipment, which are not material, individually or in the aggregate. The Company assesses whether each lease is an operating or finance lease at the lease commencement date. The Company does not have any material leases, individually or in the aggregate, classified as a finance leasing arrangement.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Company does not have any significant leases that have not yet commenced but that create significant rights and obligations for the Company.

The Company's real estate leases often require it to make payments for maintenance in addition to rent as well as payments for real estate taxes and insurance. Maintenance, real estate taxes, and insurance payments are generally variable costs which are based on actual expenses incurred by the lessor. Therefore, these amounts are not included in the consideration of the contract when determining the right-of-use asset and lease liability but are reflected as variable lease expenses.

Leases with an initial term of 12 months or less are not recorded on the Company's consolidated balance sheet and expense for these leases are recognized on a straight-line basis over the lease term.

Options to extend or terminate leases

Certain of the Company's real estate leases include one or more options to renew, with renewal terms that can extend the lease term from one to five years. The exercise of lease renewal options is at the Company's sole discretion. If it is reasonably certain that the Company will exercise such options, the periods covered by such options are included in the lease term and are recognized as part of the Company's right-of-use assets and lease liabilities. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Lease term and discount rate

As of September 30, 2020, the weighted-average remaining lease term and discount rate for the Company's operating leases were 3.8 years and 3.4%, excluding short-term operating leases.

As the rate implicit in the lease is generally not readily determinable for the Company's operating leases, the discount rates used to determine the present value of the Company's lease liabilities are based on the Company's incremental borrowing rate at the lease commencement date and commensurate with the remaining lease term. The incremental borrowing rate for a lease is the rate of interest the Company would have to pay to borrow on a collateralized basis over a similar term for an amount equal to the lease payments in a similar economic environment. The Company determines its incremental borrowing rate based on a synthetic credit rating that was developed with the assistance of a third-party specialist.

Lease costs and activity

The Company's lease costs and activity for the three and nine months ended September 30, 2020 were as follows (in thousands):

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
Lease Cost		
Operating lease cost	$ 1,308	$ 4,075
Short-term lease cost	669	2,187
Variable lease cost	433	1,399
Sublease income	(67)	(404)
Net lease cost	$ 2,343	$ 7,257

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
Other information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 1,320	$ 4,146
Right-of-use assets obtained in exchange for operating lease liabilities	$ —	$ 521

Maturity of Lease Liabilities

The maturity of the Company’s lease liabilities on an undiscounted cash flow basis and a reconciliation to the operating lease liabilities recognized on the Company’s condensed consolidated balance sheet as of September 30, 2020 were as follows (in thousands):

For remainder of 2020	$	1,283
2021		5,034
2022		3,334
2023		3,152
2024		2,872
Thereafter		724
Total lease payments		16,399
Less: interest		(1,104)
Present value of lease liabilities	$	15,295
Operating lease liabilities, current	$	4,621
Operating lease liabilities, noncurrent		10,674
Total operating lease liabilities	$	15,295

Future minimum payments under non-cancelable operating leases with initial terms of one year or more consisted of the following as of December 31, 2019 in accordance with ASC Topic 840 (in thousands):

Year Ending December 31,		
2020	$	5,509
2021		4,909
2022		3,204
2023		3,026
2024		2,746
Thereafter		699
Total future minimum lease payments	$	20,093

In accordance with ASC Topic 840, rent expense was $1.8 million and $5.2 million for the three and nine months ended September 30, 2019. Certain of the Company’s lease agreements contain escalation clauses, and accordingly, the Company records the rent expense on a straight-line basis over the lease term. Deferred rent under ASC Topic ASC 840 is recorded within “Accrued expenses” in the condensed consolidated balance sheet.

10. Redeemable Convertible Preferred Stock and Stockholders’ (Deficit) Equity

Redeemable Convertible Preferred Stock

As of December 31, 2019, the Company had eight outstanding series of redeemable convertible preferred stock (collectively the “Series Preferred”). The Company classified its Series B through H Preferred Stock (collectively the “Senior Preferred Stock”) as temporary equity within the Company’s consolidated balance sheet as of December 31, 2019 because the instruments contained redemption rights. The Company concluded that the Senior Preferred Stock were considered probable of becoming redeemable through November 2019 and therefore recorded accretion to their redemption values of $132.8 million during the year ended December 31, 2019. During December 2019, the Company ceased accretion of the Senior Preferred Stock to their redemption values due to a sufficiently high likelihood of an IPO requiring a conversion of the instruments into common stock.

As of December 31, 2019, the Company classified its Series A Preferred Stock as temporary equity within the Company’s consolidated balance sheets because the instrument contained liquidation features, including a liquidation preference in the event of a deemed liquidation event, that were not solely within the Company’s control. The Company did not adjust the carrying value of the Series A Preferred Stock to its redemption value because it was not probable that the Series A Preferred Stock would become redeemable.

On January 8, 2020, the Company completed an additional closing of its Series H Preferred Stock whereby it sold and issued an aggregate of 1,964,766 shares of Series H Preferred Stock in exchange for gross proceeds of $26.7 million. The proceeds were used for general corporate purposes and business development.

Immediately upon closing of the IPO, the Company's outstanding preferred stock was automatically converted into an aggregate of 85,533,394 shares of the Company's common stock. On June 11, 2020, the Company amended its certificate of incorporation to authorize the issuance of up to 10,000,000 shares of Preferred Stock. As of September 30, 2020, there was no preferred stock issued or outstanding.

The authorized, issued and outstanding shares, issue price, conversion price, liquidation preference, and carrying value of the Series Preferred as of December 31, 2019 were as follows:

	As of December 31, 2019 (in thousands, except share and per share amounts)					
	Shares authorized	Shares issued and outstanding	Issue price	Per share conversion price	Liquidation preference	Carrying value
Series A	3,983,996	3,983,996	$ 1.61	$ 1.61	$ 6,419	$ 6,167
Series B	4,716,484	4,716,484	2.48	2.48	11,709	42,425
Series C	9,134,242	9,134,242	5.93	5.93	54,209	88,739
Series D	14,431,136	14,431,136	6.58	6.58	95,000	142,724
Series E	6,163,792	6,163,792	8.11	8.11	50,000	64,042
Series F	12,705,580	12,115,610	8.53	8.53	103,346	127,820
Series G	16,280,040	16,280,040	8.98	8.98	146,113	174,764
Series H	18,708,094	16,743,328	13.60	13.60	227,651	227,651
	86,123,364	83,568,628			$ 694,447	$ 874,332

Common Stock

On June 11, 2020, the Company amended its certificate of incorporation to effect a 2-for-1 forward stock split of shares of the Company's outstanding common stock, such that each share of common stock, $0.001 par value became two shares of common stock, $0.001 par value per share. The shares of common stock authorized for issuance was increased to 500,000,000. Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company's stockholders.

Warrants

In connection with the offering of shares of Series B Preferred Stock, the Company issued warrants to an investor in return for providing ongoing advisory services ("Series B Warrants"). The Series B Warrants allowed the investor to purchase up to 161,136 shares of common stock with an exercise price of $0.72 per share. The Series B Warrants vested in equal monthly installments through October 1, 2017. Upon the closing of the IPO, all of the Series B Warrants were exercised cashless by the holder which resulted in the net issuance of 155,862 shares of the Company's common stock.

In August 2017, the Company issued a warrant (the "Series F Preferred Stock Warrant") which allowed the holders to purchase up to 589,970 shares of the Company's Series F Preferred Stock, or common stock upon conversion of the Company's preferred stock into common stock, with an exercise price of $8.53 per share. The holders exercised the warrant on June 23, 2020 cashless, which resulted in the net issuance of 480,250 shares of the Company's common stock. Prior to the conversion of the Company's preferred stock into common stock, the Series F Preferred Stock Warrant was classified as a liability due to the contingent redemption features of the Series F Preferred Stock and was measured at fair value at each reporting date. Refer to Note 12 – Financial Instruments and Fair Value Measurements.

11. Stock-based Compensation

On May 28, 2020, the Company adopted the 2020 Incentive Award Plan ("the 2020 Plan"), which authorized the issuance of (i) up to 3,019,108 shares of the Company's common stock, (ii) up to 4% of an annual increase on the first day of each year beginning on January 1, 2022 and ending on January 1, 2030, and (iii) any shares of the Company's common stock subject to awards under the 2014 Plan which are forfeited or lapse unexercised and which following the effective date are not issued under the 2014 Plan. Awards may be issued in the form of restricted stock units, restricted stock, stock appreciation rights, and stock options. As of September 30, 2020, there were 3,145,828 shares available for future issuance under the 2020 Plan.

Stock Options

The following table summarizes stock option activity for the nine months ended September 30, 2020:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding as of December 31, 2019	6,340,000	$ 3.92	8.22
Granted	420,500	10.46	
Exercised	(34,374)	3.90	
Forfeited / cancelled	(474,900)	4.37	
Outstanding as of September 30, 2020	6,251,226	$ 4.32	7.53
Vested and exercisable as of December 31, 2019	2,684,160	$ 3.58	7.41
Vested and exercisable as of September 30, 2020	3,643,514	$ 3.72	6.88

The Company recognized $0.6 million and $0.5 million of stock-based compensation expense related to stock options for the three months ended September 30, 2019 and 2020, respectively, and $2.1 million and $1.7 million for the nine months ended September 30, 2019 and 2020, respectively. As of December 31, 2019 and September 30, 2020, the Company had $5.2 million, and $4.1 million, respectively, of unrecognized stock-based compensation expense that is expected to be recognized over a weighted-average period of 2.6 years, and 2.5 years, respectively.

The grant date fair value of stock options granted during the nine months ended September 30, 2020 was estimated at the time of grant using the Black-Scholes option-pricing model and utilized the following weighted average assumptions:

	Nine Months Ended September 30,
Fair value of common stock (per share)	$ 10.46
Expected term (in years)	5.9 — 6.3
Risk-free interest rate	1.7%
Expected volatility	36.3% — 36.6%
Dividend yield	—%

The weighted average fair value of stock options granted during the nine months ended September 30, 2020 was estimated to be $3.97 per share. The aggregate intrinsic value of options exercised during the nine months ended September 30, 2020 was $1.5 million, and the aggregate intrinsic value of options outstanding and options exercisable as of September 30, 2020 was $296.7 million and $175.1 million, respectively.

RSUs

The following table summarizes activity for restricted stock units (“RSUs”) for the nine months ended September 30, 2020:

	Shares	Weighted Average Grant Date Fair Value per Share
Unvested and outstanding as of December 31, 2019	408,000	$ 4.01
Granted	2,042,286	11.56
Vested	(237,334)	3.86
Forfeited / cancelled	(7,000)	11.57
Unvested and outstanding as of September 30, 2020	2,205,952	$ 10.99

The Company recognized $0.0 million and $3.7 million of stock-based compensation expense related to RSUs for the three months ended September 30, 2019 and 2020, respectively, and $0.1 million and $7.0 million for the nine months ended September 30, 2019 and 2020, respectively. As of December 31, 2019 and September 30, 2020, the Company had $1.3 million and $17.9 million, respectively, of unrecognized stock-based compensation expense that is expected to be recognized over a weighted-average period of 2.4 years and 1.8 years, respectively.

As a result of completing its IPO in June 2020, the Company commenced the recognition of compensation expense for 510,278 RSUs that vest upon the occurrence of a liquidity event, which includes an IPO, and continuous service that generally ranges from 12 to 48 months.

In February 2020, the Company granted 367,782 RSUs to its chief executive officer that vest upon the achievement of performance-based conditions, which includes Revenue and EBITDA targets for fiscal year 2022, and the achievement of a liquidity event, which includes a change of control or an IPO. As a result of completing its IPO in June 2020, and the probability of achieving the performance-based conditions, the Company commenced recognition of compensation expense.

Certain of the Company’s RSU grants are subject to acceleration upon a change of control and termination within 12 months, and upon death, disability, retirement and certain “good leaver” circumstances.

RSAs

During the years ended December 31, 2014 and 2015, the Company granted awards of 4,751,874 shares of restricted common stock (the “RSAs”).

The following table summarizes the activity related to the Company’s RSAs for the nine months ended September 30, 2020:

	Shares
Unvested at December 31, 2019	272,868
Vested	(272,868)
Unvested at September 30, 2020	—

For the three and nine months ended September 30, 2019, the expense related to the RSAs was immaterial. For the three and nine months ended September 30, 2020, the expense related to the RSAs was $0.0 and $0.2 million, respectively. As of September 30, 2020, there was no remaining unrecognized stock-based compensation expense related to the RSAs.

12. Financial Instruments and Fair Value Measurements

U.S. GAAP defines fair value as the price that would be received from selling an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. These estimates are subjective in nature and involve uncertainties and matters of judgment, and therefore cannot be determined with precision. U.S. GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and establishes the following three levels of inputs that may be used to measure fair value:

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

Level 2—Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted market prices in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Items Measured at Fair Value on a Recurring Basis

The following tables present the Company's financial assets and liabilities measured at fair value on a recurring basis:

`	As of December 31, 2019			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Financial Assets				
Cash and cash equivalents:				
Money market funds	$ 70,059	$ —	$ —	$ —
Total financial assets	$ 70,059	$ —	$ —	$ —
Financial Liabilities				
Other long-term liabilities:				
Series F Preferred Stock Warrant	—	—	1,403	1,403
Total financial liabilities	$ —	$ —	$ 1,403	$ 1,403

`	As of September 30, 2020			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Financial Assets				
Cash and cash equivalents:				
Money market funds	$ 490,031	$ —	$ —	$ —
Total financial assets	$ 490,031	$ —	$ —	$ —

The following table presents a reconciliation of the Series F Preferred Stock Warrant, which is measured at fair value using Level 3 inputs:

	Series F Preferred Stock Warrant
	(in thousands)
Balance as of December 31, 2019	$ 1,403
Change in fair value	20,470
Conversion to common stock warrant	(21,873)
Balance as of September 30, 2020	$ —

Prior to the closing of the IPO on June 11, 2020 and the related conversion of the Company's preferred stock into common stock, the Company estimated the fair value of the Series F Preferred Stock Warrant based on the Black-Scholes option-pricing model which utilized the value of shares sold in the Company's latest preferred stock financing and allocated the estimated equity value of the Company to each class of the Company's outstanding securities using an option-pricing back-solve model. Upon the closing of the IPO, the Series F Preferred Stock Warrant converted into a common stock warrant and the warrant liability was remeasured at fair value for the last time based on the quoted price of the Company's publicly traded common stock. On June 23, 2020, the holders exercised the Series F Preferred Stock Warrant.

Fair Value of Financial Instruments

The carrying amounts of restricted cash, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short-term nature. The carrying value of the 2020 Vehicle Floorplan Facility was determined to approximate fair value due to its short-term duration and variable interest rate that approximates prevailing interest rates as of each reporting period.

13. Segment Information

The Company has three reportable segments: Ecommerce, TDA, and Wholesale. No operating segments have been aggregated to form the reportable segments. The Company determined its operating segments based on how the chief operating decision maker ("CODM") reviews the Company's operating results in assessing performance and allocating resources. The CODM reviews revenue and gross profit for each of the reportable segments. Gross profit is defined as revenue less cost of sales incurred by the segment. The CODM does not evaluate operating segments using asset information as these are managed on an enterprise wide group basis. Accordingly, the Company does not report segment asset information. As of December 31, 2019 and September 30, 2020, the Company did not have any assets located outside of the United States.

The Ecommerce reportable segment represents retail sales of used vehicles through the Company's ecommerce platform and fees earned on sales of value-added products associated with those vehicle sales. The TDA reportable segment represents retail sales of used vehicles from TDA and fees earned on sales of value-added products associated with those vehicle sales. The Wholesale reportable segment represents sales of used vehicles through wholesale auctions.

Information about the Company's reportable segments are as follows (in thousands):

	Three Months Ended September 30, 2019			
	Ecommerce	TDA	Wholesale	Consolidated
Revenues from external customers	$ 178,113	$ 103,106	$ 59,054	$ 340,273
Gross profit	$ 8,774	$ 6,650	$ 247	$ 15,671

	Three Months Ended September 30, 2020			
	Ecommerce	TDA	Wholesale	Consolidated
Revenues from external customers	$ 221,761	$ 37,272	$ 63,972	$ 323,005
Gross profit	$ 19,304	$ 2,798	$ 3,343	$ 25,445

	Nine Months Ended September 30, 2019			
	Ecommerce	TDA	Wholesale	Consolidated
Revenues from external customers	$ 388,921	$ 281,603	$ 165,705	$ 836,229
Gross profit	$ 21,823	$ 18,830	$ 875	$ 41,528

	Nine Months Ended September 30, 2020			
	Ecommerce	TDA	Wholesale	Consolidated
Revenues from external customers	$ 630,501	$ 150,901	$ 170,469	$ 951,871
Gross profit	$ 40,789	$ 9,144	$ 1,506	$ 51,439

The reconciliation between reportable segment gross profit to consolidated loss before provision for income taxes is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Segment gross profit	$ 15,671	$ 25,445	$ 41,528	$ 51,439
Selling, general and administrative expenses	50,934	61,127	131,209	167,418
Depreciation and amortization	1,517	1,191	4,551	3,239
Interest expense	3,797	2,259	9,903	6,382
Interest Income	(1,190)	(1,289)	(4,454)	(3,960)
Revaluation of preferred stock warrant	373	—	515	20,470
Other income, net	(44)	(26)	(75)	(111)
Loss before provision for income taxes	$ (39,716)	$ (37,817)	$ (100,121)	$ (141,999)

14. Income Taxes

The Company computes income taxes using the liability method. This method requires recognition of deferred tax assets and liabilities, measured by enacted rates, attributable to temporary differences between the financial statements and the income tax basis of assets and liabilities. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that certain deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in those specific jurisdictions prior to the dates on which such net operating losses expire. The Company maintained a full valuation allowance against its net deferred tax assets because the Company has determined that is it more likely than not that these assets will not be fully realized based on a current evaluation of expected future taxable income and the Company is in a cumulative loss position.

The Company’s effective tax rate for the three months ended September 30, 2019 and 2020 was (0.12)% and 0.09%, respectively. The effective tax rate for the nine months ended September 30, 2019 and 2020 was (0.12)% and (0.10)%, respectively.

The Company is subject to tax in the United States and many state and local jurisdictions. The Company, with certain exceptions, is no longer subject to income tax examinations by U.S. federal, state and local for tax years 2015 and prior.

The Internal Revenue Code (IRC) Section 382 provides for a limitation of the annual use of net operating loss and tax credit carryforwards following certain ownership changes (as defined by the IRC Section 382) that limits the Company’s ability to utilize these carryforwards. The Company completed a Section 382 study to determine the applicable limitation, if any. It was determined that the Company has undergone three ownership changes. There were ownership changes in July 2013, November 2014 and July 2015 which substantially limit the use of the net operating losses generated before the change in control.

The Company has not identified any uncertain tax positions as of December 31, 2019 or September 30, 2020.

15. Net Loss Per Share

The following table sets forth the computation of basic and diluted net loss per share attributable to common stockholders:

(in thousands, except share and per share amounts)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2020
Net loss	$ (39,764)	$ (37,850)	$ (100,243)	$ (142,137)
Accretion of redeemable convertible preferred stock	(65,686)	—	(109,529)	—
Net loss attributable to common stockholders	$ (105,450)	$ (37,850)	$ (209,772)	$ (142,137)
Weighted-average number of shares outstanding used to compute net loss per share attributable to common stockholders, basic and diluted	8,615,682	121,123,472	8,591,554	53,731,475
Net loss per share attributable to common stockholders, basic and diluted	$ (12.24)	$ (0.31)	$ (24.42)	$ (2.65)

The following potentially dilutive shares were not included in the calculation of diluted shares outstanding for the periods presented as the effect would have been anti-dilutive:

	As of September 30, 2019	As of September 30, 2020
Redeemable convertible preferred stock	66,825,300	—
Warrants	161,136	—
Stock options	6,144,500	6,251,226
Restricted stock awards	3,836,442	3,249,382
Restricted stock units	408,000	2,205,952
Total	77,375,378	11,706,560

16. Related Party Transactions

Management Services Agreement

In July 2015, the Company entered into a management services agreement ("MSA") with Catterton Management Company, L.L.C. ("Catterton Management"), an affiliate of L Catterton ("Catterton"), a holder of more than 5% of the Company's outstanding capital stock, pursuant to which Catterton Management agreed to provide consulting services on certain business and financial matters. Under the MSA, the Company agreed to pay Catterton Management an annual fee of $0.3 million until the expiration of the MSA upon the earlier of (i) termination by mutual consent of the parties and (ii) such time that Catterton and/or its affiliates cease to be one of the Company's stockholders. For the years ended December 31, 2019 and 2020, payments of the annual fees were waived. In May 2020, the MSA was terminated.

AutoNation Reconditioning Agreement

In January 2019, the Company entered into a vendor agreement ("Vendor Agreement") with AutoNation, Inc. ("AutoNation"), an affiliate of Auto Holdings, Inc., a holder of more than 5% of the Company's outstanding capital stock, pursuant to which AutoNation agreed to provide certain reconditioning and repair services for vehicles owned by the Company. Amounts due under the Vendor Agreement for parts supplied and services performed by AutoNation become due and payable as they accrued. For the three and nine months ended September 30, 2019, the Company incurred $0.3 million and $0.7 million, respectively, of costs under the Vendor Agreement. The Vendor Agreement was terminated in February 2020.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our interim condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. As discussed in the section titled "Special Note Regarding Forward-Looking Statements," the following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those identified below and those incorporated by reference into the section titled "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q. Additionally, our historical results are not necessarily indicative of the results that may be expected for any period in the future.

Overview

Vroom is an innovative, end-to-end ecommerce platform that is transforming the used vehicle industry by offering a better way to buy and a better way to sell used vehicles. We are deeply committed to creating an exceptional experience for our customers.

We are driving enduring change in the industry on a national scale. We take a vertically integrated, asset-light approach that is reinventing all phases of the vehicle buying and selling process, from discovery to delivery and everything in between. Our platform encompasses:

- **Ecommerce:** We offer an exceptional ecommerce experience for our customers. In contrast to legacy dealerships and the peer-to-peer market, we provide consumers with a personalized and intuitive ecommerce interface to research and select from thousands of fully reconditioned vehicles. Our platform is accessible at any time on any device and provides transparent pricing, real-time financing and nationwide contact-free delivery right to a buyer's driveway. For consumers looking to sell or trade in their vehicles, we provide attractive market-based pricing, real-time price quotes and convenient, contact-free at-home vehicle pick-up.
- **Vehicle Operations:** Our scalable and vertically integrated operations underpin our business model. We strategically source inventory from auctions, consumers, rental car companies, Original Equipment Manufacturers ("OEMs") and dealers. We improve our ability to acquire high-demand vehicles through enhanced supply science across all our sourcing channels and we are expanding our national marketing efforts to drive consumer sourcing. In our reconditioning and logistics operations, we deploy an asset-light strategy that optimizes a combination of ownership and operation of assets by us with strategic third-party partnerships. This hybrid approach provides flexibility, agility and speed without taking on unnecessary risk and capital investment, and drives improved unit economics and operating leverage.
- **Data Science and Experimentation:** Data science and experimentation are at the core of everything we do. We rely on data science, machine learning and A/B and multivariate testing to continually drive optimization and operating leverage across our ecommerce and vehicle operations. We leverage data to increase the effectiveness of our national brand and performance marketing, enhance the customer experience, analyze market dynamics at scale, calibrate our vehicle pricing and optimize our overall inventory sales velocity. On the operations side, data science and experimentation enables us to fine tune our supply, sourcing and logistics models and to streamline our reconditioning processes.

The U.S. used automotive market is the largest consumer product category, generating approximately $841 billion from sales of approximately 40 million units in 2019. The industry is highly fragmented with over 42,000 dealers and millions of peer-to-peer transactions. It also is ripe for disruption as an industry that is notorious for consumer dissatisfaction and has one of the lowest levels of ecommerce penetration at only 0.9%. Industry reports estimate that ecommerce penetration will grow to as much as half of all used vehicle sales by 2030. Our platform, coupled with our national presence and brand, provides a significant competitive advantage versus local dealerships and regional players that lack nationwide reach and scalable technology, operations and logistics. The traditional auto dealers and peer-to-peer market do not and cannot offer consumers what we offer.

In December 2015, we acquired Houston-based Texas Direct Auto, or TDA, which included our proprietary vehicle reconditioning center, or Vroom VRC, our sole physical retail location and our Sell Us Your Car® centers. From the launch of our combined operations in January 2016, our business has grown significantly as we have scaled our operations, developed our ecommerce platform and leveraged the network effects inherent in our model.

For the three and nine months ended September 30, 2020, we generated $323.0 million and $951.9 million in total revenue, respectively, representing a 5.1% decrease and a 13.8% increase, respectively, over $340.3 million and $836.2 million for the three and nine months ended September 30, 2019. Our business generated a net loss of $39.8 million and $37.9 million for the three months ended September 30, 2019 and 2020, and a net loss of $100.2 million and $142.1 million for the nine months ended September 30, 2019 and 2020, respectively. We intend to continue to invest in growth to scale our company responsibly and drive towards profitability.

Our Model

We generate revenue through the sale of used vehicles and value-added products. We sell vehicles directly to consumers primarily through our Ecommerce segment. As the largest segment in our business, Ecommerce revenue grew 24.5% from the three months ended September 30, 2019 to the three months ended September 30, 2020 and 62.1% from the nine months ended September 30, 2019 to the nine months ended September 30, 2020, and we expect Ecommerce to continue to outgrow our other segments as it is the core focus of our growth strategy.

We also sell vehicles through wholesale auctions, which provide a revenue source for vehicles that do not meet our Vroom retail sales criteria. Additionally, we generate revenue through the retail sale of used vehicles and value-added products at Houston-based Texas Direct Auto, or TDA.

For the three months ended September 30, 2020, our Ecommerce, TDA and Wholesale segments represented 68.7%, 11.5% and 19.8% of our total revenue, respectively. For the nine months ended September 30, 2020, our Ecommerce, TDA and Wholesale segments represented 66.2%, 15.9% and 17.9% of our total revenue, respectively.

Our retail gross profit consists of two components: Vehicle Gross Profit and Product Gross Profit. Vehicle Gross Profit is calculated as the aggregate retail sales price for all vehicles sold to customers along with delivery fee revenue and document fees received from customers, less the aggregate cost to acquire such vehicles, the aggregate cost of inbound transportation for such vehicles to our vehicle reconditioning centers, which we refer to as VRCs, and the aggregate cost of reconditioning such vehicles for sale. Product Gross Profit consists of fees earned on any value-added products sold as part of a vehicle sale. Because we are paid fees on the value-added products we sell, our gross profit on such products is equal to the revenue we generate. See "—Key Operating and Financial Metrics."

Below is an explanation of how we calculate vehicle gross profit per unit and product gross profit per unit:

Sales Price	Vehicle Selling Price
– Acquisition Price	Vehicle Acquisition Cost
+ Delivery Fees and Doc Fees	Delivery and Document Fees Received from Customer
– Inbound Shipping Cost	Cost of Shipment to Reconditioning Center
– Reconditioning Cost	Spend on Mechanical & Cosmetic Reconditioning to Bring Vehicle Ready for Sale
= Vehicle Gross Profit per Unit	
+ Financing GPPU	Bank Fees Earned from Arranging Customer Financing
+ Value-Added Product GPPU	Fees Earned from Sale of Protection Products (Gap, Warranty, Tire & Wheel Coverage)
= Product Gross Profit per Unit	
Total Ecommerce GPPU	

Reported KPI

Our profitability depends primarily on increasing unit sales and operating leverage, as well as improving unit economics. We deploy an asset-light strategy that optimizes a combination of ownership and operation of assets by us with strategic third-party partnerships. Our hybrid approach also applies to the third-party value-added products we sell to customers, which enables us to generate additional revenue streams without taking on the risk associated with underwriting vehicle financing or protection products. As we scale, we expect to benefit from efficiencies and operating leverage across our business, including our marketing and technology investments, and our inventory procurement, logistics, reconditioning and sales processes.

Inventory Sourcing

We source our vehicle inventory from a variety of channels, including auctions, consumers, rental car companies, OEMs and dealers. Because the quality of vehicles and associated gross margin profile vary across each channel, the mix of inventory sources has an impact on our profitability. We continually evaluate the optimal mix of sourcing channels to generate the highest sales margins and shortest inventory turns, both of which contribute to increased gross profit per unit. We generate a vast set of data derived from market demand, pricing dynamics, vehicle acquisitions and subsequent sales, and we leverage that data to optimize future vehicle acquisitions. As we scale, we expect to continue to leverage the data at our disposal to optimize and enhance the volume and selection of vehicles in our inventory and, in turn, drive revenue growth and profitability. We also have begun to offer third party inventory listings, which expand our sourcing channels through third party sellers while offering us attractive revenue models in an asset light, debt free structure. See "—Key Factors and Trends Affecting our Operating Results—Ability to drive growth by cost effectively increasing the volume and selection of vehicles in our inventory."

Vehicle Reconditioning

Before a vehicle is listed for retail sale on our platform, it undergoes a thorough reconditioning process in order to meet our Vroom retail sales criteria. The efficiency of this reconditioning process is a key element in our ability to profitably grow. To recondition vehicles, we rely on a combination of our Vroom VRC along with a network of VRCs owned and operated by third parties. We intend to continue to expand our network of third-party VRCs and going forward intend to make capital investments in additional Vroom VRCs. Utilizing this hybrid approach, we have increased our total reconditioning capacity to approximately 400 units per day as of September 30, 2020, with more than half from our third-party VRCs. As we increase the number of vehicles in our inventory and expand our reconditioning capacity, we expect that reconditioning costs per unit will decrease as we benefit from economies of scale and operating leverage in reconditioning costs. See "—Key Factors and Trends Affecting our Operating Results—Ability to expand and optimize our reconditioning capacity to satisfy increasing demand."

Logistics Network

For our logistics operations, we primarily have used national third-party carriers, which has allowed us to efficiently deliver vehicles to customers throughout the United States while focusing on expanding other critical components of our business, such as the volume and selection of vehicles in our inventory. We optimized our third-party logistics network nationally through the development of strategic carrier arrangements with national haulers and consolidated our carrier base into dedicated operating regions. This strategy enhances the flexibility, agility and speed of our growth while reducing the need for additional capital commitments as we scale our business. Recently, as a result of the continued prevalence of the COVID-19 pandemic, we have experienced a reduced supply of carriers, increased shipping prices and deteriorating service levels. Thus, we are accelerating our strategy to optimize our hybrid approach by expanding our proprietary logistics network. Currently, we are prioritizing investment in our last-mile delivery operations where we can have the greatest impact on the customer experience and expect over time to expand our operations to include hub-to-hub shipments. Consistent with our hybrid approach, as we continue to scale our business, we intend to strategically combine the operation of our expanded proprietary fleet with the use of third-party carriers, which we expect will enable us to both accommodate our growth and provide the highest level of customer service. See "—Key Factors and Trends Affecting our Operating Results—Ability to expand and develop our logistics network."

Value-Added Products

We generate revenue by earning fees for selling value-added products to customers in connection with vehicle sales. Currently, our third-party value-added product offering consists of finance and protection products, including financing from third-party lenders for our customers' vehicle purchases, as well as sales of extended warranty contracts, GAP protection and wheel and tire coverage. As we scale our business, we intend to introduce additional value-added products that will be attractive to our customers and drive revenue and profitable growth. We expect that both expanded product offerings and increased attachment rates in value-added product sales will have a positive impact on our profitability. See "—Key Factors and Trends Affecting our Operating Results—Ability to increase and better monetize value-added products."

Our Segments

We manage and report operating results through three reportable segments:

- **Ecommerce** (68.7% and 66.2% of revenue for the three and nine months ended September 30, 2020, respectively): The Ecommerce segment represents retail sales of used vehicles through our ecommerce platform and fees earned on sales of value-added products associated with those vehicle sales.

- **TDA** (11.5% and 15.9% of revenue for the three and nine months ended September 30, 2020, respectively): The TDA segment represents retail sales of used vehicles from TDA and fees earned on sales of value-added products associated with those vehicle sales.
- **Wholesale** (19.8% and 17.9% of revenue for three and nine months ended September 30, 2020, respectively): The Wholesale segment represents sales of used vehicles through wholesale auctions.

Gross profit is defined as revenue less cost of sales for each segment. Reflected below is a summary of reportable segment revenue and reportable segment gross profit for the three and nine months ended September 30, 2019 and 2020:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
	(in thousands)		(in thousands)	
Revenue:				
Ecommerce	$ 178,113	$ 221,761	$ 388,921	$ 630,501
TDA	103,106	37,272	281,603	150,901
Wholesale	59,054	63,972	165,705	170,469
Total revenue	$ 340,273	$ 323,005	$ 836,229	$ 951,871
Gross profit:				
Ecommerce	$ 8,774	$ 19,304	$ 21,823	$ 40,789
TDA	6,650	2,798	18,830	9,144
Wholesale	247	3,343	875	1,506
Total gross profit	$ 15,671	$ 25,445	$ 41,528	$ 51,439

Key Operating and Financial Metrics

We regularly review a number of metrics, including the following key operating and financial metrics, to evaluate our business, measure our performance, identify trends in our business, prepare financial forecasts and make strategic decisions. We believe these operational measures are useful in evaluating our performance, in addition to our financial results prepared in accordance with U.S. Generally Accepted Accounting Principles, or U.S. GAAP. You should read the key operating and financial metrics in conjunction with the following discussion of our results of operations and together with our condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. We focus heavily on metrics related to unit economics as improved gross profit per unit is a key element of our growth and profitability strategies.

The calculation of our key operating and financial metrics is straightforward and does not rely on significant projections, estimates or assumptions. Nevertheless, each of our key operating and financial metrics has limitations because each focuses specifically on only one standard by which to evaluate our business, without taking into account other applicable standards, performance measures or operating trends by which our business could be evaluated. Accordingly, no single metric should be viewed as the bellwether by which our business should be measured. Rather, each key operating and financial metric should be considered in conjunction with other metrics and components of our results of operations, such as each of the other key operating and financial metrics and our revenues, inventory, loss from operations and segment results.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Ecommerce units sold	5,563	8,823	12,606	23,466
Vehicle Gross Profit per ecommerce unit	$ 929	$ 1,302	$ 1,159	$ 865
Product Gross Profit per ecommerce unit	648	886	572	873
Total Gross Profit per ecommerce unit	$ 1,577	$ 2,188	$ 1,731	$ 1,738
Average monthly unique visitors	777,313	928,277	605,820	958,397
Listed Vehicles	5,256	12,302	5,256	12,302
Ecommerce average days to sale	71	52	67	62

Ecommerce Units Sold

Ecommerce units sold is defined as the number of vehicles sold and shipped to customers through our ecommerce platform, net of returns under our Vroom 7-Day Return Policy. Ecommerce units sold excludes sales of vehicles through the TDA and Wholesale segments. As we continue to expand our ecommerce business, we expect that ecommerce units sold will be the primary driver of our revenue growth. Additionally, each vehicle sale through our ecommerce platform also creates the opportunity to leverage such sale to sell value-added products. Continued ecommerce growth will also increase the number of trade-in vehicles acquired from our customers, which we can either recondition and add to our inventory or sell at wholesale auctions.

Vehicle Gross Profit per Ecommerce Unit

Vehicle Gross Profit per ecommerce unit, which we refer to as Vehicle GPPU, for a given period is defined as the aggregate retail sales price and delivery charges for all vehicles sold through our Ecommerce segment less the aggregate costs to acquire those vehicles, the aggregate costs of inbound transportation to the VRCs and the aggregate costs of reconditioning those vehicles in that period, divided by the number of ecommerce units sold in that period. As we continue to expand our ecommerce business, we believe Vehicle GPPU will be a key driver of our long-term profitability.

Product Gross Profit per Ecommerce Unit

Product Gross Profit per ecommerce unit, which we refer to as Product GPPU, for a given period is defined as the aggregate fees earned on sales of value-added products in that period, net of the reserves for chargebacks on such products in that period, divided by the number of ecommerce units sold in that period. Because we are paid fees on the value-added products we sell, our gross profit is equal to the revenue we generate from the sale of value added products. We plan to introduce initiatives to increase the attachment rates of value-added products and expand our offerings of value-added products which will grow our Product GPPU.

Total Gross Profit per Ecommerce Unit

Total Gross Profit per ecommerce unit, which we refer to as Total GPPU, for a given period is calculated as the sum of Vehicle GPPU and Product GPPU. We view Total GPPU as a key metric of the profitability of our Ecommerce segment.

Average Monthly Unique Visitors

Average monthly unique visitors is defined as the average number of individuals who access our ecommerce platform within a calendar month. We calculate the average monthly unique visitors over any period by dividing the aggregate monthly unique visitors during such period by the number of months in that period. We use average monthly unique visitors to measure the quality of our customer experience, the effectiveness of our marketing campaigns and customer acquisition as well as the strength of our brand and market penetration.

Average monthly unique visitors is calculated using data provided by Google Analytics. The computation of average monthly unique visitors excludes individuals who access our platform multiple times within a calendar month, counting such individuals only one time for purposes of the calculation. If an individual accesses our ecommerce platform using different devices or different browsers on the same device within a given month, the first access through each such device or browser is counted as a separate monthly unique visitor.

Listed Vehicles

We define listed vehicles as the aggregate number of vehicles listed on our platform at any given point in time. Listed vehicles includes both vehicles that are available for sale and “coming soon” vehicles. Listed vehicles is a key indicator of our performance because we believe that the number of vehicles listed on our platform is a key driver of vehicle sales and revenue growth. Increasing the number of vehicles listed on our platform results in a greater selection of vehicles for our customers, creating demand and increasing conversion.

Ecommerce Average Days to Sale

We define ecommerce average days to sale as the average number of days between our acquisition of vehicles and the final delivery of such vehicles to customers through our ecommerce platform. We calculate average days to sale for a given period by dividing the aggregate number of days between the acquisition of all vehicles sold through our ecommerce platform during such period and final delivery of such vehicles to customers by the number of ecommerce units sold in that period. Ecommerce average days to sale excludes vehicles sold through the TDA and Wholesale segments. Ecommerce average days to sale is an important metric because a reduction in the number of days between the acquisition of a vehicle and the delivery of such vehicle typically results in a higher gross profit per unit.

Non-GAAP Financial Measures

In addition to our results determined in accordance with U.S. GAAP, we believe the following non-GAAP financial measures are useful in evaluating our operating performance: EBITDA, Adjusted EBITDA, Adjusted loss from operations, Non-GAAP net loss, Non-GAAP net loss per share and Non-GAAP net loss per share, as adjusted. These non-GAAP financial measures have limitations as analytical tools in that they do not reflect all of the amounts associated with our results of operations as determined in accordance with U.S. GAAP. Because of these limitations, these non-GAAP financial measures should be considered along with other operating and financial performance measures presented in accordance with U.S. GAAP. The presentation of these non-GAAP financial measures is not intended to be considered in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with U.S. GAAP. We have reconciled all non-GAAP financial measures with the most directly comparable U.S. GAAP financial measures.

EBITDA and Adjusted EBITDA

We calculate EBITDA as net loss before interest expense, interest income, income tax expense and depreciation and amortization expense and we calculate Adjusted EBITDA as EBITDA adjusted to exclude the one-time, IPO related acceleration of non-cash stock-based compensation expense and the one-time, IPO related non-cash revaluation of a preferred stock warrant. EBITDA and Adjusted EBITDA are supplemental performance measures that our management uses to assess our operating performance and the operating leverage in our business. Because EBITDA and Adjusted EBITDA facilitate internal comparisons of our historical operating performance on a more consistent basis, we use these measures for business planning purposes. The following table presents a reconciliation of EBITDA and Adjusted EBITDA to net loss, which is the most directly comparable U.S. GAAP measure:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
	(in thousands)		(in thousands)	
Net loss	$ (39,764)	$ (37,850)	$ (100,243)	$ (142,137)
Adjusted to exclude the following:				
Interest expense	3,797	2,259	9,903	6,382
Interest income	(1,190)	(1,289)	(4,454)	(3,960)
Provision for income taxes	48	33	122	138
Depreciation and amortization expense	1,537	1,196	4,683	3,255
EBITDA	$ (35,572)	$ (35,651)	$ (89,989)	$ (136,322)
One-time IPO related acceleration of non-cash stock-based compensation	—	—	—	1,262
One-time IPO related non-cash revaluation of preferred stock warrant	—	—	—	20,470
Adjusted EBITDA	$ (35,572)	$ (35,651)	$ (89,989)	$ (114,590)

Adjusted loss from operations

We calculate Adjusted loss from operations as loss from operations adjusted to exclude the one-time, IPO related acceleration of non-cash stock-based compensation expense. The following table presents a reconciliation of Adjusted loss from operations to loss from operations, which is the most directly comparable U.S. GAAP measure:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
	(in thousands)		(in thousands)	
Loss from operations	$ (36,780)	$ (36,873)	$ (94,232)	$ (119,218)
Add: One-time IPO related acceleration of non-cash stock based compensation	—	—	—	1,262
Adjusted loss from operations	$ (36,780)	$ (36,873)	$ (94,232)	$ (117,956)

Non-GAAP net loss, Non-GAAP net loss per share and Non-GAAP net loss per share, as adjusted

We calculate Non-GAAP net loss as net loss adjusted to exclude the one-time, IPO related acceleration of non-cash stock-based compensation expense and the one-time, IPO related non-cash revaluation of a preferred stock warrant. We calculate Non-GAAP net loss per share as Non-GAAP net loss divided by weighted average number of shares outstanding. The following table presents a reconciliation of Non-GAAP net loss and Non-GAAP net loss per share to net loss and net loss per share, which are the most directly comparable U.S. GAAP measures:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
	(in thousands, except share and per share amounts)			
Net loss	$ (39,764)	$ (37,850)	$ (100,243)	$ (142,137)
Accretion of redeemable convertible preferred stock	(65,686)	—	(109,529)	—
Net loss attributable to common stockholders	$ (105,450)	$ (37,850)	$ (209,772)	$ (142,137)
Add: One-time IPO related acceleration of non-cash stock based compensation	—	—	—	1,262
Add: One-time IPO related non-cash revaluation of preferred stock warrant	—	—	—	20,470
Non-GAAP net loss	$ (105,450)	$ (37,850)	$ (209,772)	$ (120,405)
Weighted-average number of shares outstanding used to compute net loss per share, basic and diluted	8,615,682	121,123,472	8,591,554	53,731,475
Net loss per share, basic and diluted	$ (12.24)	$ (0.31)	$ (24.42)	$ (2.65)
Impact of one-time IPO related acceleration of non-cash stock based compensation	—	—	—	0.02
Impact of one-time IPO related non-cash revaluation of preferred stock warrant	—	—	—	0.38
Non-GAAP net loss per share, basic and diluted	$ (12.24)	$ (0.31)	$ (24.42)	$ (2.25)
Non-GAAP net loss per share, as adjusted, basic and diluted[(a)]	$ (0.31)	$ (0.29)	$ (0.77)	$ (0.93)

[(a)]Non-GAAP net loss per share, as adjusted has been computed to give effect to, as of the beginning of each period presented, (i) the shares of common stock issued in connection with our IPO and (ii) the automatic conversion of all outstanding shares of redeemable convertible preferred stock into shares of common stock that occurred upon the consummation of our IPO. The computation of Non-GAAP net loss per share, as adjusted is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
	(in thousands, except share and per share amounts)			
Non-GAAP net loss	$ (105,450)	$ (37,850)	$ (209,772)	$ (120,405)
Add: Accretion of redeemable convertible preferred stock	65,686	—	109,529	—
Non-GAAP net loss, as adjusted	$ (39,764)	$ (37,850)	$ (100,243)	$ (120,405)
Weighted-average number of shares outstanding used to compute net loss per share, basic and diluted	8,615,682	121,123,472	8,591,554	53,731,475
Add: unweighted adjustment for common stock issued in connection with IPO	24,437,500	—	24,437,500	24,437,500
Add: unweighted adjustment for conversion of redeemable convertible preferred stock in connection with IPO	85,533,394	—	85,533,394	85,533,394
Add: unweighted adjustment for common stock issued in connection with follow-on public offering	10,800,000	10,800,000	10,800,000	10,800,000
Less: Adjustment for the impact of the above items already included in weighted-average number of shares outstanding for the periods presented	—	(1,760,869)	—	(44,897,573)
Weighted-average number of shares outstanding used to compute net loss per share, as adjusted, basic and diluted	129,386,576	130,162,603	129,362,448	129,604,796
Non-GAAP net loss per share, as adjusted, basic and diluted	$ (0.31)	$ (0.29)	$ (0.77)	$ (0.93)

Recent Events

Initial Public Offering

On June 11, 2020, we completed an initial public offering, or IPO, in which we sold 24,437,500 shares of common stock, which included 3,187,500 shares sold pursuant to the exercise by the underwriters of an over-allotment option to purchase additional shares, at a public offering price of $22.00 per share. We received proceeds of approximately $504.0 million, net of underwriting discount and before deducting offering expenses of $7.5 million, from sales of our shares in the IPO. Prior to the completion of the IPO, we effected a 2-for-1 forward stock split of all the issued and outstanding shares of our common stock the (“Stock Split”). As a result of the Stock Split and the completion of the IPO, all of our redeemable convertible preferred stock outstanding automatically converted into an aggregate of 85,533,394 shares of our common stock.

Follow-on Public Offering

On September 15, 2020, we closed on our follow-on public offering in which we sold 10,800,000 shares of common stock at the public offering price of $54.50 per share. We received proceeds of approximately $569.5 million from the offering, net of the underwriting discount and before deducting offering expenses of $1.5 million.

Rocket Agreement

On May 15, 2020, we entered into an agreement with Rocket Auto LLC and certain of its affiliates (collectively, “Rocket”) providing for the launch of an ecommerce platform under the “Rocket Auto” brand for the marketing and sale of vehicles directly to consumers (the “RA Agreement”). We will list our used vehicle inventory for sale on the Rocket Auto platform, but all sales of the inventory will be conducted through our platform. Rocket Auto is expected to launch publicly during the first quarter of 2021 and, during the term of the RA Agreement, Rocket has agreed to ensure that a minimum percentage of all used vehicles sold or leased through the platform on a monthly basis will be Vroom inventory We issued Rocket 183,870 shares of our common stock upon execution of the RA Agreement. We will pay Rocket a combination of cash and stock for vehicle sales made through the platform. Rocket may earn up to 8,641,914 shares of common stock over a four-year period based upon sales volume of Vroom inventory through the Rocket Auto platform.

Impact of COVID-19

Due to the evolving nature of the COVID-19 crisis, we continue to monitor the situation closely and assess the impact on our business. We expect our operations will continue to be adversely impacted through the end of 2020 and continuing into in 2021, however, the magnitude and duration of the ultimate impact is impossible to predict with certainty due to:

- uncertainties regarding the duration of the COVID-19 pandemic and the length of time over which the disruptions caused by COVID-19 will continue;
- the impact of governmental orders and regulations that have been, and may in the future be, imposed in response to the pandemic;
- the impact of COVID-19 on VRCs, wholesale auctions, state DMV titling and registration services, third party vehicle carriers and other third parties on which we rely;
- uncertainty as to the impact future increases in transmission could have on our ability to fully staff portions of our business;
- the deterioration of economic conditions in the United States, as well as high unemployment levels, which could have an adverse impact on discretionary consumer spending; and
- uncertainty regarding the potential for, timing and duration of, and severity of future “waves” of the COVID-19 crisis; and
- uncertainty as to whether and to what degree governmental economic relief will be provided to soften the negative economic effects of the COVID-19 crisis and the resulting governmental orders and restrictions.

Impact on ecommerce operations

After the initial disruption in our ecommerce operations due to the COVID-19 pandemic, consumer demand for used vehicles has returned to pre-COVID-19 levels, and, in the three months ended September 30, 2020, we experienced continued strong consumer demand for our ecommerce solutions and contact-free delivery. Ecommerce units sold increased, as compared to the three months ended June 30, 2020, 31.4% to 8,823 units primarily driven by increased inventory levels and marketing spend. Ecommerce revenue increased 26.3% to $221.8 million as the result of a higher number of ecommerce units sold.

Ecommerce gross profit and gross profit per unit experienced strong growth of 167.4% to $19.3 million and 103.5% to $2,188 per unit, respectively.

Impact on TDA

Both TDA and our back-office facility in Houston continued to remain open during the three months ended September 30, 2020. However, as a result of continuous impact of the COVID-19 pandemic, we have seen a significant reduction in foot traffic at TDA. Although we experienced an approximate 31.8% increase in unit sales for the three months ended September 30, 2020, as compared to the three months ended June 30, 2020, our unit sales at TDA continued to be 51.8% lower as compared to the first quarter of 2020. As COVID-19 disruptions continue, we are unsure when TDA will return to normal operations.

Impact on our vehicle reconditioning and our logistics network

In the three months ended September 30, 2020, our Vroom VRC and all third-party VRCs remained open. However, we continued to experience disruption across our logistics network due to the COVID-19 pandemic, with a reduced number of third-party providers available to deliver our vehicles, which has resulted in a slowdown of inventory being picked up and delivered to our VRCs and in sold units being delivered to customers. In addition, our transportation costs have increased as the remaining carriers have increased prices.

Impact on our administrative functions

Most of our corporate, engineering and back-office operations have been able to successfully sustain the transition to a remote working environment. However, certain of our back-office functions that require handling documents in person have experienced productivity challenges due to the government-ordered limitations on office capacity. The COVID-19-related restrictions also continue to have a significant effect in areas such as the titling and registration of vehicles sold to customers, due to processing backlogs and limited service capacity of state division of motor vehicle offices across the United States.

Management actions in response to the COVID-19 disruptions

In response to the COVID-19 disruptions, we implemented a number of measures to protect the health and safety of our workforce. These measures include restrictions on non-essential business travel, the institution of work-from-home policies wherever feasible and the implementation of strategies for workplace safety at our facilities. We are following the guidance from public health officials and government agencies, including limiting the number of employees in our office facilities, implementation of enhanced cleaning measures, social distancing guidelines, wearing of masks, eliminating non-essential vendor / guest visitation, and requiring temperature checks and health attestations prior to entering buildings. Seating, signage, and cleaning materials have been added to ensure adherence to best practices for employee health and safety during this pandemic. Where feasible, we operate on a rotating team schedule to reduce exposure and also require any diagnosed or exposed employees to self-isolate for up to two weeks.

We also continue to take precautionary measures to enhance our customer experience during the pandemic, such as increasing the level of cleaning and sanitation of vehicles prior to making delivery to our customers. Additionally, we adjusted our delivery protocols to provide contact-free delivery and pick up of vehicles.

While our ecommerce business, including contact-free delivery, is continuing to operate nationwide, the COVID-19 crisis has had a significant impact on our business operations. We are unable to accurately predict the ultimate impact that the COVID-19 disruptions will have on our business and financial results going forward due to the uncertainties surrounding the extent, duration and risk of recurrence of such disruptions. Nevertheless, we believe the measures we have taken and will continue to take will position Vroom to emerge from the crisis in a healthy financial position, and that our business model and years of experience with ecommerce vehicle sales and home delivery enable us to be highly responsive to increased consumer desire for ecommerce solutions and contact-free delivery.

Other Key Factors and Trends Affecting our Operating Results

Our financial condition and results of operations have been, and will continue to be, affected by a number of factors and trends, including the following:

Ability to drive revenue growth by cost effectively increasing the volume and selection of vehicles in our inventory

Our growth is primarily driven by vehicle sales. Vehicle sales growth, in turn, is largely driven by the volume of inventory and the selection of vehicles listed on our platform. Accordingly, we believe that having the appropriate volume and mix of vehicle inventory is critical to our ability to drive growth.

The continued growth of our vehicle inventory requires a number of important capabilities, including the ability to finance the acquisition of inventory at competitive rates, source high quality vehicles across various acquisition channels nationwide, secure adequate reconditioning capacity and execute effective marketing strategies to increase consumer sourcing. In addition, our ability to accurately forecast pricing and consumer demand for specific types of vehicles is critical to sourcing high quality, high-demand vehicles. This ability is enabled by our data science capabilities that leverage the growing amount of data at our disposal and fine-tune our supply and sourcing models. As we continue to invest in our operational efficiency and data analytics, we expect that we will continue to cost effectively increase the volume and optimize the selection of our ecommerce inventory.

Ability to capitalize on the continued migration of vehicle purchasers to ecommerce platforms through data-driven marketing efforts

While the overall ecommerce penetration rate in used vehicle sales remains low, over the last several years, ecommerce used vehicle sales have experienced significant growth. There has been a shift in consumer buying patterns towards more convenient, personalized, and on-demand purchases, as well as a demand for ecommerce across more diverse categories, including the used vehicle market. We expect that the ecommerce model for buying and selling used vehicles will continue to grow and such growth may be accelerated by the COVID-19 pandemic. Our ability to continue to benefit from this trend will be an important driver of our future performance.

We seek to improve our brand awareness among consumers through national marketing campaigns in order to strengthen our customer acquisition funnel. We also use digital performance marketing such as search engine marketing, automotive aggregator sites and social media to acquire customers more cost effectively. Our aggregate marketing spend has increased over time, with our first national brand marketing campaign commencing in the first quarter of 2019, and we expect to continue to invest in both national brand marketing and performance marketing efforts. As we leverage our national brand, we believe this investment in marketing spend will drive additional demand and sales. We also believe that we have the ability to drive down the cost of acquisition per unit sold by increasing the efficiency of our marketing spend.

Ability to convert visitors to our platform into customers

The quality of the customer experience on our ecommerce platform is critical to our ability to attract new visitors to our platform, convert such visitors into customers and increase repeat customers. Our ability to drive higher customer conversion depends on our ability to make our platform a compelling choice for consumers based on our functionalities and consumer offerings.

Data analytics and experimentation drive decision making across all of our conversion efforts. By analyzing the data generated by the millions of visitors and tens of thousands of transactions on our platform, and continually testing strategies to maximize conversion rates, we form a better understanding of consumer preferences and try to create a more tailored ecommerce experience.

Increased conversion also depends on our ability to provide the necessary customer service and sales support to respond to increased demand. Over the fourth quarter, we intend to pursue further expansion of our customer experience team as we ramp up our sales support in anticipation of continued sales growth in 2021. As we continue to invest in our brand and improve the customer experience, we expect that we will attract more visitors, improve conversion and drive greater sales.

Ability to optimize the mix of inventory sources to drive increased gross profit and improvements to our unit economics

We strategically source inventory from auctions, consumers, rental car companies, OEMs and dealers. Auctions, consumers, and rental car companies represent the vast majority of our inventory sources, accounting for approximately 51%, 36%, and 13% of our retail inventory sold for the three months ended September 30, 2020, respectively, and 52%, 32%, and 15% for the nine months ended September 30, 2020, respectively. Because the quality of vehicles and associated gross margin profile vary across each channel, the mix of inventory sources has an impact on our profitability. We continually evaluate the optimal mix of sourcing channels and strive to source vehicles in a way that maximizes our average gross profit per unit and improves our unit economics. For example, purchasing vehicles at third-party auctions is competitive and, consequently, vehicle prices at third-party auctions tend to be higher than vehicle prices for vehicles sourced directly from consumers. Accordingly, as part of our sourcing strategy, we seek to increase the percentage of vehicle sales that we source from consumers.

Our ability to increase the percentage of inventory sourced directly from consumers will depend on the popularity and success of our ecommerce platform. In order to continue to increase the percentage of vehicles that we source directly from consumers, we are expanding our national marketing efforts that are focused on our Sell Us Your Car® proposition, which we believe will result in more customers gaining familiarity with our platform. We expect that, as consumers experience the convenience of our platform to sell or trade in their used vehicles, the percentage of inventory we source directly from consumers will continue to grow.

We have begun to offer third-party inventory listings, which expand our sourcing channels through third party sellers while offering us attractive revenue models in an asset light, debt free structure.

Ability to expand and optimize our reconditioning capacity to satisfy increasing demand

Our ability to recondition purchased vehicles to our quality standards is a critical component of our business. Historically, we have successfully increased our reconditioning capacity as our business has grown, and our future success will depend on our ability to expand and optimize our reconditioning capacity to satisfy increasing customer demand. We employ a hybrid approach that combines the use of our Vroom VRC and third-party VRCs to best meet our reconditioning needs.

In 2019, we significantly increased our reconditioning capacity within our Vroom VRC by overhauling our operations and applying lean manufacturing techniques and other software-enabled technological advances. As we continue to grow our business, we intend to continue to invest in increased reconditioning capacity and operational efficiency through third-party VRC locations and going forward we expect to invest in additional proprietary reconditioning capacity to provide added scale with reduced lead-time and greater flexibility. Additionally, our use of third-party VRCs to recondition vehicles allows us to avoid additional capital expenditures, quickly increase capacity, maintain greater operational flexibility and broaden our geographic footprint to drive lower logistics costs. We have continued to expand our third-party VRC operations and, as of the date of this Quarterly Report on Form 10-Q, have a current total of eighteen. See “—Liquidity and Capital Resources.”

We leverage our data analytics and deep industry experience to strategically select both Vroom VRCs and third-party VRCs in locations where we believe there is the highest supply and demand for our vehicles. We expect that our continued investment in reconditioning capacity and technology will lower our reconditioning costs per unit and drive greater operational efficiency, higher gross profit per unit and improved unit economics.

Ability to expand and develop our logistics network

We primarily use third-party carriers and have optimized our third-party logistics network nationwide through the development of strategic carrier arrangements with national haulers and the consolidation of our carrier base into dedicated operating regions. We expect that these enhanced logistics operations, combined with the expansion of strategically located VRCs, will drive efficiency in our logistics operations. Our VRCs also serve as pooling points to aggregate acquired vehicles and we intend to begin using certain VRCs as hubs for staging vehicles for last-mile delivery to customers, which we expect to provide an improved experience for customers. Recently, as a result of the continued prevalence of the COVID-19 pandemic, we have experienced a reduced supply of carriers, increased shipping prices and deteriorating service levels. Thus, we are accelerating our strategy to optimize our hybrid approach by expanding our proprietary logistics network. Currently, we are prioritizing investment in our last-mile delivery operations where we can have the greatest impact on the customer experience and expect over time to expand our operations to include hub-to-hub shipments. As we invest in our expanded logistics operations, we expect to incur increased operating expenses and capital expenditures associated with purchasing or leasing fleet vehicles, leasing space for delivery hubs, hiring qualified drivers, and operating and maintaining fleet vehicles, offset in part by reduced third-party logistics expense. Consistent with our hybrid approach, we intend to strategically combine the operation of our expanded proprietary fleet with the use of third-party carriers, which we expect will enable us to both accommodate our growth and provide the highest level of customer service. Over time, as our business scales, we expect that optimizing our logistics network through this hybrid approach will result in improved unit economics, increased profitability and an enhanced customer experience.

Ability to increase and better monetize value-added products

Our offering of value-added products is an integral part of providing a seamless vehicle-buying experience to our customers. These products provide added revenue streams for us as well as offering convenience, assurance and efficiency for our customers. We sell our third-party value-added products through our strategic relationships with multiple lenders and other third parties who bear the incremental risks associated with the underwriting of finance and protection products. In the fourth quarter of 2019 and first quarter of 2020, we entered into strategic partnerships with lenders such as Chase and Santander which have contributed to improvements in Product GPPU. Additionally, through our on-going data analytics, experimentation and further development of our ecommerce technology, we expect to increase attachment rates of our existing value-added products while finding new opportunities to include additional finance and protection products, as well as other value-added products. Because we are paid fees on value-added products we sell, our gross profit is equal to the revenue we generate on such sales. As a result, such sales help drive total gross profit per unit. We expect that, as we scale our business, we will increase the breadth and variety of value-added products offered to customers and improve attachment rates to our vehicle sales, which in turn will grow revenue and drive profitability.

Seasonality

Used vehicle sales are seasonal. The used vehicle industry typically experiences an increase in sales early in the calendar year and reaches its highest point late in the first quarter and early in the second quarter. Vehicle sales then level off through the rest of the year, with the lowest level of sales in the fourth quarter. This seasonality has historically corresponded with the timing of income tax refunds, which are an important source of funding for vehicle purchases. Additionally, used vehicles depreciate at a faster rate in the last two quarters of each year and a slower rate in the first two quarters of each year. In line with these macro trends, our gross profit per unit has historically been higher in the first half of the year when compared to the second half of the year. See "Risk Factors—Risks Related to Our Business—We may experience seasonal and other fluctuations in our quarterly results of operations, which may not fully reflect the underlying performance of our business."

Components of Results of Operations

Revenue

Retail vehicle revenue

We sell vehicles through both our ecommerce platform and TDA. Revenue from vehicle sales, including any delivery charges, are recognized when vehicles are delivered to the customers or picked up at our TDA retail location, net of a reserve for estimated returns. The number of units sold and the average selling price ("ASP") per unit are the primary factors impacting our retail revenue stream.

The number of units sold depends on the volume of inventory and the selection of vehicles listed on our ecommerce platform, our ability to attract new customers, our brand awareness and our ability to expand our reconditioning operations and logistics network.

ASP depends primarily on our acquisition and pricing strategies, retail used car market prices, our average days to sale and our reconditioning and logistics costs.

We have begun to strategically take advantage of a broader portion of the used vehicle market by adding more lower priced vehicles to our inventory. As a data-driven company, we acquire inventory based upon demand predicted by our data analytics. Since the COVID-19 pandemic, that data has been moving towards lower-priced inventory, which we expect to continue to result in a lower ASP per unit than historical levels.

Wholesale vehicle revenue

We sell vehicles that do not meet our Vroom retail sales criteria through third-party wholesale auctions. Vehicles sold at auction are acquired from customers who trade-in their vehicles when making a purchase from us, from customers who sell their vehicle to us in direct-buy transactions, and from liquidation of vehicles previously listed for retail sale. The number of wholesale vehicles sold and the ASP per unit are the primary drivers of wholesale revenue. The ASP per unit is affected by the mix of the vehicles we acquire and general supply and demand conditions in the wholesale market.

Product revenue

We generate revenue by earning fees on sales of value-added products to our customers in connection with vehicle sales, including fees earned on customer vehicle financing from third-party lenders and fees earned on sales of other value-added products, such as extended warranty contracts, GAP protection and wheel and tire coverage. We earn fees on these products pursuant to arrangements with the third parties that sell and administer these products. For accounting purposes, we are an agent for these transactions and, as a result, we recognize fees on a net basis when the customer enters into an arrangement to purchase these products or obtain third-party financing, which is typically at the time of a vehicle sale. Our gross profit on product revenue is equal to the revenue we generate.

Product revenue is affected by the number of vehicles sold, the attachment rate of value-added products and the amount of fees we receive on each product. Product revenue also consists of estimated profit-sharing amounts to which we are entitled based on the performance of third-party protection products once a required claims period has passed.

A portion of the fees we receive is subject to chargeback in the event of early termination, default, or prepayment of the contracts by our customers. We recognize product revenue net of reserves for estimated chargebacks.

Other revenue

Other revenue consists of labor and parts revenue earned by us for vehicle repair services at TDA.

See “Note 3—Revenue Recognition” to our condensed consolidated interim financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Cost of sales

Cost of sales primarily includes the costs to acquire vehicles, inbound transportation costs and direct and indirect reconditioning costs associated with preparing vehicles for sale. Costs to acquire vehicles are primarily driven by the inventory source, vehicle mix and general supply and demand conditions of the used vehicle market. Inbound transportation costs include costs to transport the vehicle to our VRCs. Reconditioning costs include parts, labor and third-party reconditioning costs directly attributable to the vehicle and allocated overhead costs. Cost of sales also includes any accounting adjustments to reflect vehicle inventory at the lower of cost or net realizable value.

Total gross profit

Total gross profit is defined as total revenue less costs associated with such revenue.

Selling, general and administrative expenses

Our selling, general, and administrative expenses, which we refer to as SG&A expenses, consist primarily of advertising and marketing expenses, outbound transportation costs, employee compensation, occupancy costs of our facilities and professional fees for accounting, auditing, tax, legal and consulting services.

We expect that our SG&A expenses will increase in the future as we expand our operations, including our planned expansion of our proprietary logistics operations, hire additional employees and continue to increase our marketing spend to build brand awareness and increase consumer traffic on our platform. Over the fourth quarter, we intend to pursue further expansion of our customer experience team as we ramp up our sales support in anticipation of continued sales growth in 2021. We also expect to incur increased expenses associated with being a public company, including costs of accounting, audit, legal, regulatory and tax-related services associated with maintaining compliance with SEC and the Nasdaq Global Select Market requirements, director and officer insurance costs, and investor and public relations costs.

Depreciation and amortization

Our depreciation and amortization expense primarily includes depreciation related to our leasehold improvements, as well as amortization related to intangible assets acquired in the TDA acquisition and capitalized internal use software costs incurred in the development of our platform and website applications. Depreciation expense related to our Vroom VRC is included in cost of sales in the consolidated statements of operations.

Interest expense

Our interest expense includes interest expense related to our 2020 Vehicle Floorplan Facility (as defined herein), which is used to finance our inventory, as well as interest expense on our term loan facility, which was repaid in full in December 2019.

Interest Income

Interest income primarily represents interest credits earned on cash deposits maintained in relation to our 2020 Vehicle Floorplan Facility.

Results of Operations

The following table presents our consolidated results of operations for the periods indicated:

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2020	% Change	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2020	% Change
	(in thousands)			(in thousands)		
Revenue:						
Retail vehicle, net	$ 273,743	$ 249,518	(8.8)%	$ 652,895	$ 754,380	15.5%
Wholesale vehicle	59,054	63,972	8.3%	165,705	170,469	2.9%
Product, net	7,029	9,198	30.9%	16,265	25,979	59.7%
Other	447	317	(29.1)%	1,364	1,043	(23.5)%
Total revenue	340,273	323,005	(5.1)%	836,229	951,871	13.8%
Cost of sales	324,602	297,560	(8.3)%	794,701	900,432	13.3%
Total gross profit	15,671	25,445	62.4%	41,528	51,439	23.9%
Selling, general and administrative expenses	50,934	61,127	20.0%	131,209	167,418	27.6%
Depreciation and amortization	1,517	1,191	(21.5)%	4,551	3,239	(28.8)%
Loss from operations	(36,780)	(36,873)	0.3%	(94,232)	(119,218)	26.5%
Interest expense	3,797	2,259	(40.5)%	9,903	6,382	(35.6)%
Interest income	(1,190)	(1,289)	8.3%	(4,454)	(3,960)	(11.1)%
Revaluation of stock warrant	373	—	(100.0)%	515	20,470	3,874.8%
Other income, net	(44)	(26)	(40.9)%	(75)	(111)	48.0%
Loss before provision for income taxes	(39,716)	(37,817)	(4.8)%	(100,121)	(141,999)	41.8%
Provision for income taxes	48	33	(31.3)%	122	138	13.1%
Net loss	$ (39,764)	$ (37,850)	(4.8)%	$ (100,243)	$ (142,137)	41.8%

Segments

We manage and report operating results through three reportable segments:

- **Ecommerce** (68.7% and 66.2% of revenue for the three and nine months ended September 30, 2020): The Ecommerce segment represents retail sales of used vehicles through our ecommerce platform and fees earned on sales of value-added products associated with those vehicle sales.
- **TDA** (11.5% and 15.9% of revenue for the three and nine months ended September 30, 2020): The TDA segment represents retail sales of used vehicles from TDA and fees earned on sales of value-added products associated with those vehicle sales.
- **Wholesale** (19.8% and 17.9% of revenue for the three and nine months ended September 30, 2020): The Wholesale segment represents sales of used vehicles through wholesale auctions.

Three Months Ended September 30, 2019 and 2020

Ecommerce

The following table presents our Ecommerce segment results of operations for the periods indicated:

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2020	Change	% Change
	(in thousands, except unit data and average days to sale)			
Ecommerce units sold	5,563	8,823	3,260	58.6%
Ecommerce revenue:				
Vehicle revenue	$ 174,510	$ 213,943	$ 39,433	22.6%
Product revenue	3,603	7,818	4,215	117.0%
Total ecommerce revenue	$ 178,113	$ 221,761	$ 43,648	24.5%
Ecommerce gross profit:				
Vehicle gross profit	$ 5,171	$ 11,486	$ 6,315	122.1%
Product gross profit	3,603	7,818	4,215	117.0%
Total ecommerce gross profit	$ 8,774	$ 19,304	$ 10,530	120.0%
Average vehicle selling price per ecommerce unit	$ 31,370	$ 24,248	$ (7,122)	(22.7)%
Gross profit per ecommerce unit:				
Vehicle gross profit per ecommerce unit	$ 929	$ 1,302	$ 373	40.2%
Product gross profit per ecommerce unit	648	886	238	36.7%
Total gross profit per ecommerce unit	$ 1,577	$ 2,188	$ 611	38.7%
Ecommerce average days to sale	71	52	(19)	(26.8)%

Ecommerce units

Ecommerce units sold increased 3,260, or 58.6%, from 5,563 for the three months ended September 30, 2019 to 8,823 for the three months ended September 30, 2020. This increase was driven by higher inventory levels, our national advertising campaign which continues to strengthen our national brand awareness as well as greater consumer acceptance of our business model as a result of disruptions caused by the COVID-19 pandemic, and process improvements in our ecommerce platform. Average monthly unique visitors to our website grew from 777,313 for the three months ended September 30, 2019 to 928,277 for the three months ended September 30, 2020, representing year over year growth of 19.4%. We expect ecommerce units sold to continue to grow in the future as we increase our inventory selection and marketing efforts as well as improve conversion.

Vehicle Revenue

Ecommerce vehicle revenue increased $39.5 million, or 22.6%, from $174.5 million for the three months ended September 30, 2019 to $214.0 million for the three months ended September 30, 2020. The increase in ecommerce vehicle revenue was primarily attributable to the 3,260 increase in ecommerce units sold, which increased vehicle revenue by $102.3 million, partially offset by a lower ASP per unit, which decreased from $31,370 for the three months ended September 30, 2019 to $24,248 for the three months ended September 30, 2020 and decreased vehicle revenue by $62.8 million. The decrease in ASP per unit was driven by demand predicted by our data analytics. Since the COVID-19 pandemic, that data has been moving towards lower-priced inventory, which we expect to continue to result in a lower ASP per unit than historical levels. We expect ecommerce vehicle revenue will continue to grow driven by increases in ecommerce units sold.

Product Revenue

Ecommerce product revenue increased $4.2 million, or 117.0%, from $3.6 million for the three months ended September 30, 2019 to $7.8 million for the three months ended September 30, 2020. The increase in ecommerce product revenue was primarily attributable to the 3,260 increase in ecommerce units sold, which increased product revenue by $2.1 million and a $238 increase in product revenue per unit which increased product revenue by $2.1 million. Product revenue per unit increased from $648 for the three months ended September 30, 2019 to $886 for the three months ended September 30, 2020, which was primarily due to higher attachment rates, improved financing features in our ecommerce platform as well as our strategic partnerships. We expect ecommerce product revenue will continue to grow in the future driven by increases in ecommerce units sold, new product offerings, initiatives to improve product attachment rates and increases in per unit profit.

Vehicle Gross Profit

Ecommerce vehicle gross profit increased $6.3 million, or 122.1%, from $5.2 million for the three months ended September 30, 2019 to $11.5 million for the three months ended September 30, 2020. The increase in vehicle gross profit was primarily attributable to a $373 increase in vehicle gross profit per unit, which increased vehicle gross profit by $3.3 million and the 3,260 increase in ecommerce units sold, which increased vehicle gross profit by $3.0 million for the three months ended September 30, 2020. Vehicle gross profit per unit increased from $929 for the three months ended September 30, 2019 to $1,302 for the three months ended September 30, 2020 primarily attributable to improvements in inbound logistics and reconditioning costs.

As we continue to mature our infrastructure, increase the number of VRCs and optimize our network of VRCs, we expect ecommerce vehicle gross profit per unit to continue to increase in the future driven by reduced costs across acquisitions, logistics and reconditioning.

Product Gross Profit

Ecommerce product gross profit increased $4.2 million, or 117.0%, from $3.6 million for the three months ended September 30, 2019 to $7.8 million for the three months ended September 30, 2020. The increase in ecommerce product gross profit was primarily attributable to the 3,260 increase in ecommerce units sold which increased product gross profit by $2.1 million and a $238 increase in product gross profit per unit which increased product gross profit by $2.1 million for the three months ended September 30, 2020. The increase in product gross profit per unit was primarily attributable to higher attachment rates, improved financing features in our ecommerce platform as well as our strategic partnerships. The increase was partially offset by the lower ASP per unit which reduced the fees we earned on our financing products. We expect ecommerce product gross profit will continue to grow in the future driven by increases in ecommerce units sold, new product offerings, initiatives to improve product attachment rates and increases in per unit profit.

TDA

The following table presents our TDA segment results of operations for the periods indicated:

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2020	Change	% Change
	(in thousands, except unit data and average days to sale)			
TDA units sold	3,282	1,463	(1,819)	(55.4)%
TDA revenue:				
Vehicle revenue	$ 99,234	$ 35,575	$ (63,659)	(64.2)%
Product revenue	3,425	1,380	(2,045)	(59.7)%
Other	447	317	(130)	(29.1)%
Total TDA revenue	$ 103,106	$ 37,272	$ (65,834)	(63.9)%
TDA gross profit:				
Vehicle gross profit	$ 3,053	$ 1,295	$ (1,758)	(57.6)%
Product gross profit	3,425	1,380	(2,045)	(59.7)%
Other gross profit	172	123	(49)	(28.5)%
Total TDA gross profit	$ 6,650	$ 2,798	$ (3,852)	(57.9)%
Average vehicle selling price per TDA unit	$ 30,236	$ 24,316	$ (5,920)	(19.6)%
Gross profit per TDA unit:				
Vehicle gross profit per TDA unit	$ 930	$ 885	$ (45)	(4.8)%
Product gross profit per TDA unit	1,044	943	(101)	(9.7)%
Total gross profit per TDA unit	$ 1,974	$ 1,828	$ (146)	(7.4)%
TDA average days to sale	50	32	(18)	(36.0)%

TDA units

TDA units sold decreased 1,819, or 55.4%, from 3,282 for the three months ended September 30, 2019 to 1,463 for the three months ended September 30, 2020. The Houston area has been a relative COVID-19 hotspot in the country and, as a result, TDA foot traffic continues to be negatively impacted by the pandemic. In addition, despite the fact that we have dramatically expanded our total inventory in excess of pre-COVID levels, the supply of used vehicles in Houston has not returned to the pre-COVID levels. We believe that TDA units sold will rebound with an eventual recovery in the area, but the timing is uncertain.

Vehicle Revenue

TDA vehicle revenue decreased $63.6 million, or 64.2%, from $99.2 million for the three months ended September 30, 2019 to $35.6 million for the three months ended September 30, 2020. The decrease in TDA vehicle revenue was primarily due to the 1,819 decrease in TDA units sold which decreased TDA vehicle revenue by $55.0 million and a lower ASP per unit, which decreased from $30,236 for the three months ended September 30, 2019 to $24,316 for the three months ended September 30, 2020 and decreased revenue by $8.6 million. We expect our TDA vehicle revenue will continue to be negatively impacted by the COVID-19 pandemic, but the ultimate extent and duration of the impact is uncertain at this time.

Product Revenue

TDA product revenue decreased $2.0 million, or 59.7%, from $3.4 million for the three months ended September 30, 2019 to $1.4 million for the three months ended September 30, 2020. The decrease in TDA product revenue was primarily attributable to the 1,819 decrease in TDA units sold, which decreased TDA product revenue by $1.9 million and the decrease in product revenue per unit which decreased revenue by $0.1 million.

Other Revenue

TDA other revenue decreased $0.1 million, or 29.1%, from $0.4 million for the three months ended September 30, 2019 to $0.3 million for the three months ended September 30, 2020.

Vehicle Gross Profit

TDA vehicle gross profit decreased $1.8 million, or 57.6%, from $3.1 million for the three months ended September 30, 2019 to $1.3 million for the three months ended September 30, 2020. The decrease was primarily attributable to the 1,819 decrease in TDA units sold, which decreased TDA vehicle gross profit by $1.7 million and a decrease in TDA vehicle gross profit per unit, which decreased vehicle gross profit by $0.1 million. We expect our TDA vehicle gross profit to continue to be negatively impacted by the COVID-19 pandemic, but the ultimate extent and duration of the impact is uncertain at this time.

Product Gross Profit

TDA product gross profit decreased $2.0 million, or 59.7% from $3.4 million for the three months ended September 30, 2019 to $1.4 million for the three months ended September 30, 2020. The decrease in TDA product gross profit was primarily attributable to the 1,819 decrease in TDA units sold, which decreased TDA product gross profit by $1.9 million and the decrease in product gross profit per unit which decreased gross profit by $0.1 million.

Other gross profit

TDA other gross profit decreased $0.1 million, or 28.5%, from $0.2 million for the three months ended September 30, 2019 to $0.1 million for the three months ended September 30, 2020.

Wholesale

The following table presents our Wholesale segment results of operations for the periods indicated:

	Three Months Ended September 30,			
	2019	2020	Change	% Change
	(in thousands, except unit data)			
Wholesale units sold	5,420	6,166	746	13.8%
Wholesale revenue	$ 59,054	$ 63,972	$ 4,918	8.3%
Wholesale gross profit	$ 247	$ 3,343	$ 3,096	1,253.4%
Average selling price per unit	$ 10,896	$ 10,375	$ (521)	(4.8)%
Wholesale gross profit per unit	$ 46	$ 542	$ 496	1,078.3%

Wholesale Units

Wholesale units sold increased 746, or 13.8%, from 5,420 for the three months ended September 30, 2019 to 6,166 for the three months ended September 30, 2020, primarily driven by an increase in wholesale units purchased from customers.

Wholesale Revenue

Wholesale revenue increased $4.9 million, or 8.3%, from $59.1 million for the three months ended September 30, 2019 to $64.0 million for the three months ended September 30, 2020. The increase was primarily attributable to the 746 increase in wholesale units sold which increased wholesale revenue by $8.1 million, partially offset by a lower ASP per wholesale unit which decreased from $10,896 for the three months ended September 30, 2019 to $10,375 for the three months ended September 30, 2020 and decreased wholesale revenue by $3.2 million.

Wholesale Gross Profit

Wholesale vehicle gross profit increased $3.1 million from $0.2 million for the three months ended September 30, 2019 to $3.3 million for the three months ended September 30, 2020. The increase was primarily attributable to a $496 increase in wholesale gross profit per unit, which increased from $46 per unit to $542 per unit primarily as the result of favorable used car prices.

Selling, general and administrative expenses

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2020	Change	% Change
	(in thousands)			
Compensation & benefits	$ 19,050	$ 22,881	$ 3,831	20.1%
Marketing expense	14,606	15,341	735	5.0%
Outbound logistics	4,255	8,500	4,245	99.8%
Occupancy and related costs	2,770	2,610	(160)	(5.8)%
Professional fees	3,497	1,773	(1,724)	(49.3)%
Other	6,756	10,022	3,266	48.3%
Total selling, general & administrative expenses	$ 50,934	$ 61,127	$ 10,193	20.0%

Selling, general and administrative expenses increased $10.2 million, or 20.0%, from $50.9 million for the three months ended September 30, 2019 to $61.1 million for the three months ended September 30, 2020. The increase was primarily due to a $3.6 million increase in stock-based compensation included within compensation and benefits, a $4.2 million increase in outbound logistics costs partially attributable to the growth in ecommerce units sold, which increased outbound logistics costs by $2.5 million, and increases in market rates of logistics providers, which increased outbound logistics costs by $1.7 million, and a $3.3 million increase in other selling, general, and administrative expenses primarily related to additional insurance costs associated with being a publicly traded company. These increases were offset by a $1.7 million decrease in professional services due to a reduction in consulting expenses, primarily in the finance and reconditioning departments, as a result of completion of certain process improvement projects and hiring more employees.

We expect selling, general and administrative expenses to increase in the future as we scale our business and sell more ecommerce units. We will also continue to invest in and improve our customer experience and invest in expanding our proprietary logistics network including our last-mile delivery operations.

Depreciation and amortization

Depreciation and amortization expenses decreased $0.3 million, or 21.5%, from $1.5 million for three months ended September 30, 2019 to $1.2 million for the three months ended September 30, 2020. The decrease was primarily due to reduced amortization expense as certain intangible assets were fully amortized.

Interest expense

Interest expense decreased $1.5 million, or 40.5%, from $3.8 million for the three months ended September 30, 2019 to $2.3 million for the three months ended September 30, 2020. The decrease was primarily attributable to lower interest rates for the 2020 Vehicle Floorplan Facility as a result of decreases in the1-Month LIBOR rate as well as the repayment of our term loan facility in December 2019.

Interest income

Interest income increased $0.1 million, or 8.3%, from $1.2 million for the three months ended September 30, 2019 to $1.3 million for the three months ended September 30, 2020. The increase in interest income was primarily driven by higher cash and cash equivalent balances as a result of the IPO and follow-on public offering which was offset by lower interest rates.

Nine Months Ended September 30, 2019 and 2020

Ecommerce

The following table presents our Ecommerce segment results of operations for the periods indicated:

	Nine Months Ended September 30, 2019	2020	Change	% Change
	(in thousands, except unit data and average days to sale)			
Ecommerce units sold	12,606	23,466	10,860	86.1%
Ecommerce revenue:				
Vehicle revenue	$ 381,709	$ 610,008	$ 228,299	59.8%
Product revenue	7,212	20,493	13,281	184.2%
Total ecommerce revenue	$ 388,921	$ 630,501	$ 241,580	62.1%
Ecommerce gross profit:				
Vehicle gross profit	$ 14,611	$ 20,296	$ 5,685	38.9%
Product gross profit	7,212	20,493	13,281	184.2%
Total ecommerce gross profit	$ 21,823	$ 40,789	$ 18,966	86.9%
Average vehicle selling price per ecommerce unit	$ 30,280	$ 25,995	$ (4,285)	(14.2)%
Gross profit per ecommerce unit:				
Vehicle gross profit per ecommerce unit	$ 1,159	$ 865	$ (294)	(25.4)%
Product gross profit per ecommerce unit	572	873	301	52.6%
Total gross profit per ecommerce unit	$ 1,731	$ 1,738	$ 7	0.4%
Ecommerce average days to sale	67	62	(5)	(7.5)%

Ecommerce units

Ecommerce units sold increased 10,860, or 86.1%, from 12,606 for the nine months ended September 30, 2019 to 23,466 for the nine months ended September 30, 2020, driven by our increased inventory levels, process improvements in our ecommerce platform and our national advertising campaign which has strengthened our national brand awareness as well as greater consumer acceptance of our business model as a result of the COVID-19 pandemic. Average monthly unique visitors to our website increased from 605,820 for the nine months ended September 30, 2019 to 958,397 for the nine months ended September 30, 2020. We expect ecommerce units sold to continue to grow in the future as we increase our inventory selection and marketing efforts and improve conversion.

Vehicle Revenue

Ecommerce vehicle revenue increased $228.3 million, or 59.8%, from $381.7 million for the nine months ended September 30, 2019 to $610.0 million for the nine months ended September 30, 2020. The increase in ecommerce vehicle revenue was primarily attributable to the 10,860 increase in ecommerce units sold, which increased revenue by $328.8 million, partially offset by a lower ASP per unit, which decreased from $30,280 for the nine months ended September 30, 2019 to $25,995 for the nine months ended September 30, 2020 and decreased revenue by $100.5 million. The decrease in ASP per unit was driven by our strategic decision to reduce vehicle pricing in order to sell pre-COVID-19 inventory during the second quarter of 2020 as well as demand predicted by our data analytics. Since the COVID-19 pandemic, that data has been moving towards lower-priced inventory, which we expect to continue to result in a lower ASP per unit than historical levels. We expect ecommerce vehicle revenue will continue to grow driven by increases in ecommerce units sold.

Product Revenue

Ecommerce product revenue increased $13.3 million, or 184.2%, from $7.2 million for the nine months ended September 30, 2019 to $20.5 million for the nine months ended September 30, 2020. The increase was attributable to the increase in product revenue per unit of $301, which increased product revenue by $7.1 million, and the 10,860 increase in ecommerce units sold which increased product revenue by $6.2 million. Product revenue per unit increased from $572 for the nine months ended September 30, 2019 to $873 for the nine months ended September 30, 2020, which was primarily due to higher attachment rates, improved financing features in our ecommerce platform and our strategic partnerships. We expect ecommerce product revenue will continue to grow in the future driven by increases in ecommerce units sold, new product offerings, initiatives to improve product attachment rates and increases in per unit profit.

Vehicle Gross Profit

Ecommerce vehicle gross profit increased $5.7 million, or 38.9%, from $14.6 million for the nine months ended September 30, 2019 to $20.3 million for the nine months ended September 30, 2020. The increase was attributable to the 10,860 increase in ecommerce units sold which increased vehicle gross profit by $12.6 million partially offset by a lower vehicle gross profit per unit, which decreased vehicle gross profit by $6.9 million. Vehicle gross profit per unit decreased by $294 from $1,159 for the nine months ended September 30, 2019 to $865 for the nine months ended September 30, 2020, primarily attributable to our strategic decision to reduce vehicle pricing in order to drive vehicle sales in the early stage of the COVID-19 pandemic.

As we continue to mature our infrastructure, increase the number of VRCs and optimize our network of VRCs, we expect ecommerce vehicle gross profit per unit to increase in the future driven by reduced costs across acquisitions, logistics and reconditioning.

Product Gross Profit

Ecommerce product gross profit increased $13.3 million, or 184.2%, from $7.2 million for the nine months ended September 30, 2019 to $20.5 million for the nine months ended September 30, 2020. The increase was attributable to the increase in product gross profit per unit of $301, which increased product gross profit by $7.1 million, and the 10,860 increase in ecommerce units sold which increased product gross profit by $6.2 million. Product gross profit per unit increased from $572 for the nine months ended September 30, 2019 to $873 for the nine months ended September 30, 2020, which was primarily due to higher attachment rates, improved financing features in our ecommerce platform and our strategic partnerships. We expect ecommerce product gross profit will continue to grow in the future driven by increases in ecommerce units sold, new product offerings, initiatives to improve product attachment rates and increases in per unit profit.

TDA

The following table presents our TDA segment results of operations for the periods indicated:

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Change	% Change
	(in thousands, except unit data and average days to sale)			
TDA units sold	9,444	5,608	(3,836)	(40.6)%
TDA revenue:				
Vehicle revenue	$ 271,186	$ 144,372	$ (126,814)	(46.8)%
Product revenue	9,053	5,486	(3,567)	(39.4)%
Other	1,364	1,043	(321)	(23.5)%
Total TDA revenue	$ 281,603	$ 150,901	$ (130,702)	(46.4)%
TDA gross profit:				
Vehicle gross profit	$ 9,179	$ 3,313	$ (5,866)	(63.9)%
Product gross profit	9,053	5,486	(3,567)	(39.4)%
Other gross profit	598	345	(253)	(42.3)%
Total TDA gross profit	$ 18,830	$ 9,144	$ (9,686)	(51.4)%
Average vehicle selling price per TDA unit	$ 28,715	$ 25,744	$ (2,971)	(10.3)%
Gross profit per TDA unit:				
Vehicle gross profit per TDA unit	$ 972	$ 591	$ (381)	(39.2)%
Product gross profit per TDA unit	959	978	19	2.0%
Total gross profit per TDA unit	$ 1,931	$ 1,569	$ (362)	(18.8)%
TDA average days to sale	49	42	(7)	(14.3)%

TDA units

TDA units sold decreased 3,836, or 40.6%, from 9,444 for the nine months ended September 30, 2019 to 5,608 for the nine months ended September 30, 2020. Although our physical retail location remained open, during the second quarter consumer demand for vehicles at TDA declined significantly due to government mandated “stay-home” orders and other disruptions related to the COVID-19 pandemic. In addition, despite the fact that during the third quarter we dramatically expanded our total inventory in excess of pre-COVID levels, the supply of used vehicles in Houston has not returned to pre-COVID levels. We believe that TDA units sold will rebound with an eventual recovery in the area, but the timing is uncertain.

Vehicle Revenue

TDA vehicle revenue decreased $126.8 million, or 46.8%, from $271.2 million for the nine months ended September 30, 2019 to $144.4 million for the nine months ended September 30, 2020. The decrease was driven by the 3,836 decrease in TDA units sold, which decreased vehicle revenue by $110.2 million and the lower ASP per unit, which decreased from $28,715 for the nine months ended September 30, 2019 to $25,744 for the nine months ended September 30, 2020 and decreased vehicle revenue by $16.6 million.

Product Revenue

TDA product revenue decreased $3.6 million, or 39.4%, from $9.1 million for the nine months ended September 30, 2019 to $5.5 million for the nine months ended September 30, 2020. The decrease was primarily driven by the 3,836 decrease in TDA units sold.

Other Revenue

TDA other revenue decreased $0.3 million, or 23.5%, from $1.3 million for the nine months ended September 30, 2019 to $1.0 million for the nine months ended September 30, 2020.

Vehicle Gross Profit

TDA vehicle gross profit decreased $5.9 million, or 63.9%, from $9.2 million for the nine months ended September 30, 2019 to $3.3 million for the nine months ended September 30, 2020. The decrease was attributable to the 3,836 decrease in TDA units sold, which decreased vehicle gross profit by $3.7 million and a decrease in TDA vehicle gross profit per unit of $381, which decreased vehicle gross profit by $2.2 million. We expect our vehicle gross profit to continue to be negatively impacted by the COVID-19 pandemic but the ultimate extent and duration of the impact is uncertain at this time.

Product Gross Profit

TDA product gross profit decreased $3.6 million, or 39.4%, from $9.1 million for the nine months ended September 30, 2019 to $5.5 million for the nine months ended September 30, 2020. The decrease was primarily driven by the 3,836 decrease in TDA units sold.

Other gross profit

TDA other gross profit decreased $0.3 million, or 42.3%, from $0.6 million for the nine months ended September 30, 2019 to $0.3 million for the nine months ended September 30, 2020.

Wholesale

The following table presents our Wholesale segment results of operations for the periods indicated:

	Nine Months Ended September 30,			
	2019	2020	Change	% Change
	(in thousands, except unit data)			
Wholesale units sold	16,046	14,110	(1,936)	(12.1)%
Wholesale revenue	$ 165,705	$ 170,469	$ 4,764	2.9%
Wholesale gross profit	$ 875	$ 1,506	$ 631	72.1%
Average selling price per unit	$ 10,327	$ 12,081	$ 1,754	17.0%
Wholesale gross profit per unit	$ 55	$ 107	$ 52	94.5%

Wholesale Units

Wholesale units sold decreased 1,936, or 12.1%, from 16,046 for the nine months ended September 30, 2019 to 14,110 for the nine months ended September 30, 2020, primarily driven by a decrease in the number of trade-in vehicles as a result of the decrease in number of TDA units sold.

Wholesale Revenue

Wholesale revenue increased $4.8 million, or 2.9%, from $165.7 million for the nine months ended September 30, 2019 to $170.5 million for the nine months ended September 30, 2020. The increase in wholesale revenue was attributable to a higher ASP per unit which increased from $10,327 million for the nine months ended September 30, 2019 to $12,081 for the nine months ended September 30, 2020 and increased revenue by $24.8 million, offset by the 1,936 decrease in wholesale units sold, which decreased wholesale revenue by $20.0 million. The increase in ASP per unit was primarily driven by the sale of retail quality vehicles through the wholesale auctions as we initially reduced our inventory levels in order to respond to decreased consumer demand due to the COVID-19 pandemic.

Wholesale Gross Profit

Wholesale vehicle gross profit increased $0.6 million, or 72.1%, from $0.9 million for the nine months ended September 30, 2019 to $1.5 million for the nine months ended September 30, 2020. The increase was primarily attributable to a $52 increase in wholesale gross profit per unit.

Selling, general and administrative expenses

	Nine Months Ended September 30,			
	2019	2020	Change	% Change
	(in thousands)			
Compensation & benefits	$ 52,018	$ 63,821	$ 11,803	22.7%
Marketing expense	34,442	44,829	10,387	30.2%
Outbound logistics	9,199	19,762	10,563	114.8%
Occupancy and related costs	8,041	7,574	(467)	(5.8)%
Professional fees	9,378	5,697	(3,681)	(39.3)%
Other	18,131	25,735	7,604	41.9%
Total selling, general & administrative expenses	$ 131,209	$ 167,418	$ 36,209	27.6%

Selling, general and administrative expenses increased $36.2 million, or 27.6%, from $131.2 million for the nine months ended September 30, 2019 to $167.4 million for the nine months ended September 30, 2020. The increase was primarily due to an $11.8 million increase in compensation and benefits partially due to an increase in employee headcount throughout the organization as our business scales, as well as a $3.6 million increase in stock-based compensation included within compensation and benefits, a $10.6 million increase in outbound logistics costs attributable to the growth in our ecommerce business, a $10.4 million increase in advertising and marketing efforts as we expanded our national broad-reach advertising, and a $7.6 million increase in other selling, general and administrative expenses, primarily related to increases in volume-based subscription fees as our business continues to scale and additional insurance costs associated with being a publicly traded company. The increases were partially offset by a $3.7 million decrease in professional services due to a reduction in consulting expenses, primarily in the finance and reconditioning departments, as a result of completion of certain process improvement projects and hiring more employees.

Depreciation and amortization

Depreciation and amortization expenses decreased $1.4 million, or 28.8%, from $4.6 million for the nine months ended September 30, 2019 to $3.2 million for the nine months ended September 30, 2020. The decrease was primarily due to reduced amortization expense as certain intangible assets were fully amortized.

Interest expense

Interest expense decreased $3.5 million, or 35.6%, from $9.9 million for the nine months ended September 30, 2019 to $6.4 million for the nine months ended September 30, 2020. The decrease was primarily attributable to the repayment of our term loan facility in December 2019 as well as lower interest rates for the 2020 Vehicle Floorplan Facility as a result of decreases in the 1-Month LIBOR rate.

Interest Income

Interest income decreased $0.5 million, or 11.1%, from $4.5 million for the nine months ended September 30, 2019 to $4.0 million for the nine months ended September 30, 2020. The decrease in interest income was primarily driven decreases in deposits with Ally Bank, lower interest rate yields, and decreases in the LIBOR rate.

Revaluation of preferred stock warrant

The increase in revaluation of preferred stock warrant of $20.0 million from the nine months ended September 30, 2019 to the nine months ended September 30, 2020 was related to the revaluation of the warrant to purchase Series F preferred stock which was converted to the warrant to purchase common stock upon the IPO and subsequently exercised in June 2020.

Liquidity and Capital Resources

Our operations historically have been financed primarily from the sale of redeemable convertible preferred stock and borrowings under our Vehicle Floorplan Facility. On June 11, 2020, we completed our IPO in which we sold 24,437,500 shares of our common stock, which included 3,187,500 shares sold pursuant to the exercise by the underwriters of an over-allotment option to purchase additional shares, for proceeds of $504.0 million, net of the underwriting discount and before deducting offering expenses of $7.5 million. On September 15, 2020, we completed our follow-on public offering in which we sold 10,800,000 shares of common stock for proceeds of $569.5 million, net of the underwriting discount and before deducting offering expenses of $1.5 million. As of September 30, 2020, we had cash and cash equivalents of $1,161.4 million.

We anticipate that our existing cash and cash equivalents and the 2020 Vehicle Floorplan Facility will be sufficient to support our working capital and capital expenditure requirements for at least the next twelve months from the date of this Form 10-Q. For the nine months ended September 30, 2020, we had negative cash flow from operations of approximately $182.9 million. We generated a net loss of approximately $37.9 million and $142.1 million for the three and nine months ended September 30, 2020, respectively. We have not been profitable since our inception in 2012 and had an accumulated deficit of approximately $717.2 million as of September 30, 2020. We expect to incur additional losses in the future.

We historically have funded vehicle inventory purchases primarily through our Vehicle Floorplan Facility. Our cash flows from operations may differ substantially from our net loss due to non-cash charges or due to changes in balance sheet accounts. The timing of our cash flows from operating activities can also vary among periods due to the timing of payments made or received. Our future capital requirements will depend on many factors, including our rate of revenue growth, our efforts to reduce costs per unit, the expansion of our inventory and sales and marketing activities, investment in our reconditioning and logistics operations, and enhancements to our ecommerce platform. We may be required to seek additional equity or debt financing in the future to fund our operations or to fund our needs for capital expenditures. In the event that additional financing is required, we may not be able to raise it on terms acceptable to us, or at all. If we are unable to raise additional capital or generate cash flows necessary to expand our operations, our business, results of operations and financial condition could be adversely affected.

Vehicle Financing

As of September 30, 2020, we finance our inventory with a vehicle floorplan facility (the “2020 Vehicle Floorplan Facility”) with Ally Bank, which provides a committed credit line of up to $450.0 million.

The amount of credit available to us under the 2020 Vehicle Floorplan Facility is determined on a monthly basis based on a calculation that considers average outstanding borrowings and vehicle units paid off by us within the three immediately preceding months. Approximately $12.1 million was available under this facility as of September 30, 2020. In October 2020, we amended our 2020 Vehicle Floorplan Facility to extend the maturity date to September 30, 2022. The amendment requires us to pay an availability fee on the average unused capacity from the prior quarter if it was greater than 50% of the calculated floorplan allowance, as defined. We are subject to financial covenants that require us to maintain a certain level of equity in the vehicles that are financed, to maintain at least 7.5% of the credit line in cash and cash equivalents and to maintain 10% of the monthly credit line availability on deposit with Ally Bank. We were required to pay an upfront commitment fee upon execution of the amendment.

Outstanding borrowings are due as the vehicles financed are sold, or in any event, on the maturity date. The 2020 Vehicle Floorplan Facility bears interest at a rate equal to the 1-Month LIBOR rate applicable in the immediately preceding month plus a spread of 425 basis points.

Cash Flows from Operating, Investing, and Financing Activities

The following table summarizes our cash flows for the nine months ended September 30, 2019 and 2020:

	Nine Months Ended September 30,			
	2019	2020	Change	% Change
	(in thousands)			
Net cash used in operating activities	$ (180,028)	$ (182,874)	$ (2,846)	1.6%
Net cash used in investing activities	(2,024)	(5,057)	(3,033)	149.9%
Net cash provided by financing activities	87,652	1,157,667	1,070,015	1220.7%
Net (decrease) increase in cash and cash equivalents and restricted cash	(94,400)	969,736	1,064,136	(1,127.3)%
Cash and cash equivalents and restricted cash at beginning of period	163,509	219,587	56,078	34.3%
Cash and cash equivalents and restricted cash at end of period	$ 69,109	$ 1,189,323	$ 1,120,214	1620.9%

Operating Activities

Net cash flows used in operating activities increased from $180.0 million for the nine months ended September 30, 2019 to $182.9 million for the nine months ended September 30, 2020. The increase is primarily attributable to $16.9 million in incremental net loss after reconciling adjustments for the nine months ended September 30, 2020, as compared to nine months ended September 30, 2019 offset by changes in working capital.

We finance substantially all our inventories with the 2020 Vehicle Floorplan Facility. In accordance with U.S. GAAP relating to the statement of cash flows, we report all cash flows arising in connection with the 2020 Vehicle Floorplan Facility, as a financing activity in our statement of cash flows.

Investing Activities

Net cash flows used in investing activities increased $3.1 million, from $2.0 million for the nine months ended September 30, 2019 to $5.1 million for the nine months ended September 30, 2020, primarily as a result of an increase in capitalization of software development costs.

Financing Activities

Net cash flows provided by financing activities increased $1,070.0 million from $87.7 million for the nine months ended September 30, 2019 to $1,157.7 million for the nine months ended September 30, 2020. The increase was primarily related to $497.2 million of net proceeds received upon completion of the IPO net of cash paid for offering expenses related to the IPO, $569.3 million of net proceeds received upon completion of the follow-on public offering net of cash paid for offering expenses related to the follow-on public offering, and the issuance of $21.7 million of Series H preferred stock, net of issuance costs paid. These increases were partially offset by a net decrease in cash of $17.9 million related to our Vehicle Floorplan Facility. Proceeds from and payments for our Vehicle Floorplan Facility decreased from a net cash inflow of $93.4 million for the nine months ended September 30, 2019 to $75.5 million for the nine months ended September 30, 2020.

Contractual Obligations and Commitments

There have been no material changes to our contractual obligations or commitments outside of the ordinary course of business as compared to those described in our Prospectus (File No. 333-248655) filed pursuant to Rule 424(b)(4) on September 11, 2020.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements, as defined by applicable regulations of the SEC, that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. In preparing the condensed consolidated financial statements, we make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue, and expenses and related disclosures. On an ongoing basis, we evaluate our estimates, including, among others, those related to income taxes, the realizability of inventory, stock-based compensation, revenue-related reserves, as well as impairment of goodwill and long-lived assets. We base our estimates on historical experience, market conditions and on various other assumptions that are believed to be reasonable. Actual results may differ from these estimates.

The critical accounting policies that reflect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements include those described in "Note 2—Summary of Significant Accounting Policies" and "Note 3—Revenue Recognition" of the notes to our condensed consolidated financial statements in the section titled "—Summary of Significant Accounting Policies" in Part I, Item 1 of this Quarterly Report on Form 10-Q and in the Prospectus.

Except as described in Note 2 to our condensed consolidated financial statements, there have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates disclosed in the Prospectus.

Recently Issued and Adopted Accounting Pronouncements

See "Note 2—Summary of Significant Accounting Policies—Adoption of New Accounting Standards" in Part I, Item 1 of this Quarterly Report on Form 10-Q for a discussion about new accounting pronouncements adopted and not yet adopted as of the date of this report.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Market risk is the risk of economic losses due to adverse changes in financial market prices and rates. Our primary market risk has been interest rate risk. We do not have material exposure to commodity risk.

Interest Rate Risk

As of September 30, 2020, we had an outstanding balance under the 2020 Vehicle Floorplan Facility of $249.0 million. The 2020 Vehicle Floorplan Facility bears interest at a rate equal to the 1-Month LIBOR rate applicable in the immediately preceding month, plus a spread of 425 basis points. A hypothetical 10% change in interest rates during the periods presented would result in a change to interest expense of $0.2 million and $0.6 million for the three and nine months ended September 30, 2020, respectively.

Item 4. Controls and Procedures

Limitations on effectiveness of controls and procedures

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

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, and as a result of the material weaknesses described below, our principal executive officer and principal financial officer concluded that, as of September 30, 2020, our disclosure controls and procedures were not effective. In light of this fact, our management has performed additional analyses, reconciliations, and other post-closing procedures and has concluded that, notwithstanding the material weaknesses in our internal control over financial reporting, the unaudited interim condensed consolidated financial statements for the periods covered by and included in this Quarterly Report on Form 10-Q fairly state, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with U.S. GAAP.

Material Weaknesses

Under standards established by the United States Public Company Accounting Oversight Board, a material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. In connection with our audit of consolidated financial statements for the year ended December 31, 2018, we identified material weaknesses in our internal control over financial reporting. We did not design or maintain an effective control environment commensurate with our financial reporting requirements. Specifically, we lacked a sufficient complement of personnel with (i) an appropriate level of accounting knowledge, training and experience to appropriately analyze, record and disclose accounting matters timely and accurately, and (ii) an appropriate level of knowledge and experience to establish effective information technology processes and controls. This material weakness contributed to the following material weaknesses:

- we did not design and maintain adequate controls over the preparation and review of certain account reconciliations and journal entries. Specifically, we did not design and maintain controls to ensure (i) the appropriate segregation of duties in the preparation and review of account reconciliations and journal entries and (ii) account reconciliations and journal entries were reviewed at the appropriate level of precision.
- we did not design and maintain effective controls over certain information technology general controls for information systems and applications that are relevant to the preparation of the consolidated financial statements. Specifically, we did not design and maintain sufficient user and privileged access controls to ensure appropriate segregation of duties and adequate restricted user access to financial applications; program change management controls to ensure that IT program and data changes affecting financial IT applications and underlying accounting records are identified, tested, authorized and implemented appropriately; or computer operations controls as well as testing and approval controls for program development.

The control deficiencies described above did not result in a misstatement to our annual consolidated financial statements. However, each of the material weaknesses described above, if not remediated, could result in a misstatement of one or more account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected, and, accordingly, we determined that these control deficiencies constitute material weaknesses.

We have concluded that these material weaknesses arose because, as a private company, we did not have the necessary business processes, systems, personnel and related internal controls. In the year ended December 31, 2019, we undertook measures to address material weaknesses in our internal controls. In particular, we (i) hired additional finance and accounting personnel with expertise in preparation of financial statements and account reconciliations; (ii) further developed and documented our accounting policies; and (iii) hired a director responsible for implementation of information technology general controls. In addition, in the year ending December 31, 2020, we continue to take steps to remediate these material weaknesses, including:

- hiring additional qualified accounting, financial reporting and information technology personnel with public company experience;
- providing additional training for our personnel on internal control over financial reporting;
- implementing new financial systems and processes;
- implementing additional review controls and processes and requiring timely account reconciliation and analyses;
- implementing processes and controls to better identify and manage segregation of duties; and
- engaging an external advisor to assist with evaluating and documenting the design and operating effectiveness of internal controls and assisting with the remediation of deficiencies, as necessary.

Changes in Internal Control over Financial Reporting

We are taking actions to remediate the material weaknesses relating to our internal control over financial reporting. Except as otherwise described herein, 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) during the three months ended September 30, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are subject to routine legal proceedings in the normal course of operating our business. Although the outcome of litigation is inherently difficult to predict, we are not involved in any legal proceedings that we believe could reasonably be expected to have a material adverse effect on our business, financial condition or results of operations.

Item 1A. Risk Factors

The risk factors disclosed under the heading "Risk Factors" in our Prospectus (File No. 333-248655) filed pursuant to Rule 424(b)(4) on September 11, 2020 (the "Prospectus"), are hereby incorporated by reference into this Part II, Item 1A of this Quarterly Report on Form 10-Q, except for the risk factors captioned "Our management team will have immediate and broad discretion over the use of the net proceeds from this offering and may not use them effectively" and "Investors in this offering will experience immediate and substantial dilution of $45.01 per share." Our operations and financial results are subject to various risks and uncertainties including those disclosed therein. If any of those risks or others not specified materialize, our business, financial condition and results of operations could be materially and adversely affected. In that case, the trading price of our common stock could decline and you could lose all or part of your investment in our common stock. We provide below the material changes to our risk factors described in the Prospectus:

The COVID-19 pandemic caused by the novel coronavirus has had and is expected to continue to have an adverse effect on our business, financial condition and results of operations.

In March 2020, the World Health Organization declared COVID-19 a global pandemic, and governmental authorities around the world have implemented measures to reduce the spread of COVID-19. These measures have adversely affected workforces, customers, supply chains, consumer sentiment, economies, and financial markets, and, along with decreased consumer spending, have led to an economic downturn across many global economies.

The COVID-19 pandemic rapidly escalated in the United States, creating significant uncertainty and economic disruption, and leading to record levels of unemployment nationally. Numerous state and local jurisdictions imposed, and others in the future may impose, shelter-in-place orders, quarantines, shut-downs of non-essential businesses, and similar government orders and restrictions on their residents to control the spread of COVID-19. While some such orders or restrictions have been lifted in certain jurisdictions, certain of those orders have been re-instated, new orders have been imposed and future orders may be imposed as the COVID-19 pandemic continues to spread in waves nationwide. Such orders or restrictions have resulted in temporary facility closures (including certain of our third-party VRCs), work stoppages, slowdowns and travel restrictions, among other effects, thereby adversely impacting our operations. Due to the evolving nature of the COVID-19 crisis, we continue to monitor the situation closely and assess the impact on our business. We expect our operations will continue to be adversely impacted through the end of 2020 and continuing into 2021, however, the magnitude and duration of the ultimate impact is impossible to predict with certainty due to:

- uncertainties regarding the duration of the COVID-19 pandemic and the length of time over which the disruptions caused by COVID-19 will continue;
- the impact of governmental orders and regulations that have been, and may in the future be, imposed in response to the pandemic;
- the impact of COVID-19 on VRCs, wholesale auctions, state DMV titling and registration services, third party vehicle carriers and other third parties on which we rely;
- uncertainty as to the impact future increases in transmission could have on our ability to fully staff portions of our business;
- the deterioration of economic conditions in the United States, as well as high unemployment levels, which could have an adverse impact on discretionary consumer spending;
- uncertainty regarding the potential for, timing and duration of, and severity of future waves of the COVID-19 crisis;
- uncertainty as to whether and to what degree governmental economic relief will be provided to soften the negative economic effects of the COVID-19 crisis and the resulting governmental orders and restrictions; and
- the timing, availability, efficacy and impact of potential vaccines and treatments for COVID-19 that are under development.

In response to the COVID-19 disruptions, we implemented a number of measures designed to protect the health and safety of our workforce. These measures include restrictions on non-essential business travel, the institution of work-from-home policies wherever feasible and the implementation of strategies for workplace safety at our facilities that remain open. We are following the guidance from public health officials and government agencies, including limiting the number of employees in our office facilities, implementation of enhanced cleaning measures, social distancing guidelines, wearing of masks, eliminating non-essential vendor / guest visitation, and requiring health attestations and temperature checks prior to entering facilities, in each case subject to local requirements in that location. Seating, signage, and cleaning materials have been added to ensure adherence to best practices for employee health and safety during this pandemic. Where feasible, we operate on a rotating team schedule to reduce exposure and also require any diagnosed or exposed employees to self-isolate for up to two weeks before returning to work. Nevertheless, these actions may not be sufficient to prevent a material disruption in our workforce.

Both TDA and our back-office facility in Houston continued to remain open during the three months ended September 30, 2020 and through the date of this Form 10-Q. However, as a result of the continuing impact of the COVID-19 pandemic, we have seen a significant reduction in foot traffic at TDA, and a decline in our unit sales at TDA, despite higher overall unit sales. We also have experienced disruptions in our logistics network and productivity challenges in our back-office operations. As COVID-19 disruptions continue, we are unsure when TDA will return to normal operations and when the other negative effects on our business will subside. As a result of these developments, our business, results of operations, cash flows and financial condition for fiscal year 2020 have been and will be significantly affected by the COVID-19 disruptions and could continue to be adversely impacted in the future. There is no assurance the measures we have taken or may take in the future will be successful in managing the uncertainties caused by COVID-19.

The extent to which COVID-19 ultimately impacts our business, financial condition and results of operations will depend on future developments, which are highly uncertain and unpredictable, including new information which may emerge concerning the severity and duration of the COVID-19 outbreak and the effectiveness of actions taken to contain the COVID-19 outbreak or treat its impact, among others. The ultimate consequences of the COVID-19 pandemic cannot be predicted with certainty, but it could have a material effect on our business, operating results, financial condition and prospects.

In addition to the COVID-19 disruptions adversely impacting our business and financial results, they may also have the effect of heightening many of the other risks described in “Risk Factors,” including risks relating to changes in consumer demand; our limited operating history; our ability to generate sufficient revenue to generate positive cash flow; the operation of, and concentration of our revenues and gross profit from TDA; our relationships with third party customer experience teams; the availability of third-party providers to deliver our vehicles to customers nationwide; the operation of our VRCs by us and our third party service providers; the current geographic concentration of reconditioning services and store inventory; our level of indebtedness; our agreement with a single lender to finance our vehicle inventory purchases and the expiration of such agreement; our access to desirable vehicle inventory; regulatory restrictions; and the shift by traditional dealers to online sales and deliveries.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

There were no unregistered equity securities sold from July 1, 2020 to September 30, 2020.

Use of Proceeds from Public Offering of Common Stock

On June 11, 2020, we completed our IPO, in which we sold 24,437,500 shares of common stock at a price to the public of $22.00 per share, including 3,187,500 shares sold in connection with the exercise of the underwriters’ option to purchase additional shares. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-238482), as amended, which was declared effective by the SEC on June 8, 2020. We raised $504.0 million in net proceeds after deducting underwriting discounts and commissions and before deducting offering expenses of $7.5 million. No payments were made by us to directors, officers, or persons owning 10 percent or more of our capital stock or to their associates, or to our affiliates, other than payments in the ordinary course of business to officers for salaries. There has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC on June 9, 2020 pursuant to Rule 424(b)(4). We invested the funds received in accordance with our board approved investment policy, which provides for investments in money market instruments and registered money market funds. The managing underwriters of our IPO were Goldman Sachs & Co. LLC, BofA Securities, Allen & Company LLC, and Wells Fargo Securities. Following the sale of the shares in connection with the IPO, the offering terminated.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed Herewith	Furnished Herewith
3.1	Amended and Restated Certificate of Incorporation of Vroom, Inc.	10-Q	001-39315	3.1	August 13, 2020		
3.2	Amended and Restated Bylaws of Vroom, Inc.	10-Q	001-39315	3.2	August 13, 2020		
4.1	Specimen Stock Certificate evidencing the shares of common stock	S-1/A	333-238482	4.1	June 1, 2020		
10.1	Second Amendment to Inventory Financing and Security Agreement, dated October 1, 2020 by and among Ally Bank, Ally Financial, Inc., Left Gate Property Holding, LLC and Vroom, Inc.					X	
10.2	Nominee and Indemnity Agreement, dated September 1, 2020, by and among Catterton Management Company, L.L.C. as investment manager of CGP2 Lone Star, L.P., Scott Dahnke and Vroom, Inc.	S-1/A	333-248655	10.20	September 8, 2020		
10.3	Nominee and Indemnity Agreement, dated September 1, 2020, by and among Catterton Management Company, L.L.C. as investment manager of CGP2 Lone Star, L.P., Michael Farello and Vroom, Inc.	S-1/A	333-248655	10.21	September 8, 2020		
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 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						XX
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002						XX
101.INS	XBRL Instance Document						X

Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed Herewith	Furnished Herewith
101.SCH	XBRL Taxonomy Extension Schema Document						X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document						X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document						X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document						X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document						X

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.

		Vroom, Inc.
Date: November 12, 2020	By:	/s/ Paul J. Hennessy
		Paul J. Hennessy
		Chief Executive Officer
		(principal executive officer)
Date: November 12, 2020	By:	/s/ Dave Jones
		Dave Jones
		Chief Financial Officer
		(principal financial and accounting officer)

Exhibit 10.1

[***] Certain information in this document has been excluded pursuant to Regulation S-K, Item (601)(b)(10). Such excluded information is not material and would likely cause competitive harm to the registrant if publicly disclosed.

SECOND AMENDMENT TO INVENTORY FINANCING AND SECURITY AGREEMENT

I. THE PARTIES TO THIS AGREEMENT

This Second Amendment to Inventory Financing and Security Agreement ("Amendment") is effective as of October 1, 2020, and is made by and among the following parties:

A. **Ally Bank (Ally Capital in Hawaii, Mississippi, Montana and New Jersey)** (together with its successors and assigns, "Bank"), a Utah state-chartered bank with a local business office currently located at 5851 Legacy Circle, Suite 200, Plano, Texas 75024; and

B. **Ally Financial Inc.**, a Delaware corporation ("Ally") with a local business office currently located at 5851 Legacy Circle, Suite 200, Plano, Texas 75024 (together with Bank, the "Ally Parties" and Bank and Ally each being, an "Ally Party");

C. **Left Gate Property Holding, LLC**, a Texas limited liability company doing business as Texas Direct Auto, with its principal executive office currently located at 12053 Southwest Freeway, Stafford, Texas 77477 ("Dealership"); and

D. **Vroom, Inc.**, a Delaware corporation, with its principal executive office currently located at 1375 Broadway, 11th Floor, New York, New York 10018 ("Vroom").

II. THE RECITALS

The essential facts relied on by Bank, Ally, Dealership and Vroom as true and complete, and giving rise to this Amendment, are as follows:

A. The Ally Parties, Dealership and Vroom are parties to an Inventory Financing and Security Agreement, effective as of March 6, 2020, as amended by the First Amendment to Inventory Financing and Security Agreement, effective as of June 19, 2020 (as amended, the "IFSA").

B. The parties to this Amendment desire to amend the IFSA as outlined in this Amendment.

III. THE AGREEMENT

In consideration of the premises and the mutual promises in this Amendment, which are acknowledged to be sufficient, Bank, Ally, Dealership and Vroom agree to the following:

A. Capitalized terms used but not defined herein have the meanings given to them in the IFSA.

B. Section III.A.2(c) of the IFSA is deleted and restated in its entirety as follows:

> (c) Notwithstanding the foregoing, upon written notice to the Ally Parties, the Dealership may elect to increase the otherwise applicable Monthly Floorplan Allowance by up to $50,000,000 (i) during any three months of the period from October 1, 2020 through September 30, 2021, and again (ii) during any three months of the period from October 1, 2021 through September 30, 2022.

C. Effective as of October 1, 2020, Section III.B.3 of the IFSA is deleted and restated in its entirety as follows:

3. <u>Principal Reductions</u>. The Dealership must make monthly principal reduction payments in an amount equal to 10% of the original principal amount (i.e., the aggregate advance) (each, a "Principal Reduction") for each Vehicle on Dealership's floorplan for more than 180 calendar days. Principal Reductions will be billed to Dealership monthly and, when paid by Dealership, will reduce the amount of the Wholesale Outstandings.

D. Section III.B.7 of the IFSA is deleted and restated in its entirety as follows:

7. <u>Commitment Fees</u>.

(a) <u>The Original Commitment Fee</u>. On the Effective Date, the Dealership shall pay the Ally Parties a Commitment Fee of [***] ([***]). The Ally Parties acknowledge receipt of this commitment fee.

(b) <u>The Second Amendment Commitment Fee</u>. On or before October 1, 2020, the Dealership shall pay the Ally Parties a Commitment Fee of [***] ([***]).

E. Effective as of October 1, 2020, the following new Section III.B.9 is added to the IFSA:

9. <u>Availability Fee</u>. For each calendar quarter beginning with the fourth quarter of 2020 (i.e., October through December, 2020), if the average outstanding floorplan balance for such quarter is less than 50% of the average Monthly Floorplan Allowance for such quarter, Dealership will pay an "Availability Fee" equal to [***] times the difference between the average outstanding floorplan balance and the average Monthly Floorplan Allowance for such quarter. The Availability Fee will be calculated by the Ally Parties promptly after the end of each quarter and will be due and payable no later than the end of the month immediately following the end of such quarter.

F. The "Maturity Date" is amended from March 5, 2021 to September 30, 2022. This amends Section III.C.2(c) of the IFSA.

G. Section III.D.1 of the IFSA is deleted and restated in its entirety as follows:

1. <u>Grant of Security Interest</u>. Dealership hereby grants to each of Bank and Ally a continuing security interest in and a collateral assignment of ("Security Interest") all of the following described property in which Dealership has or may have any rights, wherever located, whether now existing or hereafter arising or acquired and any and all accessions, additions, attachments, replacements, substitutions, returns, profits, and proceeds in whatever form or type, of any of the property ("Collateral"):

all Vehicles, including but not limited to those for which either of the Ally Parties provides Inventory Financing; other inventory; equipment; fixtures; accounts, including factory open accounts of Dealership; deposit and other accounts with banks and other financial institutions; cash and cash equivalents; general intangibles; all documents; instruments; investment property; and chattel paper.

Notwithstanding the foregoing, provided that neither of the Ally Parties have provided Inventory Financing under this Agreement with respect thereto, the Collateral excludes (i) Vehicles that are included in the Dealership's listed inventory but are owned by third parties, and (ii) car carriers, trucks, trailers, beds, other similar vehicles and related assets used for transportation or delivery of Vehicles or otherwise utilized in Vroom's logistics operations.

H. Section III.G.3 of the IFSA is deleted and restated in its entirety as follows:

3. The Dealership and Vroom will comply with the following financial covenants, tested monthly (as of month-end) based on the Dealership's monthly financial statements:

(a) Minimum Liquidity: The Dealership and Vroom will, on a consolidated basis, maintain unrestricted cash and cash equivalents of not less than 7.5% of the Credit Line amount (i.e., with a Credit Line of $450,000,000, the requirement is equal to $33,750,000).

i. Unrestricted cash and cash equivalents shall include cash maintained in the Dealership's bank account(s), plus outstanding deposits, less outstanding checks, less bank fees, all as of the month-end for which the covenant applies.

ii. Unrestricted cash and cash equivalents shall not include any amounts used to establish the Minimum Required Balance under the Credit Balance Agreement entered into contemporaneously with this Agreement.

(b) Inventory Equity: The Dealership will maintain used vehicle inventory equity of at least 5.0%.

i. Includes all vehicles owned by the Dealership and covered by the Ally Parties' security interest, including the Dealership's wholesale vehicles.

ii. Net of inbound transportation costs, unpaid lien payoffs, sales tax payables, and other third party payables.

iii. Unrestricted cash and cash equivalents in excess of the Minimum Liquidity requirement may be used to satisfy this covenant.

(c) Minimum Net Worth: [Eliminated.]

I. Section III.G.4 of the IFSA is deleted and restated in its entirety as follows:

4. The Dealership and Vroom will comply in all material respects with all of the Dealership's obligations under the Credit Balance Agreement entered into contemporaneously with this Agreement (and any amendments or modifications to such agreement, including the Amended and Restated Credit Balance Agreement effective as of October 1, 2020) (as amended, the "CBA"), including, but not limited to, maintaining a Minimum Required Balance (as defined in the CBA) equal to not less than 10% of the daily floorplan principal balance outstanding, except as otherwise agreed by the Ally Parties.

J. Section III.G.5 of the IFSA and the entire Covenant Addendum to the IFSA are both deleted in their entireties. This change eliminates the Change in Control and Key Man Event Provisions from the IFSA.

K. Except as provided above, the IFSA and all other agreements between each of the Ally Parties and Dealership and Vroom remain in full force and effect as written. In the event of a conflict between the terms of the IFSA and this Amendment, the terms of this Amendment prevail. The parties hereto ratify all terms of the IFSA as amended by the Amendment.

L. If any provision of this Amendment is held to be invalid or unenforceable by a court of competent jurisdiction, all other provisions remain valid and enforceable.

M. This Amendment:

a. May be modified only by a writing signed by all parties.

b. May be signed in counterparts, each of which is deemed an original, and all of which taken together constitute one and the same agreement. The signatures of the parties, exchanged via fax or e-mail, shall constitute and be deemed original signatures for all purposes.

c. Binds and inures to the benefit of the parties and their respective successors and assigns.

d. Constitutes the entire agreement of the parties with respect to its subject matter.

Agreed to as of October 1, 2020.

Ally Bank	**Left Gate Property Holding, LLC**
By: /s/ Stephen B. Gambrel	By: /s/ David K. Jones
Name: Stephen B. Gambrel	Name: David K. Jones
Title: Authorized Representative	Title: Chief Financial Officer
Date: 10/1/2020	Date: 10/1/2020
Ally Financial Inc.	**Vroom, Inc.**
By: /s/ Stephen B. Gambrel	By: /s/ David K. Jones
Name: Stephen B. Gambrel	Name: David K. Jones
Title: Authorized Representative	Title: Chief Financial Officer
Date: 10/1/2020	Date: 10/1/2020

Exhibit 31.1

CERTIFICATION

I, Paul J. Hennessy, certify that:

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

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

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

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

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

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

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

5. The registrant's other certifying officer 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 12, 2020

By: /s/ Paul J. Hennessy
Paul J. Hennessy
Chief Executive Officer
(principal executive officer)

Exhibit 31.2

CERTIFICATION

I, David K. Jones, certify that:

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

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

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

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

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

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

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

5. The registrant's other certifying officer 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 12, 2020

By: /s/ David K. Jones
David K. Jones
Chief Financial Officer(*principal financial officer*)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Vroom, Inc. (the “Company”) for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; 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 12, 2020

By: /s/ Paul J. Hennessy
Paul J. Hennessy
Chief Executive Officer
(*principal executive officer*)

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of Vroom, Inc. (the “Company”) for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; 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 12, 2020

By: /s/ David K. Jones
David K. Jones
Chief Financial Officer(*principal financial officer)*