UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2022

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 001-38818

CarLotz, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**83-2456129**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3301 W. Moore Street **Richmond** **Virginia** **23230**
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(804) 510-0744**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, par value $0.0001 per share	LOTZ	The Nasdaq Global Market
Redeemable warrants, exercisable for Class A common stock at an exercise price of $11.50 per share	LOTZW	The Nasdaq Global Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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	x
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	x

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 x

The registrant had outstanding 114,707,700 shares of common stock as of August 8, 2022.

CarLotz, Inc.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

CarLotz, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)
(In thousands, except share and per share data)

	June 30, 2022	December 31, 2021
Assets		
Current Assets:		
Cash and cash equivalents	$ 70,022	$ 75,029
Restricted cash	4,021	4,336
Marketable securities – at fair value	54,105	116,589
Accounts receivable, net	10,012	8,206
Inventories	31,893	40,985
Other current assets	7,684	4,705
Operating and finance lease assets, property, and equipment held for sale	28,526	—
Total Current Assets	**206,263**	**249,850**
Marketable securities – at fair value	848	1,941
Property and equipment, net	7,044	22,628
Capitalized website and internal-use software costs, net	12,918	13,716
Operating lease assets	22,235	—
Finance lease assets, net	2,803	—
Lease vehicles, net	2,598	1,596
Other assets	538	558
Total Assets	**$ 255,247**	**$ 290,289**
Liabilities and Stockholders’ Equity (Deficit)		
Current Liabilities:		
Current portion of finance lease liabilities	$ 90	$ 509
Floor plan notes payable	15,689	27,815
Accounts payable	3,926	6,352
Accrued expenses	14,114	14,428
Current portion of operating lease liabilities	4,445	—
Other current liabilities	580	754
Operating and finance lease liabilities associated with assets held for sale	30,122	—
Total Current Liabilities	**68,966**	**49,858**
Finance lease liabilities, less current portion	4,216	12,206
Operating lease liabilities, less current portion	22,336	—
Earnout shares liability	1,063	7,679
Merger warrants liability	1,478	6,291
Other liabilities	579	744
Total Liabilities	**98,638**	**76,778**
Commitments and Contingencies (Note 15)	—	—
Stockholders’ Equity (Deficit):		
Common stock, $0.0001 par value; 500,000,000 authorized shares, 114,479,662 and 113,996,401 shares issued and outstanding at June 30, 2022 and December 31, 2021	11	11
Additional paid-in capital	290,398	287,509
Accumulated deficit	(133,657)	(73,916)
Accumulated other comprehensive loss	(143)	(93)
Total Stockholders’ Equity (Deficit)	**156,609**	**213,511**
Total Liabilities and Stockholders’ Equity (Deficit)	**$ 255,247**	**$ 290,289**

See notes to condensed consolidated financial statements.

CarLotz, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations
(Unaudited)
(In thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Revenues:				
Retail vehicle sales	$ 59,211	$ 44,230	$ 109,799	$ 94,613
Wholesale vehicle sales	13,949	4,660	22,524	9,228
Finance and insurance, net	3,196	1,780	6,900	3,334
Lease income, net	137	98	283	205
Total Revenues	**76,493**	**50,768**	**139,506**	**107,380**
Cost of sales (exclusive of depreciation)	75,011	46,586	135,947	101,190
Gross Profit	**1,482**	**4,182**	**3,559**	**6,190**
Operating Expenses:				
Selling, general and administrative	27,009	19,386	54,684	38,259
Stock-based compensation expense	1,141	3,704	2,825	45,667
Depreciation and amortization expense	2,359	95	4,147	478
Management fee expense – related party	—	—	—	2
Impairment expense	724	—	724	—
Restructuring expenses	10,731	—	10,731	—
Total Operating Expenses	**41,964**	**23,185**	**73,111**	**84,406**
Loss from Operations	**(40,482)**	**(19,003)**	**(69,552)**	**(78,216)**
Interest expense	594	184	1,210	359
Other Income, net				
Change in fair value of Merger warrants liability	3,213	325	4,813	12,683
Change in fair value of earnout shares	2,587	12,210	6,616	44,056
Other income (expense)	371	(553)	(408)	(391)
Total Other Income, net	**6,171**	**11,982**	**11,021**	**56,348**
Loss Before Income Tax Expense	**(34,905)**	**(7,205)**	**(59,741)**	**(22,227)**
Income tax expense	—	—	—	—
Net Loss	**$ (34,905)**	**$ (7,205)**	**$ (59,741)**	**$ (22,227)**
Net Loss per Share, basic and diluted	**$ (0.31)**	**$ (0.06)**	**$ (0.52)**	**$ (0.21)**
Weighted-average Shares used in Computing Net Loss per Share, basic and diluted	**114,237,681**	**113,670,060**	**114,146,645**	**107,279,227**

See notes to condensed consolidated financial statements.

CarLotz, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive (Loss)
(Unaudited)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Net loss	$ (34,905)	$ (7,205)	$ (59,741)	$ (22,227)
Other Comprehensive (Loss), net of tax:				
Unrealized gains (losses) on marketable securities arising during the period	29	61	(44)	(70)
Tax effect	—	—	—	—
Unrealized gains (losses) on marketable securities arising during the period, net of tax	29	61	(44)	(70)
Reclassification adjustment for realized gains	(6)	(5)	(6)	(5)
Tax effect	—	—	—	—
Reclassification adjustment for realized gains, net of tax	(6)	(5)	(6)	(5)
Other Comprehensive Income (Loss), net of tax	**23**	**56**	**(50)**	**(75)**
Total Comprehensive (Loss)	**$ (34,882)**	**$ (7,149)**	**$ (59,791)**	**$ (22,302)**

See notes to condensed consolidated financial statements.

CarLotz, Inc. and Subsidiaries

Condensed Consolidated Statements of Stockholders' Equity (Deficit)

Six Months Ended June 30, 2022 and 2021
(Unaudited)
(In thousands, except share data)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balance December 31, 2021	—	$ —	113,996,401	$ 11	$ 287,509	$ (73,916)	$ (93)	$ 213,511
Net loss	—	—	—	—	—	(24,836)	—	(24,836)
Other comprehensive income, net of tax	—	—	—	—	—	—	(73)	(73)
Cashless exercise of options	—	—	44,424	—	—	—	—	—
Stock-based compensation	—	—	—	—	1,684	—	—	1,684
Issuance of common stock to settle vested restricted stock units	—	—	70,971	—	(2)	—	—	(2)
Balance March 31, 2022	—	$ —	114,111,796	$ 11	$ 289,191	$ (98,752)	$ (166)	$ 190,284
Net loss	—	$ —	—	$ —	$ —	$ (34,905)	$ —	$ (34,905)
Other comprehensive income, net of tax	—	$ —	—	$ —	$ —	$ —	$ 23	$ 23
Exercise of options	—	$ —	104,818	$ —	$ 66	$ —	$ —	$ 66
Stock-based compensation	—	$ —	—	$ —	$ 1,141	$ —	$ —	$ 1,141
Issuance of common stock to settle vested restricted stock units	—	$ —	263,048	$ —	$ —	$ —	$ —	$ —
Balance June 30, 2022	—	$ —	114,479,662	$ 11	$ 290,398	$ (133,657)	$ (143)	$ 156,609

See notes to condensed consolidated financial statements.

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balance December 31, 2020	2,034,751	$ 17,560	37,881,435	$ 4	$ 3,221	$ (34,037)	$ 15	$ (30,797)
Retroactive application of recapitalization	(2,034,751)	(17,560)	20,739,607	2	17,558	—	—	17,560
Adjusted balance, beginning of period	—	—	58,621,042	6	20,779	(34,037)	15	(13,237)
Net loss	—	—	—	—	—	(15,022)	—	(15,022)
Other comprehensive income, net of tax	—	—	—	—	—	—	(131)	(131)
Accrued dividends on redeemable convertible preferred stock	—	—	—	—	(19)	—	—	(19)
PIPE issuance	—	—	12,500,000	1	124,999	—	—	125,000
Merger financing	—	—	38,194,390	4	309,995	—	—	309,999
Consideration to existing shareholders of Former CarLotz, net of accrued dividends	—	—	—	—	(62,693)	—	—	(62,693)
Transaction costs and advisory fees	—	—	—	—	(47,579)	—	—	(47,579)
Settlement of redeemable convertible preferred stock tranche obligation	—	—	—	—	2,832	—	—	2,832
Cashless exercise of options	—	—	54,717	—	—	—	—	—
Cash consideration paid to Former Carlotz optionholders	—	—	—	—	(2,465)	—	—	(2,465)
Stock-based compensation	—	—	—	—	41,963	—	—	41,963
Earnout liability	—	—	—	—	(74,284)	—	—	(74,284)
Merger warrants liability	—	—	—	—	(39,025)	—	—	(39,025)
KAR/AFC note payable conversion	—	—	3,546,984	—	3,625	—	—	3,625
KAR/AFC warrant exercise	—	—	752,927	—	144	—	—	144
Balance March 31, 2021	—	$ —	113,670,060	$ 11	$ 278,272	$ (49,059)	$ (116)	$ 229,108
Net loss	—	—	—	—	—	(7,205)	—	(7,205)
Other comprehensive income, net of tax	—	—	—	—	—	—	56	56
Stock-based compensation	—	—	—	—	3,704	—	—	3,704
Balance June 30, 2021	—	$ —	113,670,060	$ 11	$ 281,976	$ (56,264)	$ (60)	$ 225,663

See notes to condensed consolidated financial statements.

CarLotz, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2022	**2021**
Cash Flow from Operating Activities		
Net loss	$ (59,741)	$ (22,227)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization – property, equipment, ROU assets and capitalized software	6,725	448
Impairment expense	724	—
Restructuring expenses	10,731	—
Amortization and accretion - marketable securities	752	788
Depreciation – lease vehicles	217	30
Provision for doubtful accounts	777	—
Stock-based compensation expense	2,825	45,667
Change in fair value of Merger warrants liability	(4,813)	(12,683)
Change in fair value of earnout shares	(6,616)	(44,056)
Change in Operating Assets and Liabilities:		
Accounts receivable	(2,583)	(1,279)
Inventories	9,092	(36,117)
Other current assets	(2,979)	(5,466)
Other assets	20	(4,091)
Accounts payable	(2,426)	2,499
Accrued expenses	(161)	6,187
Accrued expenses – related party	—	(229)
Other current liabilities	(174)	447
Other liabilities	(166)	(582)
Net Cash Used in Operating Activities	(47,796)	(70,664)
Cash Flows from Investing Activities		
Purchase of property and equipment	(5,106)	(3,548)
Capitalized website and internal-use software costs	(1,734)	(6,601)
Purchase of marketable securities	(52,072)	(307,560)
Proceeds from sales of marketable securities	114,915	128,954
Purchase of lease vehicles	(1,220)	(344)
Net Cash Provided by (Used in) Investing Activities	54,783	(189,099)
Cash Flows from Financing Activities		
Payments made on finance leases	(246)	(18)
Advance from holder of marketable securities	—	4,722
PIPE issuance	—	125,000
Merger financing	—	309,999
Payment made on accrued dividends	—	(4,853)
Payments to existing shareholders of Former CarLotz	—	(62,693)
Transaction costs and advisory fees	—	(47,579)
Payments made on cash considerations associated with stock options	—	(2,465)
Repayment of Paycheck Protection Program loan	—	(1,749)
Payments made on note payable	—	(3,000)

See notes to condensed consolidated financial statements.

Payments on floor plan notes payable	(82,394)	(29,056)
Borrowings on floor plan notes payable	70,268	52,444
Employee stock option exercise	66	—
Payments made for tax on equity award transactions	(3)	—
Net Cash (Used in) Provided by Financing Activities	(12,309)	340,752
Net Change in Cash and Cash Equivalents Including Restricted Cash	(5,322)	80,989
Cash and cash equivalents and restricted cash, beginning	79,365	2,813
Cash and cash equivalents and restricted cash, ending	$ 74,043	$ 83,802
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 1,163	$ 490
Supplementary Schedule of Non-cash Investing and Financing Activities:		
Transfer from lease vehicles to inventory	$ —	$ 150
KAR/AFC exercise of stock warrants	—	(144)
KAR/AFC conversion of notes payable	—	(3,625)
Convertible redeemable preferred stock tranche obligation expiration	—	(2,832)
Capitalized website and internal use software costs accrued	—	(3,488)
Purchases of property under capital lease obligation	(247)	(6,504)

See notes to condensed consolidated financial statements.

Note 1 Description of Business

Defined Terms

Unless otherwise indicated or unless the context otherwise requires, the following terms used herein shall have the following meanings:

- references to "CarLotz," "we," "us," "our" and the "Company" are to CarLotz, Inc. and its consolidated subsidiaries;
- references to "Acamar Partners" refer to the Company for periods prior to the consummation of the Merger referred to below;
- references to "Acamar Sponsor" are to Acamar Partners Sponsor I LLC; and
- references to the "Merger" are to the merger pursuant to that certain Agreement and Plan of Merger, dated as of October 21, 2020 (as amended by Amendment No. 1, dated December 16, 2020, the "Merger Agreement"), by and among CarLotz, Inc. (f/k/a Acamar Partners Acquisition Corp.) (the "Company"), Acamar Partners Sub, Inc., a wholly owned subsidiary of CarLotz, Inc. ("Merger Sub"), and CarLotz Group, Inc. (f/k/a CarLotz, Inc.) ("Former CarLotz"), pursuant to which Merger Sub merged with and into Former CarLotz, with Former CarLotz surviving as the surviving company and as a wholly owned subsidiary of the Company.

The Company is a used vehicle consignment and Retail Remarketing™ company based in Richmond, Virginia. The Company operates an innovative and one-of-a-kind consumer and commercial used vehicle consignment and sales business model, with an online marketplace and 11 retail hub locations throughout the United States, including in Alabama, California, Colorado, Florida, Illinois, North Carolina, and Virginia.

Subsidiaries are consolidated when the parent is deemed to have control over the subsidiaries' operations.

Subsidiary Operations

CarLotz, Inc. owns 100% of CarLotz Group, Inc. (a Delaware corporation), which owns 100% of CarLotz, Inc. (an Illinois corporation), CarLotz Nevada, LLC (a Delaware LLC), CarLotz California, LLC (a California LLC), CarLotz Logistics, LLC (a Delaware LLC), Orange Grove Fleet Solutions, LLC (a Virginia LLC), Orange Peel Protection Reinsurance Co. Ltd. (a Turks and Caicos Islands, British West Indies company) and Orange Peel LLC (a Virginia LLC), which owns 100% of Orange Peel Reinsurance, Ltd. (a Turks and Caicos Islands, British West Indies company).

Basis of Presentation

On January 21, 2021 (the "Closing Date"), the Company consummated the merger pursuant to that certain Agreement and Plan of Merger, dated as of October 21, 2020, by and among the Company, Merger Sub and Former CarLotz, as amended by Amendment No. 1 to the Agreement and Plan of Merger, dated December 16, 2020, by and among the Company, Merger Sub and Former CarLotz (See Note 3 "Merger" for further discussion).

Pursuant to the terms of the Merger Agreement, a business combination between the Company and Former CarLotz was effected through the merger of Merger Sub with and into Former CarLotz with Former CarLotz continuing as the surviving company. Notwithstanding the legal form of the Merger pursuant to the Merger Agreement, the Merger is accounted for as a reverse recapitalization in accordance with U.S. generally accepted accounting principles (U.S. GAAP). Under this method of accounting, CarLotz is treated as the acquired company and Former CarLotz is treated as the acquiror for financial statement reporting and accounting purposes.

As a result of Former CarLotz being the accounting acquirer, the financial reports filed with the U.S. Securities and Exchange Commission ("SEC") by the Company subsequent to the Merger are prepared "as if" Former CarLotz is the predecessor and legal successor to the Company. The historical operations of Former CarLotz are deemed to be those of the Company. Thus, the financial statements included in this report reflect (i) the historical operating results of Former CarLotz prior to the Merger, (ii) the combined results of the Company and Former CarLotz following the Merger on January 21, 2021, (iii) the assets and liabilities of Former CarLotz at their historical cost and (iv) the Company's equity structure for all periods presented. The recapitalization of the number of shares of common stock attributable to the purchase of Former CarLotz in connection with the Merger is reflected retroactively to the earliest period presented and will be utilized for calculating earnings per share in all prior periods presented. No step-up basis of intangible assets or goodwill was recorded in the Merger transaction consistent with the treatment of the transaction as a reverse recapitalization of Former CarLotz.

In connection with the Merger, Acamar Partners Acquisition Corp. changed its name to CarLotz, Inc. The Company's common stock is now listed on The Nasdaq Global Market under the symbol "LOTZ" and warrants to purchase the common stock at an exercise price of $11.50 per share are listed on The Nasdaq Global Market under the symbol "LOTZW". Prior to the Merger, the Company neither engaged in any operations nor generated any revenue. Until the Merger, based on the Company's business activities, it was a "shell company" as defined under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

The accompanying interim condensed consolidated financial statements have been prepared in accordance with U.S. GAAP and applicable rules and regulations of the SEC regarding interim financial reporting. Certain information and note disclosures normally included in annual financial statements 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 audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, except for those related to recent accounting pronouncements adopted in the current fiscal year.

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 June 30, 2022 and its results of operations for the three and six months ended June 30, 2022 and 2021. The results for the three and six months ended June 30, 2022 are not necessarily indicative of the results expected for the current fiscal year or any other future periods.

Restructuring

On June 21, 2022, we announced the closure of retail operations at 11 hub locations and determined not to commence retail operations at 3 unopened hub locations with executed lease agreements. The costs associated with the hub closures are classified as restructuring expenses. See Note 21 — Restructuring Charges, Asset Impairment, and Assets Held For Sale for further detail.

Note 2 — Summary of Significant Accounting Policies

For a detailed discussion about the Company's significant accounting policies and for further information on accounting updates adopted in the prior year, see Note 2 to the audited consolidated financial statements.

During the six months ended June 30, 2022, there were no significant revisions to the Company's significant accounting policies, other than those indicated herein related to the adoption of *Leases* Topic 842.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities.

Following the closing of the Merger, Former CarLotz equity holders at the effective time of the Merger will have the contingent right to receive, in the aggregate, up to 7,500,000 shares of common stock if, from the closing of the Merger until the fifth anniversary thereof, the reported closing trading price of the common stock exceeds certain thresholds. Estimating the change in fair value of the earnout liability for the earnout shares that could be earned by Former CarLotz equity holders at the effective time of the Merger requires determining both the fair value valuation model to use and inputs to the valuation model.

The fair value of the earnout shares was estimated by utilizing a Monte-Carlo simulation model, which is a commonly used valuation model for this type of transaction. Inputs that have a significant effect on the earnout shares valuation include the expected volatility, starting stock price, expected term, risk-free interest rate and the earnout hurdles. See Note 6 — Fair Value of Financial Instruments.

Warrants that were issued by Acamar Partners (Merger warrants) and continue to exist following the closing of the Merger are accounted for as freestanding financial instruments. These warrants are classified as liabilities on the Company's condensed consolidated balance sheets and are recorded at their estimated fair value. The estimated fair value of the warrants is determined by using the market value in an active trading market. See Note 6 — Fair Value of Financial Instruments.

Beginning in the first quarter of 2020, the World Health Organization declared the outbreak and spread of the COVID-19 virus a pandemic. The outbreak is disrupting supply chains and impacting production and sales across a wide range of industries. The full economic impact of this pandemic has not been determined, including the impact on the Company's suppliers, customers and credit markets. 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.

Restricted Cash

As of June 30, 2022 and December 31, 2021, restricted cash included approximately $4,021 and $4,336, respectively. The restricted cash is legally and contractually restricted as collateral for lines of credit, including floorplan, and for the payment of claims on the reinsurance companies.

Advertising Costs

The Company expenses advertising costs as they are incurred. Advertising costs are included in selling, general and administrative expenses on the accompanying condensed consolidated statements of operations. Advertising expenses were approximately $5,546 and $6,432 for the six months ended June 30, 2022 and 2021, respectively.

Concentration of Credit Risk

Concentrations of credit risk with respect to accounts receivables are limited due to the large diversity and number of customers comprising the Company's retail customer base.

Assets and Liabilities Held For Sale

As a result of the announced hub closures on June 21, 2022, the ROU and finance lease assets and liabilities associated with hub locations where the Company has or intends to assign the lease to a third-party (as opposed to subleasing to a third-party) are classified as held for sale. The fixed assets associated with all closed hub locations, to the extent they are not impaired, are also classified as held for sale.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The standard affected all entities that lease assets and requires lessees to recognize a lease liability and a right-of-use asset for all leases (except for short-term leases that have a duration of less than one year) as of the date on which the lessor makes the underlying asset available to the lessee. For lessors, accounting for leases is substantially the same as in prior periods. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases,* to clarify how to apply certain aspects of the new leases standard. ASU 2016-02, as subsequently amended for various technical issues, was effective for emerging growth companies following private company adoption dates in fiscal years beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022, and early adoption was permitted.

We adopted ASC 842 for the year beginning January 1, 2022 using the modified retrospective transition approach applied at the beginning of the period of adoption, which did not result in a cumulative-effect adjustment to retained earnings. Comparative periods presented in the financial statements continue to be presented in accordance with ASC 840. As permitted under the standard, we have elected the package of practical expedients for the transition to ASC 842, under which we did not reassess our prior conclusions regarding lease identification, lease classification, or initial direct costs for contracts existing as of the transition date. We have also elected to apply the following practical expedients for contracts existing as of the transition date and all new contracts after our adoption of ASC 842: 1) recognizing lease expense on a straight-line basis over the lease term for leases with a term of 12 months or less and not recognizing them on the balance sheet and 2) accounting for lease and non-lease components for all asset classes as a combined single unit of account. We have not elected the practical expedient related to all land easements nor the hindsight practical expedient.

The adoption of ASC 842 resulted in the recognition of $50.5 million of operating lease assets, which included an adjustment for deferred rent, and $52.6 million of operating lease liabilities on our opening consolidated balance sheet. We have implemented new business processes, accounting policies, systems and internal controls as part of adopting the new standard. See Note 14 for additional information on leases.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments — Credit Losses: Measurement of Credit Losses on Financial Instruments*, which changes the impairment model for most financial assets. The new model uses a forward-looking expected loss method, which will generally result in earlier recognition of allowances for losses. ASU 2016-13, as subsequently amended for various technical issues, is effective for emerging growth companies following private company adoption dates for fiscal years beginning after December 15, 2022 and for interim periods within those fiscal years. The Company is currently evaluating the impact of this standard to its financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for emerging growth companies following private company adoption dates in fiscal years beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022, with early adoption permitted, including adoption in an interim period. The Company is currently evaluating the impact of this standard on its financial statements.

Note 3 — Merger

On the Closing Date, the Company consummated the merger pursuant to that certain Agreement and Plan of Merger, dated as of October 21, 2020, by and among the Company, Merger Sub and Former CarLotz, as amended by Amendment No. 1, dated December 16, 2020, by and among the Company, Merger Sub and Former CarLotz.

Pursuant to the terms of the Merger Agreement, a business combination between the Company and Former CarLotz was effected through the merger of Merger Sub with and into Former CarLotz with Former CarLotz surviving as the surviving company.

The Merger was accounted for as a reverse recapitalization in accordance with U.S. GAAP. Under this method of accounting, Acamar Partners was treated as the “acquired” company for financial reporting purposes (See Note 1 —

(In thousands, except share data)

Description of the Business). Accordingly, for accounting purposes, the Merger was treated as the equivalent of Former CarLotz issuing stock for the net assets of Acamar Partners, accompanied by a recapitalization.

Prior to the Merger, Former CarLotz and Acamar Partners filed separate standalone federal, state and local income tax returns. As a result of the Merger, structured as a reverse acquisition for tax purposes, Acamar Partners was renamed CarLotz, Inc. and became the parent of the consolidated filing group, with Former CarLotz as a subsidiary.

		Recapitalization
Cash - Acamar Partners' trust and cash	$	309,999
Cash - PIPE		125,000
Less: consideration delivered to existing shareholders of Former CarLotz		(62,693)
Less: consideration to pay accrued dividends		(4,853)
Less: transaction costs and advisory fees paid		(47,579)
Less: payments on cash considerations associated with stock options		(2,465)
Net contributions from Merger and PIPE financing		317,409
Liabilities relieved: preferred stock obligation		2,832
Liabilities relieved: KAR/AFC note payable		3,625
Liabilities relieved: historic warrant liability		144
Less: earnout shares liability		(74,285)
Less: Merger warrants liability		(39,024)

Merger warrants

The following is an analysis of the warrants to purchase shares of the Company's stock deemed acquired as part of the Merger and outstanding during the six months ended June 30, 2022. There has been no change in outstanding stock warrants since the Merger.

	June 30, 2022
Stock warrants outstanding - Public	10,185,774
Stock warrants outstanding - Private	6,074,310
Stock warrants cancelled	—
Stock warrants exercised	—
Stock warrants outstanding	16,260,084

(In thousands, except share data)

Earnout Shares

Former CarLotz equity holders at the closing of the Merger are entitled to receive up to an additional 6,945,732 earnout shares. The earnout shares will be issued to the beneficiaries if certain targets are met in the post-acquisition period. The earnouts for the earnout shares are subject to an earnout period, which is defined as the date 60 months following the consummation of the Merger. The Merger closed on January 21, 2021, and the earnout period expires January 21, 2026. The earnout shares will be issued if any of the following conditions are achieved following January 21, 2021:

- ***i.*** If at any time during the 60 months following the Closing Date (the first business day following the end of such period, the "Forfeiture Date"), the closing trading price of the common stock is greater than $12.50 over any 20 trading days within any 30 trading day period (the "First Threshold"), the Company will issue 50% of the earnout shares.
- ***ii.*** If at any time prior to the Forfeiture Date, the closing trading price of the common stock is greater than $15.00 over any 20 trading days within any 30 trading day period (the "Second Threshold"), the Company will issue 50% of the earnout shares.
- ***iii.*** If either the First Threshold or the Second Threshold is not met on or before the Forfeiture Date, any unissued earnout shares are forfeited. All unissued earnout shares will be issued if there is a change of control of the Company that will result in the holders of the common stock receiving a per share price equal to or in excess of $10.00 (as equitably adjusted for stock splits, stock dividends, special cash dividends, reorganizations, combinations, recapitalizations and similar transactions affecting the common stock) prior to the Forfeiture Date.

Before the contingency is met, the earnout shares will be classified as a liability under the FASB's Accounting Standards Codification ("ASC") Topic 815, so changes in the fair value of the earnout shares in future periods will be recognized in the condensed consolidated statement of operations. The estimated fair value of the liability is determined by using a Monte-Carlo simulation model.

Note 4 — Revenue Recognition

Disaggregation of Revenue

The significant majority of the Company's revenue is derived from contracts with customers related to the sales of vehicles. In the following tables, revenue is disaggregated by major lines of goods and services and timing of transfer of goods and services. The Company has determined that these categories depict how the nature, amount, timing and uncertainty of its revenue and cash flows are affected by economic factors.

The tables below include disaggregated revenue under ASC 606 (*Revenue from Contracts with Customers*):

	Three Months Ended June 30, 2022			Six Months Ended June 30, 2022		
	Vehicle Sales	Fleet Management	Total	Vehicle Sales	Fleet Management	Total
Retail vehicle sales	$ 59,211	$ —	$ 59,211	$ 109,799	$ —	$ 109,799
Wholesale vehicle sales	13,949	—	13,949	22,524	—	22,524
Finance and insurance, net	$ 3,196	$ —	$ 3,196	6,900	—	6,900
Lease income, net	—	137	137	—	283	283
Total Revenues	**$ 76,356**	**$ 137**	**$ 76,493**	**$ 139,223**	**$ 283**	**$ 139,506**

(In thousands, except share data)

	Three Months Ended June 30, 2021			Six Months Ended June 30, 2021		
	Vehicle Sales	Fleet Management	Total	Vehicle Sales	Fleet Management	Total
Retail vehicle sales	$ 44,230	$ —	$ 44,230	$ 94,613	$ —	$ 94,613
Wholesale vehicle sales	4,660	—	4,660	9,228	—	9,228
Finance and insurance, net	$ 1,780	$ —	$ 1,780	3,334	—	3,334
Lease income, net	—	98	98	—	205	205
Total Revenues	**$ 50,670**	**$ 98**	**$ 50,768**	**$ 107,175**	**$ 205**	**$ 107,380**

The following table summarizes revenues and cost of sales for retail and wholesale vehicle sales for the periods ended:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Retail vehicles:				
Retail vehicle sales	$ 59,211	$ 44,230	$ 109,799	$ 94,613
Retail vehicle cost of sales	59,502	41,641	111,917	90,558
Gross Profit – Retail Vehicles	**$ (291)**	**$ 2,589**	**$ (2,118)**	**$ 4,055**
Wholesale vehicles:				
Wholesale vehicle sales	$ 13,949	$ 4,660	$ 22,524	$ 9,228
Wholesale vehicle cost of sales	15,509	4,945	24,030	10,632
Gross Profit – Wholesale Vehicles	**$ (1,560)**	**$ (285)**	**$ (1,506)**	**$ (1,404)**

Retail Vehicle Sales

The Company sells used vehicles to retail customers through its retail hub locations. The transaction price for used vehicles is a fixed amount as set forth in the customer contract, and the revenue recognized by the Company is inclusive of the agreed upon transaction price and any service fees. Customers frequently trade-in their existing vehicle to apply toward the transaction price of a used vehicle. Trade-in vehicles represent noncash consideration, which the Company measures at estimated fair value of the vehicle received on the trade. The Company satisfies its performance obligation and recognizes revenue for used vehicle sales at a point in time when the title to the vehicle passes to the customer, at which point the customer controls the vehicle.

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.

The Company's exchange policy allows customers to initiate an exchange of a vehicle during the first three days or 500 miles after delivery, whichever comes first. An exchange reserve is immaterial based on the Company's historical activity.

Wholesale Vehicle Sales

Vehicles that do not meet the Company's standards for retail vehicle sales, vehicles that did not sell through the retail channel within a reasonable period of time and vehicles that the Company determines offer greater financial benefit through the wholesale channel are sold through various wholesale methods. The Company satisfies its performance obligation and recognizes revenue for wholesale vehicle sales when the vehicle is sold at auction or directly to a wholesaler and title to the vehicle passes to the next owner. Additionally, the Company sold or will sell vehicles that were at the closed hub locations through the wholesale channel that may not have been sold through the wholesale channel if the hubs had remained open.

Finance and Insurance, net

The Company provides customers with options for financing, insurance and extended warranties. Certain warranties are serviced by a company owned by a major stockholder. All other services are provided by third-party vendors, and the Company has agreements with each of these vendors giving the Company the right to offer such services.

(In thousands, except share data)

When a customer selects a service from these third-party vendors, the Company earns a commission based on the actual price paid or financed. 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. Accordingly, the Company recognizes finance and insurance revenue at the point in time when the customer enters into the contract.

Note 5 — Marketable Securities

The following table summarizes amortized cost, gross unrealized gains and losses and fair values of the Company's investments in fixed maturity debt securities as of June 30, 2022 and December 31, 2021:

	June 30, 2022			
	Amortized Cost/ Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasuries	$ —	$ —	$ —	$ —
Corporate bonds	28,317	1	(98)	28,220
Municipal bonds	21,272	5	(26)	21,251
Commercial paper	4,368	—	—	4,368
Foreign governments	658	69	(94)	633
Total Fixed Maturity Debt Securities	**$ 54,615**	**$ 75**	**$ (218)**	**$ 54,472**

	December 31, 2021			
	Amortized Cost/ Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasuries	$ —	$ —	$ —	$ —
Corporate bonds	57,460	—	(72)	57,388
Municipal bonds	28,325	5	(10)	28,320
Commercial paper	19,989	—	—	19,989
Foreign governments	12,291	2	(18)	12,275
Total Fixed Maturity Debt Securities	**$ 118,065**	**$ 7**	**$ (100)**	**$ 117,972**

(In thousands, except share data)

The amortized cost and fair value of the Company's fixed maturity debt securities as of June 30, 2022 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 53,709	$ 53,627
Due after one year through five years	650	624
Due after five years through ten years	256	221
Total	**$ 54,615**	**$ 54,472**

The following tables summarize the Company's gross unrealized losses in fixed maturity securities as of June 30, 2022 and December 31, 2021:

	June 30, 2022					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds	$ 28,057	$ (73)	$ 163	$ (23)	$ 28,220	$ (96)
Municipal bonds	21,119	(17)	132	(9)	21,251	(26)
Commercial paper	4,368	0	—	—	4,368	0
Foreign governments	542	(67)	91	(29)	633	(96)
Total Fixed Maturity Debt Securities	**$ 54,086**	**$ (157)**	**$ 386**	**$ (61)**	**$ 54,472**	**$ (218)**

	December 31, 2021					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds	$ 56,902	$ (69)	$ 376	$ (3)	$ 57,278	$ (72)
Municipal bonds	$ 19,945	$ (7)	$ 340	$ (3)	$ 20,285	$ (10)
Foreign governments	$ 12,152	$ (18)	$ —	$ —	$ 12,152	$ (18)
Total Fixed Maturity Debt Securities	**$ 88,999**	**$ (94)**	**$ 716**	**$ (6)**	**$ 89,715**	**$ (100)**

Unrealized losses shown in the tables above are believed to be temporary. Fair value of investments in fixed maturity debt securities change and are based primarily on market rates. As of June 30, 2022, the Company's fixed maturity portfolio had 13 securities with gross unrealized losses totaling $(61) that had been in loss positions in excess of 12 months and 98 securities with gross unrealized losses totaling $(157) that had been in loss positions less than 12 months. No single issuer had a gross unrealized loss position greater than $(43), or 68.6% of its amortized cost. As of December 31, 2021, the Company's fixed maturity portfolio had 23 securities with gross unrealized losses totaling $(6) that had been in loss positions in excess of 12 months and 106 securities with gross unrealized losses totaling $(94) that had been in loss positions less than 12 months. No single issuer had a gross unrealized loss position greater than $12 (actual), or 0.4% of its amortized cost.

The following tables summarize cost and fair values of the Company's investments in equity securities as of June 30, 2022 and December 31, 2021:

	June 30, 2022	
	Cost	Fair Value
Equity securities	$ 427	$ 481

(In thousands, except share data)

	December 31, 2021	
	Cost	Fair Value
Equity securities	$ 432	$ 558

Proceeds from sales and maturities, gross realized gains, gross realized losses and net realized gains (losses) from sales and maturities of fixed maturity securities for the six months ended June 30, 2022 and 2021 consisted of the following:

	June 30, 2022			
	Proceeds	Gross Realized Gains	Gross Realized Losses	Net Realized Gain
Fixed maturity debt securities	$ 114,912	$ 6	$ —	$ 6
Equity securities	3	—	—	—
Total Marketable Securities	**$ 114,915**	**$ 6**	**$ —**	**$ 6**

	June 30, 2021			
	Proceeds	Gross Realized Gains	Gross Realized Losses	Net Realized Gain
Fixed maturity debt securities	$ 128,954	$ 7	$ (2)	$ 5
Equity securities	—	—	—	—
Total Marketable Securities	**$ 128,954**	**$ 7**	**$ (2)**	**$ 5**

Note 6 — Fair Value of Financial Instruments

Items Measured at Fair Value on a Recurring Basis

As of June 30, 2022 and December 31, 2021, the Company held certain assets and liabilities that were required to be measured at fair value on a recurring basis.

The following tables are summaries of fair value measurements and hierarchy level as of:

	June 30, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$ —	$ —	$ —	$ —
Equity securities	481	—	—	481
Fixed maturity debt securities, including cash equivalents	—	88,119	—	88,119
Total Assets	**$ 481**	**$ 88,119**	**$ —**	**$ 88,600**
Liabilities:				
Merger warrants liability	926	552	—	1,478
Earnout shares liability	—	—	1,063	1,063
Total Liabilities	**$ 926**	**$ 552**	**$ 1,063**	**$ 2,541**

(In thousands, except share data)

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$ —	$ —	$ —	$ —
Equity securities	558	—	—	558
Fixed maturity debt securities	—	135,346	—	135,346
Total Assets	**$ 558**	**$ 135,346**	**$ —**	**$ 135,904**
Liabilities:				
Merger warrants liability	$ 3,941	$ 2,350	$ —	$ 6,291
Earnout shares liability	—	—	7,679	7,679
Total Liabilities	**$ 3,941**	**$ 2,350**	**$ 7,679**	**$ 13,970**

Money market funds consist of highly liquid investments with original maturities of three months or less and classified in restricted cash in the accompanying condensed consolidated balance sheets.

The Company recognizes transfers between the levels as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers between the levels during the six months ended June 30, 2022 and 2021.

The following tables set forth a summary of changes in the estimated fair value of the Company's Level 3 redeemable convertible preferred stock tranche obligation, historic warrants liability and earnout shares for the six months ended June 30, 2022 and 2021:

	January 1, 2022	Issuances	Settlements	Change in fair value	June 30, 2022
Earnout shares	7,679	—	—	(6,616)	1,063
Total	**$ 7,679**	**$ —**	**$ —**	**$ (6,616)**	**$ 1,063**

	January 1, 2021	Issuances	Settlements	Change in fair value	June 30, 2021
Redeemable convertible preferred stock tranche obligation	$ 2,832	$ —	$ (2,832)	$ —	$ —
Historic warrants liability	144		(144)	—	—
Earnout shares	—	74,284	—	(44,056)	30,228
Total	**$ 2,976**	**$ 74,284**	**$ (2,976)**	**$ (44,056)**	**$ 30,228**

The fair value of the earnout shares was estimated by utilizing a Monte-Carlo simulation model. The inputs into the Monte-Carlo pricing model included significant unobservable inputs. The table below summarizes the significant observable inputs used when valuing the earnout shares as of:

	June 30, 2022	June 30, 2021
Expected volatility	120.00 %	85.00 %
Starting stock price	$0.39	$5.46
Expected term (in years)	3.6 years	4.60 years
Risk-free interest rate	3.00 %	0.79 %
Earnout hurdle	$12.50-$15.00	$12.50-$15.00

(In thousands, except share data)

Fair Value of Financial Instruments Not Measured at Fair Value on a Recurring Basis

The carrying amounts of restricted cash, accounts receivable and accounts payable approximate fair value because their respective maturities are less than three months.

Beginning March 10, 2021, the Company entered into a $30,000 floor plan credit facility with Ally Financial. Concurrently, proceeds from the agreement were used to settle outstanding debt obligations on the Company's preexisting floor plan facility with Automotive Finance Corporation ("AFC"). In June 2021, the Company expanded the floor plan credit facility by $10,000 to a total of $40,000. The carrying value of the Ally Financial floor plan notes payable outstanding as of June 30, 2022 approximates fair value due to its variable interest rate determined to approximate current market rates.

Note 7 — Accounts Receivable, Net

The following table summarizes accounts receivable as of:

	June 30, 2022	December 31, 2021
Contracts in transit	$ 8,598	$ 7,540
Trade	958	386
Finance commission	363	284
Other	1,170	296
Total	11,089	8,506
Allowance for doubtful accounts	(1,077)	(300)
Total Accounts Receivable, net	**$ 10,012**	**$ 8,206**

Note 8 — Inventory and Floor Plan Notes Payable

The following table summarizes inventory as of:

	June 30, 2022	December 31, 2021
Used vehicles	$ 31,893	$ 40,739
Parts	—	246
Total	**$ 31,893**	**$ 40,985**

Beginning March 10, 2021, the Company entered into a $30,000 floor plan credit facility, which was expanded to $40,000 in the second quarter of 2021, with Ally Financial to finance the acquisition of used vehicle inventory. Concurrently, proceeds from the agreement were used to settle outstanding debt obligations on the Company's preexisting floor plan facility with AFC. Borrowings under the Ally Financial facility accrue interest at a variable rate based on the most recent prime rate plus 2.50% per annum. The prime rate as of June 30, 2022 was 4.75%.

Floor plan notes payable are generally due upon the sale of the related used vehicle inventory.

(In thousands, except share data)

Note 9 — Property and Equipment, Net

The following table summarizes property and equipment as of:

	June 30, 2022	December 31, 2021
Capital lease assets	—	12,566
Leasehold improvements	4,732	4,628
Furniture, fixtures and equipment	4,458	7,993
Corporate vehicles	90	158
Total property and equipment	9,280	25,345
Less: accumulated depreciation	(2,236)	(2,609)
Less: impairment	—	(108)
Property and Equipment, net	**$ 7,044**	**$ 22,628**

Depreciation expense for property and equipment was approximately $1,312 and $258 for the six months ended June 30, 2022 and 2021, respectively.

As a result of the hub closures on June 21, 2022, we classified $7,497 and $1,228 of gross property and equipment and accumulated depreciation, respectively, associated with property and equipment at the closed hub locations as held-for-sale. See Note 21 — Restructuring Charges, Asset Impairment, and Assets Held For Sale for further information regarding the property and equipment at the closed hub locations.

Note 10 — Other Assets

The following table summarizes other assets as of:

	June 30, 2022	December 31, 2021
Other Current Assets:		
Lease receivable, net	$ 20	$ 29
Deferred acquisition costs	35	46
Prepaid expenses	6,841	3,664
Interest receivable	788	966
Total Other Current Assets	**$ 7,684**	**$ 4,705**
Other Assets:		
Lease receivable, net	$ 16	$ 16
Deferred acquisition costs	26	35
Security deposits	496	507
Total Other Assets	**$ 538**	**$ 558**

(In thousands, except share data)

Note 11 — Long-term Debt

The following table summarizes long-term debt as of:

	June 30, 2022	December 31, 2021
Capital lease obligation	$ —	$ 12,715
Finance lease liabilities	$ 4,306	$ —
	4,306	12,715
Current portion of long-term debt	—	(509)
Current portion of finance lease liabilities	(90)	—
Long-term Debt	**$ 4,216**	**$ 12,206**

Promissory Note

Concurrently with the closing of the Merger on January 21, 2021, the promissory note was extinguished through a cash payment of $3,000.

Convertible Notes Payable

As of December 31, 2020, the Company had a convertible note balance of $3,500. The note accrued interest at 6.00% on a 365-day basis and the outstanding interest payable as of December 31, 2020 was approximately $212. Concurrently with the closing of the Merger on January 21, 2021, the historic warrants and the note were converted to a fixed number of shares pursuant to a conversion agreement with AFC. The convertible notes were extinguished by issuing AFC 347,992 shares of Former CarLotz common stock and the warrants were exercised into 73,869 shares of Former CarLotz common stock. There are no historic warrants outstanding subsequent to the exercise.

Payroll Protection Program Loan

In April 2020, the Company received a Paycheck Protection Program (“PPP”) loan, a new loan program under the Small Business Administration’s 7(a) program providing loans to qualifying businesses, totaling approximately $1,749. As of December 31, 2020, the Company had an outstanding PPP loan balance of $1,749, which was extinguished concurrently with the closing of the Merger.

Note 12 — Accrued Expenses

The following table summarizes accrued expenses as of:

	June 30, 2022	December 31, 2021
License and title fees	$ 887	$ 903
Payroll and bonuses	5,135	2,047
Deferred rent	—	1,636
Technology	1,458	1,127
Inventory	2,709	2,542
Other	3,925	6,173
Total Accrued Expenses	**$ 14,114**	**$ 14,428**

(In thousands, except share data)

Note 13 — Other Liabilities

The following table summarizes other liabilities as of:

	June 30, 2022	December 31, 2021
Other Current Liabilities		
Unearned insurance premiums	$ 580	$ 754
Other Liabilities		
Unearned insurance premiums	451	622
Other long-term liabilities	128	122
Other Liabilities	**$ 579**	**$ 744**

Note 14 — Leases

The Company leases its operating facilities from various third parties under non-cancelable operating and finance leases. The leases require various monthly rental payments ranging from approximately $3 to $70, with various ending dates through September 2036. The initial term for real property leases is typically 5 to 15 years. Most leases include one or more options to renew, with renewal terms that can extend the lease term from 1 to 5 years or more. We include options to renew (or terminate) in our lease term, and as part of our right-of-use ("ROU") assets and lease liabilities, when it is reasonably certain that we will exercise that option. ROU assets and the related lease liabilities are initially measured at the present value of future lease payments over the lease term. The leases are triple net, whereby the Company is liable for taxes, insurance and repairs. These amounts are generally considered to be variable and are not included in the measurement of the ROU asset and lease liability. Most of these leases have escalating rent payments, which are being expensed on a straight-line basis and are included in operating lease amounts on the balance sheet.

The Company also leases vehicles from a third party under noncancelable operating leases and leases these same vehicles to end customers with similar lease terms, with the exception of the interest rate. The leases require various monthly rental payments from the Company ranging from $229 to $2,356 (actual) with various ending dates through March 2027. The initial term for vehicle leases is typically 36 to 72 months. Most leases do not include an option to renew. The lease payments are generally fixed throughout the term and any variable lease payments (non-recurring maintenance, taxes, registration) are not included in the measurement of the ROU asset and lease liability.

As most of our leases do not provide an implicit rate, we use our collateralized incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments. We have elected the practical expedient on not separating lease components from non-lease components. All leases with a term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term.

The components of lease expense were as follows:

	Three Months Ended June 30, 2022	Six Months Ended June 30, 2022
Operating lease cost [(1)]	$ 2,302	$ 4,737
Finance lease cost:		
Depreciation of lease assets	263	526
Interest on lease liabilities	287	573
Total finance lease cost	550	1,099
Total lease cost	2,852	5,836

[(1)] *Includes short-term leases and variable lease costs, which are immaterial.*

(In thousands, except share data)

Supplemental balance sheet information related to leases was as follows:

	Classification	As of June 30, 2022
Assets:		
Operating lease assets	Operating lease assets	22,235
	Operating and finance lease assets, property, and equipment held for sale	20,467
Finance lease assets	Finance lease assets	2,803
	Operating and finance lease assets, property, and equipment held for sale	7,622
Total lease assets		53,127
Liabilities:		
Current:		
Operating leases	Current portion of operating lease liabilities	4,445
	Operating and finance lease liabilities associated with assets held for sale	21,731
Finance leases	Current portion of finance lease liabilities	90
	Operating and finance lease liabilities associated with assets held for sale	8,391
Long-term:		
Operating leases, less current portion		22,336
Finance leases, less current portion		4,216
Total lease liabilities		61,209

(1) Finance lease assets are recorded net of accumulated depreciation of $971 as of June 30, 2022.
(2) Operating lease assets are recorded net of impairment of $600 due to a change in the physical condition of a right-of-use asset in the three months ended June 30, 2022.

Lease term and discount rate information related to leases was as follows:

Lease Term and Discount Rate	As of June 30, 2022
Weighted Average Remaining Lease Term (in years)	
Operating leases	7.85 years
Finance leases	11.57 years
Weighted Average Discount Rate	
Operating leases	5.88 %
Finance leases	9.97 %

Supplemental cash flow information related to leases was as follows:

	Six Months Ended June 30, 2022
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	4,710
Operating cash flows from finance leases	526
Financing cash flows from finance leases	246
Lease assets obtained in exchange for lease obligation	
Operating leases	49,183
Finance leases	247

(In thousands, except share data)

Maturities of lease liabilities were as follows:

	As of June 30, 2022	
	Operating Leases [1]	**Finance Leases [1]**
Fiscal 2022, remaining	4,611	852
Fiscal 2023	8,964	1,726
Fiscal 2024	8,189	1,751
Fiscal 2025	7,445	1,777
Fiscal 2026	6,399	1,823
Thereafter	25,697	14,327
Total lease payments	61,305	22,256
Less: interest	(12,793)	(9,559)
Present value of lease liabilities	48,512	12,697

[1] *There are no legally binding minimum lease payments for leases signed but not yet commenced excluded from the table.*

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021 and under the previous lease accounting standard, the following is a table of facility lease commitments due for the next five years, and thereafter, as of December 31, 2021:

	Total Per Year	**Total Capital Leases**
2022	$ 6,788	$ 1,643
2023	6,931	1,669
2024	6,657	1,695
2025	6,832	1,721
2026	5,884	1,766
Thereafter	23,715	14,322
Total	**$ 56,807**	**$ 22,816**
Less: amount representing interest		(10,101)
Present value of minimum lease payments		**12,715**
Less: current obligation		(509)
Long-term obligations under capital lease		**$ 12,206**

The following is a schedule of the approximate future minimum lease payments due to third parties and the related expected future receipts related to these lease vehicles as of December 31, 2021:

	Payments Due to Third-Parties	**Future Receipts**
2022	$ 1,435	$ 1,721
2023	1,017	1,205
2024	605	716
2025	180	216
2026	55	69
Total	3,292	3,927

Note 15 — Commitments and Contingencies

The Company's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the Company expect such compliance to have, any material effect upon the capital expenditures, net income, financial condition or competitive position of the Company. Management believes that its current practices and procedures for the control and disposition of such materials comply with the applicable federal and state requirements.

Legal Matters

Federal Securities Litigation

On July 8, 2021, purported CarLotz stockholder Daniel Erdman, individually and on behalf of others similarly situated, filed a putative class action complaint in the United States District Court for the Southern District of New York, alleging that CarLotz and certain of its executive officers made various false and misleading statements or omissions about the Company's business, operations, financial performance and prospects in violation of Sections 10(b) and 20(a) of the Exchange Act and SEC Rule 10b-5, promulgated thereunder. See Daniel Erdman v. CarLotz, Inc., et al., 21-cv-5906 (S.D.N.Y.) The action is stated to be brought on behalf of purchasers of the securities of Acamar Partners Acquisition Corp. and CarLotz during the period from December 30, 2020 to May 25, 2021. The action seeks to recover unspecified compensatory damages allegedly caused by the defendants' purported violations of the federal securities laws, plus interest and costs and expenses.

On July 20, 2021, purported CarLotz stockholder Michael Widuck, individually and on behalf of others similarly situated, filed a putative class action complaint in the United States District Court for the Southern District of New York, alleging that CarLotz and certain of its executive officers made various false and misleading statements or omissions about the Company's business, operations, financial performance and prospects in violation of Sections 10(b) and 20(a) of the Exchange Act and SEC Rule 10b-5, promulgated thereunder. See Michael Widuck v. CarLotz, Inc., et al., 21-cv-6191 (S.D.N.Y.). The action is stated to be brought on behalf of purchasers of the securities of Acamar Partners Acquisition Corp. and CarLotz during the period from December 30, 2020 to May 25, 2021. The action seeks to recover unspecified compensatory damages allegedly caused by the defendants' purported violations of the federal securities laws, plus interest and costs and expenses.

On August 5, 2021, purported CarLotz stockholder Michael Turk, individually and on behalf of others similarly situated, filed a putative class action complaint in the United States District Court for the Southern District of New York, alleging that CarLotz and certain of its executive officers made various false and misleading statements or omissions about the Company's business, operations, financial performance and prospects in violation of Sections 10(b) and 20(a) of the Exchange Act and SEC Rule 10b-5, promulgated thereunder. See Michael Turk v. CarLotz, Inc., et al., 21-cv-6627 (S.D.N.Y.) The action is stated to be brought on behalf of purchasers of the securities of Acamar Partners Acquisition Corp. and CarLotz during the period from December 30, 2020 to May 25, 2021. The action seeks to recover unspecified compensatory damages allegedly caused by the defendants' purported violations of the federal securities laws, plus interest and costs and expenses.

The above three cases were consolidated by the Court on August 31, 2021 under In re CarLotz, Inc. Sec. Litig., 21-cv-05906 (S.D.N.Y.). On October 15, 2021, the Court appointed David Berger lead plaintiff and Kahn Swick & Foti, LLC lead counsel for the putative class. On December 14, 2021, Lead Plaintiff Berger and Additional Plaintiff Craig Bailey filed an Amended Complaint against CarLotz, various directors and officers of CarLotz, Acamar, various directors of Acamar, Acamar Partners Sponsor I LLC, and Acamar Partners Sub, Inc., purporting to assert claims on behalf of purchasers of Acamar and CarLotz securities during the period from October 22, 2020 through May 25, 2021. The Amended Complaint alleges that the defendants made various false and misleading statements or omissions about CarLotz' business, operations, financial performance and prospects in violation of Sections 10(b), 14(a) and 20(a) of the Exchange Act; and Sections 11, 12(a)(2) and 15 of the Securities Act. The Amended Complaint sought a declaration that it is a proper class action pursuant to Fed. R. Civ. P. 23, as well as unspecified compensatory damages allegedly caused by the defendants' purported violations of the federal securities laws, plus interest and costs and expenses, and any further relief that the Court may deem proper.

On February 17, 2022, Plaintiffs filed a Letter Motion for Leave to File Second Amended Complaint, citing the need "to resolve certain factual and legal issues bearing on the viability of certain of plaintiffs' claims and named defendants." On February 18, 2022, the Court granted Plaintiffs' letter motion for leave to file a Second Amended Complaint and ordered that the Second Amended Complaint be filed by March 4, 2022.

On March 4, 2022, Lead Plaintiff Berger and Additional Plaintiff Bailey filed a Second Amended Complaint against CarLotz, various directors and officers of CarLotz, Acamar, various directors of Acamar, and Acamar Partners Sponsor I LLC, purporting to assert claims on behalf of purchasers of Acamar and CarLotz securities during the period from October 22, 2020 through May 25, 2021. The Second Amended Complaint alleges that the defendants made various false and misleading statements or omissions about CarLotz' business, operations, financial performance and prospects in violation of Sections 10(b) and 20(a) of the Exchange Act; and Sections 11, 12(a)(2) and 15 of the Securities Act. The Second Amended Complaint seeks a declaration that it is a proper class action pursuant to Fed. R. Civ. P. 23, as well as unspecified compensatory damages allegedly caused by the defendants' purported violations of the federal securities laws, plus interest and costs and expenses, and any further relief that the Court may deem proper. On June 21, 2022, Defendants moved to dismiss the Second Amended Complaint. Briefing on the motion to dismiss is ongoing.

Delaware Stockholder Derivative Litigation

On September 21, 2021, purported CarLotz stockholder W. Kenmore Cardoza, trustee of the W. Kenmore & Joyce M. Cardoza Revocable Trust, filed a derivative suit purportedly on behalf of CarLotz in the United States District Court for the District of Delaware against certain officers and directors of CarLotz. See Cardoza v. Mitchell, et al., 21-cv-1332 (D. Del.). The complaint, which principally concerns the same alleged misstatements or omissions at issue in In re CarLotz, Inc. Sec. Litig., asserts derivative claims for alleged violations of Sections 10(b) and 21D of the Exchange Act, breach of fiduciary duty and waste. The action seeks to recover unspecified compensatory damages on behalf of the Company, an award of costs and expenses, and other relief. On April 1, 2022, Plaintiff filed an amended complaint asserting derivative claims for alleged violations of Sections 10(b), 14(a), and 21D of the Exchange Act, breach of fiduciary duty, waste, and unjust enrichment.

On March 31, 2022, purported CarLotz stockholder Mohammad Osman filed a derivative suit purportedly on behalf of CarLotz in the United States District Court for the District of Delaware against certain officers and directors of CarLotz. See Osman v. Bor, et al., 22-cv-0431 (D. Del.). The complaint, which principally concerns the same alleged misstatements or omissions at issue in In re CarLotz, Inc. Sec. Litig., asserts derivative claims for alleged violations of Sections 10(b), 20(a), and 21D of the Exchange Act, breach of fiduciary duty and unjust enrichment. The action seeks to recover unspecified compensatory damages on behalf of the Company, an award of costs and expenses, and other relief.

On June 16, 2022, the Court issued an order consolidating the Cardoza and Osman actions under the caption In re CarLotz, Inc. S'holder Deriv. Litig., 21-cv-1332, and appointing co-lead counsel. On July 13, 2022, the Court so-ordered the parties' stipulation, staying the consolidated action pending the resolution of Defendants' motion to dismiss the Second Amended Complaint in In re CarLotz, Inc. Sec. Litig.

New York Stockholder Derivative Litigation

On October 20, 2021, purported CarLotz stockholder Julian Cha filed a derivative suit purportedly on behalf of CarLotz in the United States District Court for the Southern District of New York against certain officers and directors of CarLotz. See Julian Cha v. David R. Mitchell, et al., 21-cv-8623 (S.D.N.Y.). The complaint, which principally concerns the same alleged misstatements or omissions at issue in In re CarLotz, Inc. Sec. Litig., asserts derivative claims for alleged violations of Sections 10(b), 14(a), and 21D of the Exchange Act, breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste. The action seeks to recover unspecified compensatory damages on behalf of the Company, an award of costs and expenses and other relief.

On October 27, 2021, purported CarLotz stockholder Mark Habib filed a derivative suit purportedly on behalf of CarLotz in the United States District Court for the Southern District of New York against certain officers and directors of CarLotz. See Mark Habib v. David R. Mitchell, et al., 21-cv-8786 (S.D.N.Y.). The complaint, which principally concerns the same alleged misstatements or omissions at issue in In re CarLotz, Inc. Sec. Litig., asserts derivative claims for alleged violations of Sections 10(b), 14(a), and 21D of the Exchange Act and breach of fiduciary duty. The action seeks to recover unspecified compensatory damages on behalf of the Company, an award of costs and expenses and other relief.

On November 15, 2021, the Court issued an order¸ inter alia, consolidating Cha and Habib under In re CarLotz, Inc. Deriv. Litig., 21-cv-8623 and appointing co-lead counsel. On February 15, 2022, the Court so-ordered the parties' stipulation, staying the consolidated action pending the resolution of Defendants' motion to dismiss the Second Amended Complaint in In re CarLotz, Inc. Sec. Litig.

In addition to the matters above, the Company is involved in certain legal matters that it considers incidental to its business. In management's opinion, none of these legal matters will have a material effect on the Company's financial position or results of operations.

Note 16 — Redeemable Convertible Preferred Stock

Unpaid cumulative distributions were approximately $4,800 as of December 31, 2020, and the Series A Preferred Stock had a liquidation preference of $37,114 as of December 31, 2020. Upon liquidation of Former CarLotz, proceeds in excess of the Series A Preferred Stock would have been shared pro rata among all stockholders based on the number of shares. The unpaid cumulative distributions are included as Accrued expenses — related party on the accompanying condensed consolidated balance sheets. As a result of the Merger, the Company settled Former CarLotz' redeemable convertible preferred stock and redeemable convertible preferred stock tranche obligation with carrying values of $17,560 and $2,832, respectively, as of December 31, 2020.

Note 17 — Stock-Based Compensation Plan

Stock Option Plans

The Company has four stock incentive plans, the "2011 Stock Option Plan," the "2017 Stock Option Plan," the "2020 Incentive Award Plan," and the "Inducement Plan" to promote the long-term growth and profitability of the Company. The plans do this by providing senior management and other employees with incentive to improve shareholder value and contribute to the growth and financial success of the Company by granting equity instruments to these stakeholders.

Share-based compensation expense was recorded for the six months ended June 30, 2022 and 2021 of approximately $2,825 and $45,667, respectively.

The Company estimates the fair value of stock options using the Black-Scholes pricing model. The Black-Scholes pricing model requires the use of subjective inputs such as stock price volatility. Changes in the inputs can materially affect the fair value estimates and ultimately the amount of stock-based compensation expense that is recognized.

(In thousands, except share data)

2011 Stock Option Plan

A summary of activity for the six months ended June 30, 2022 and 2021 for the 2011 Stock Option Plan is as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance (December 31, 2021)	1,260,328	$0.56
Granted	—	—
Exercised	(155,782)	0.53
Forfeited	(281,574)	0.64
Balance (June 30, 2022)	822,972	0.54
Vested (as of June 30, 2022)	822,972	$0.54

	Number of Stock Options	Weighted Average Exercise Price
Balance (December 31, 2020)	1,571,205	$0.59
Granted	—	—
Exercised	(56,059)	0.24
Forfeited	—	—
Balance (June 30, 2021)	1,515,146	0.58
Vested (as of June 30, 2021)	1,515,146	$0.58

The following summarizes certain information about stock options vested and expected to vest as of June 30, 2022 related to the 2011 Stock Option Plan:

	Number of Stock Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Outstanding	822,972	0.17 years	$0.54
Exercisable	822,972	0.17 years	$0.54

Aggregate intrinsic value represents the total pre-tax intrinsic value, which is computed based on the difference between the option exercise price and the estimated fair value of the Company's common stock at the time such option exercises. This intrinsic value changes based on changes in the fair value of the Company's underlying common stock. The aggregate intrinsic value for options outstanding and options exercisable as of June 30, 2022 was $0.00.

2017 Stock Option Plan

The terms of the 2017 Stock Option Plan provide for vesting upon certain market and performance conditions, including achieving certain triggering events, including specified levels of return on investment upon a sale of the Company. Because the 2017 Stock Option Plan has a market-based vesting condition, an open-form valuation model was used to value the options. All stock options related to the 2017 Stock Option Plan have an exercise price of $0.92 per share. All stock options related to the 2017 Stock Option Plan expire 10 years after the grant date, which ranges from March 2028 to August 2030.

(In thousands, except share data)

A summary of activity for the six months ended June 30, 2022 and 2021 for the 2017 Stock Option Plan is as follows:

	Number of Units		Weighted Averaged Exercise Price
Balance (December 31, 2021)	3,936,176	$	0.92
Granted	—		—
Exercised	(6,371)	$	0.92
Forfeited	(309,891)		0.92
Balance (June 30, 2022)	3,619,914	$	0.92
Vested (as of June 30, 2022)	3,340,901	$	0.92

	Number of Units		Weighted Averaged Exercise Price
Balance (December 31, 2020)	3,961,658	$	0.92
Granted	—		—
Forfeited	—		—
Balance (June 30, 2021)	3,961,658	$	0.92

The 2017 options vest upon a change of control. Although the Merger did not meet the definition of a change of control, the Company modified the awards in connection with the Merger such that all vesting conditions were waived for 3,538,672 of the options. This modification impacted eight employees and resulted in $38,800 of share-based compensation on the modification date. The remaining options were also modified but will vest over a service period of four years and impacted 16 employees. At the time of modification, these options resulted in $186 of cash consideration and $4,500 of share based compensation that will be recognized over the service period of four years. For the six months ended June 30, 2022, $468 of share-based compensation was recognized.

The following summarizes certain information about stock options vested and expected to vest as of June 30, 2022 related to the 2017 Stock Option Plan:

	Number of Stock Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Outstanding	3,619,914	7.03 years	$0.92
Exercisable	3,340,901	6.94 years	$0.92

The aggregate intrinsic value for options outstanding and options exercisable as of June 30, 2022 was $0.00.

(In thousands, except share data)

The inputs used for the 2017 Stock Option Plan were as follows:

Balance (Expected volatility)	80.00 %
Expected dividend yield	— %
Expected term (in years)	3.6 - 4.8 years
Risk-free interest rate	0.32% - 0.45%

2020 Incentive Award Plan

The options associated with the 2020 Incentive Award Plan vest over a service period of three to four years. A summary of activity for the six months ended June 30, 2022 and 2021 for the options associated with the 2020 Incentive Award Plan is as follows:

	Number of Units	Weighted Averaged Exercise Price
Balance (December 31, 2021)	1,469,297	$ 11.12
Granted	1,573,361	$ 1.68
Forfeited	(1,426,349)	$ 7.00
Balance (June 30, 2022)	1,616,309	$ 6.46
Exercisable	321,284	$ 11.34

	Number of Units	Weighted Averaged Exercise Price
Balance (December 31, 2020)	—	$ —
Granted	1,426,514	11.34
Forfeited	—	—
Balance (June 30, 2021)	1,426,514	$ 11.34

The grant date fair value of the options granted in the six months ended June 30, 2022 was $1.17. For the six months ended June 30, 2022, $837 of share based compensation was recognized. As of June 30, 2022, there was approximately $3,869 of total unrecognized compensation cost related to unvested options related to the 2020 Stock Incentive Award Plan.

The following summarizes certain information about stock options vested and expected to vest as of June 30, 2022 related to the 2020 Stock Option Plan:

	Number of Stock Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Outstanding	1,616,309	9.21 years	$6.46
Exercisable	321,284	8.56 years	$11.34

The aggregate intrinsic value for options outstanding and options exercisable as of June 30, 2022 was $0.00.

(In thousands, except share data)

The inputs used for the 2020 Incentive Award Plan options were as follows for the six months ended June 30, 2022:

Balance (Expected volatility)	80%
Expected dividend yield	— %
Expected term (in years)	6 years
Risk-free interest rate	2.20 %

The restricted shares associated with the 2020 Incentive Award Plan vest over a service period. A summary of activity for the six months ended June 30, 2022 for the restricted shares associated with the 2020 Incentive Award Plan is as follows:

	Balance (Number of Units	Weighted Average Grant Date Fair Value
Balance (December 31, 2021)	597,739	$ 5.57
Granted	3,002,883	$ 1.00
Forfeited	(805,124)	$ 3.78
Vested (as of June 30, 2022)	(247,115)	$ 5.69
Balance (June 30, 2022)	2,548,383	$ 1.03

The grant date fair value of the restricted shares granted in the six months ended June 30, 2022 was $1.68. For the six months ended June 30, 2022, $1,878 of share based compensation cost was recognized. As of June 30, 2022, there was approximately $477 of unrecognized compensation cost that vests over a service period of four years, approximately $1,009 of unrecognized compensation cost that vests over a service period of three years, and $669 of unrecognized compensation cost that vests over a service period of one year related to unvested restricted shares related to the 2020 Stock Incentive Award Plan.

Earnout Restricted Stock Units

Former CarLotz option holders as of the effective time of the Merger received 640,421 earnout restricted stock units (Earnout RSUs). The Earnout RSUs vest if certain targets are met in the post-Merger period. The earnouts for the Earnout RSUs are subject to an earnout period, which is defined as the date 60 months following the consummation of the Merger. The Merger closed on January 21, 2021, and the earnout period expires January 21, 2026. Earnout RSUs will vest if any of the following conditions are achieved following January 21, 2021:

i. If at any time during the 60 months following the Closing Date (the first business day following the end of such period, the "Forfeiture Date"), the closing trading price of the common stock is greater than $12.50 over any 20 trading days within any 30 trading day period (the "First Threshold"), 50% of the Earnout RSUs will vest.
ii. If at any time prior to the Forfeiture Date, the closing trading price of the common stock is greater than $15.00 over any 20 trading days within any 30 trading day period (the "Second Threshold"), 50% of the Earnout RSUs will vest.
iii. If either the First Threshold or the Second Threshold is not met on or before the Forfeiture Date, any unvested Earnout RSUs are forfeited. All unvested Earnout RSUs will vest if there is a change of control of the Company that will result in the holders of the common stock receiving a per share price equal to or in excess of $10.00 (as equitably adjusted for stock splits, stock dividends, special cash dividends, reorganizations, combinations, recapitalizations and similar transactions affecting the common stock) prior to the Forfeiture Date.

The estimated fair value of the liability is determined by using a Monte-Carlo simulation model, which incorporates various assumptions, including expected stock price volatility, contractual term, dividend yield and stock price at grant date. The Company estimates the volatility of common stock on the date of grant based on the weighted-average historical stock price volatility of comparable publicly-traded companies.

(In thousands, except share data)

A summary of activity for the six months ended June 30, 2022 and 2021 for the RSUs is as follows:

	Number of Units	Weighted Average grant date fair value
Balance (December 31, 2021)	621,200	$ 10.70
Granted	—	—
Forfeited	(466,309)	10.70
Balance (June 30, 2022)	154,891	$ 10.70

	Number of Units	Weighted Average grant date fair value
Balance (December 31, 2020)	—	$ —
Granted	640,421	10.70
Forfeited	—	—
Balance (June 30, 2021)	640,421	$ 10.70

During the three months ended June 30, 2022, the Company recognized no stock-based compensation cost related to the RSUs. As of June 30, 2022, there was no additional unrecognized compensation cost related to the Earnout RSUs.

Inducement Plan

The options associated with the Inducement Plan vest over a service period of four years. A summary of activity for the six months ended June 30, 2022 for the options associated with the Inducement Plan is as follows:

	Number of Units	Weighted Averaged Exercise Price
Balance (December 31, 2021)	—	$ —
Granted	569,677	$ 0.61
Forfeited	—	$ —
Balance (June 30, 2022)	569,677	$ 0.61
Exercisable	—	$ —

The grant date fair value of the options granted in the three months ended June 30, 2022 was $0.45. For the three months ended June 30, 2022, $8 of share based compensation was recognized. As of June 30, 2022, there was approximately $247 of total unrecognized compensation cost related to unvested options related to the Inducement Plan.

The following summarizes certain information about stock options vested and expected to vest as of June 30, 2022 related to the Inducement Plan:

	Number of Stock Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Outstanding	569,677	9.88 years	$0.61
Exercisable	—	—	$—

The aggregate intrinsic value for options outstanding and options exercisable as of June 30, 2022 was $0.00.

(In thousands, except share data)

The inputs used for the Inducement Incentive Award Plan options were as follows for the three months ended June 30, 2022:

Balance (Expected volatility)	85 %
Expected dividend yield	— %
Expected term (in years)	6.25 years
Risk-free interest rate	2.86 %

The restricted shares associated with the Inducement Plan vest over various service periods. A summary of activity for the six months ended June 30, 2022 for the restricted shares associated with the Inducement Plan is as follows:

	Balance (Number of Units	Weighted Average Grant Date Fair Value
Balance (December 31, 2021)	—	$ —
Granted	5,619,822	$ 0.61
Forfeited	—	$ —
Vested (as of June 30, 2022)	(87,458)	$ 0.61
Balance (June 30, 2022)	5,532,364	$ 0.61

The grant date fair value of the restricted shares granted in the six months ended June 30, 2022 was $0.61. For the three months ended June 30, 2022, $413 of share based compensation cost was recognized. As of June 30, 2022, there was approximately $1,770 of unrecognized compensation cost that vests over a service period of four years, approximately $434 of unrecognized compensation cost that vests over a service period of three years, approximately $604 of unrecognized compensation cost that vests over a service period of two years, and $192 of unrecognized compensation cost that vests over a service period of one year related to unvested restricted shares related to the Inducement Plan.

Newly hired Executives received 5,100,000 performance stock units (Inducement PSUs) in the three months ended June 30, 2022. The Inducement PSUs vest if certain targets are met in their service period. The grant date was May 16, 2022 and the vest start date for the awards aligned with the Executives' start dates. The performance period expires in April 2032. Inducement PSUs will vest, subject to the Executives' continued employment through the applicable vesting date as follows:

i. One-third of the shares will vest on the first day the Company's stock achieves a twenty (20) trading-day volume weighted average price of $4.00 (the threshold price);
ii. One-third of the shares will vest on the first day the Company's stock achieves a twenty (20) trading-day volume weighted average price of $8.00 (the target price);
iii. and one-third of the shares will vest on the first day the Company's stock achieves a twenty (20) trading-day volume weighted average price of $12.00 (the target price);

The estimated fair value of the awards is determined by using a Monte-Carlo simulation model, which incorporates various assumptions, including expected stock price volatility, contractual term, dividend yield and stock price at grant date. The Company estimates the volatility of common stock on the date of grant based on the weighted-average historical stock price volatility of comparable publicly-traded companies.

(In thousands, except share data)

A summary of activity for the six months ended June 30, 2022 for the PSUs is as follows:

	Number of Units	Weighted Average grant date fair value
Balance (December 31, 2021)	—	$ —
Granted	5,100,000	0.55
Forfeited	—	—
Balance (June 30, 2022)	5,100,000	$ 0.55

During the three months ended June 30, 2022, the Company recognized $147 stock-based compensation cost related to the PSUs. As of June 30, 2022, there was $2,667 additional unrecognized compensation cost related to the Inducement PSUs.

The inputs used to value the Inducement PSUs were as follows at May 16, 2022:

Expected volatility	105.00 %
Starting stock price	$ 0.61
Expected term (in years)	10 years
Risk-free interest rate	2.88 %
Earnout hurdle	$4.00-$8.00-$12.00

Note 18 — Income Taxes

During the six months ended June 30, 2022, the Company recorded no income tax benefits for the net operating losses incurred in the period due to its uncertainty of realizing a benefit from those items. All of the Company's operating losses since inception have been generated in the United States.

The Company has evaluated the positive and negative evidence bearing upon its ability to realize the deferred tax assets. Management has considered the Company's history of cumulative net losses incurred since inception through June 30, 2022 and has concluded that it is more likely than not that the Company will not realize the benefits of the deferred tax assets. Management reevaluates the positive and negative evidence at each reporting period. As of June 30, 2022 and December 31, 2021, no facts or circumstances arose that affected the Company's determination as to the full valuation allowance established against the net deferred tax assets. Accordingly, a full valuation allowance has been established against the net deferred tax assets as of June 30, 2022 and December 31, 2021.

Note 19 — Net Loss Per Share Attributable to Common Stockholders

The following table sets forth the computation of basic and diluted net loss per share attributable to common stockholders for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Numerator:				
Net Loss	$ (34,905)	$ (7,205)	$ (59,741)	$ (22,227)
Denominator:				
Weighted average common shares outstanding, basic and diluted	114,237,681	113,670,060	114,146,645	107,279,227
Net Loss per Share Attributable to Common Stockholders, basic and diluted	**$ (0.31)**	**$ (0.06)**	**$ (0.52)**	**$ (0.21)**

(In thousands, except share data)

The following table summarizes the outstanding potentially dilutive securities that were excluded from the computation of diluted net loss per share attributable to common stockholders because the impact of including them would have been antidilutive for the three and six months ended June 30, 2022 and 2021:

	2022	2021
Public warrants	10,185,774	10,185,774
Private warrants	6,074,310	6,074,310
Earnout RSUs	154,891	640,421
Earnout shares	6,945,732	6,945,732
Stock options outstanding to purchase shares of common stock	6,628,872	6,903,318
Unvested RSUs	13,180,747	615,180
Total	**43,170,326**	**31,364,735**

Note 20 — Concentrations

The suppliers that accounted for 10% or more of the Company's vehicle purchases are presented as follows:

	Total purchases from vendor to total vehicle purchases for the three months ended June 30,		Total purchases from vendor to total vehicle purchases for the six months ended June 30,	
Vendor	2022	2021	2022	2021
Vendor A	18%	32%	19%	48%

Vendor A is a corporate vehicle sourcing partner. Typically, we purchase the vehicles from our corporate vehicle sourcing partners at the time of sale to a retail customer.

For the periods ended June 30, 2022 and 2021, no retail or wholesale customers accounted for more than 10% of the Company's revenue.

Note 21 — Restructuring Charges, Asset Impairment, and Assets Held For Sale

On June 21, 2022, the Company announced the closure of 11 hub locations and made the decision to not commence retail sales operations at 3 other locations with executed leases. The closures were part of a review of the business, with cash preservation and future profitable growth as key determining factors. Retail sales operations were ceased, with all hub closing activities completed by July 8, 2022. The Company has or intends to assign or sub-lease the lease contracts associated with the 11 closed and three unopened hub locations and has classified the assets and liabilities associated with the hub locations that we believe are assignable as of June 30, 2022 as held for sale. The assets and liabilities associated with certain hub locations that we believe we are likely to sublease as of June 30, 2022 are not classified as held for sale. In addition, the Company evaluated the recoverability of amounts associated with lease assets and long lived assets at the held for sale locations. The fair values of the lease assets and property and equipment were determined based on estimated future discounted cash flows for such assets using market participant assumptions, including data on the ability to sub-lease the properties. The charge for inventory reserves represents inventory that will be disposed of through the wholesale channel following the hub closures and is the difference between the estimated wholesale value and inventory cost. In conjunction with the hub closures, the Company recorded the following charges in the three months ended June 30, 2022:

(In thousands, except share data)

	Three months ended June 30, 2022	Six months ended June 30, 2022
Inventory reserves associated with restructuring	$ 1,010	$ 1,010
Operating lease asset impairment	2,548	2,548
Finance lease asset impairment	1,371	1,371
Property and equipment impairment	5,832	5,832
Loss on sale of assets related to closed hubs	—	—
Labor and other costs incurred closing hubs	465	465
Severance	515	515
Contract termination costs	—	—
Total	11,741	11,741

The $1,010 charge for inventory reserves was recorded in cost of sales in the Company's consolidated statement of operations. The other $10,731 charges were recorded in Restructuring expenses in the Company's consolidated statement of operations. The total costs recorded in the three and six months ended June 30, 2022 represent the total amount that can be reasonably estimated to be incurred in connection with the restructuring. We cannot conclude how long it will take to sublease or assign each lease, so we cannot reasonably estimate other future costs associated with the restructuring.

The carrying amount and major classes of assets and liabilities classified as held for sale are:

	As of June 30, 2022
Operating lease assets	$ 20,467
Finance lease assets	$ 7,622
Property and equipment	$ 437
Total	$ 28,526
Operating lease liabilities	$ 21,731
Finance lease liabilities	$ 8,391
Total	$ 30,122

Note 22 — Subsequent Events

In preparing these condensed consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through August 9, 2022, the date the financial statements were available to be issued.

On August 9, 2022, the Company entered into the Agreement and Plan of Merger (the "Merger Agreement") with Shift Technologies, Inc., a Delaware corporation ("Shift"), and Shift Remarketing Operations, Inc., a Delaware corporation and direct wholly owned subsidiary of Shift ("Merger Sub"), pursuant to which, among other things and subject to the terms and conditions contained therein, Merger Sub will be merged with and into CarLotz, with CarLotz continuing as the surviving corporation and as a direct wholly owned subsidiary of Shift (the "Transaction"). The Transaction is expected to close in the fourth quarter of 2022, subject to Shift and Company shareholder approval and other customary and regulatory approvals.

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

Introduction

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of our consolidated results of operations and financial condition. The discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto contained herein and the consolidated financial statements and notes thereto for the year ended December 31, 2021 contained in our Annual Report on Form 10-K filed with the SEC on March 15, 2022. Unless the context otherwise requires, references to "we", "us", "our" and the "Company" are intended to mean the business and operations of CarLotz, Inc. and its consolidated subsidiaries.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 regarding, among other things, the plans, strategies and prospects, both business and financial, of the Company, and the consummation of the proposed Transaction (defined below). These statements are based on the beliefs and assumptions of our management team. Although we believe our plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that we will achieve or realize these plans, intentions or expectations. Forward-looking statements are inherently subject to risks, uncertainties and assumptions. Generally, statements that are not historical facts, including statements concerning possible or assumed future actions, business strategies, events or results of operations, are forward-looking statements. These statements may be preceded by, followed by or include the words "believes," "estimates," "expects," "projects," "forecasts," "may," "will," "should," "seeks," "plans," "scheduled," "anticipates," "intends" or similar expressions. Such statements, including statements regarding our ability to: manage our business through and following the COVID-19 pandemic and the related semi-conductor chip and labor shortages; including to achieve the anticipated benefits from the announced closure of 11 of our hub locations; achieve revenue growth and profitability in the future; innovate and expand our technological capabilities; effectively optimize our reconditioning operations; grow existing vehicle sourcing accounts and key vehicle channels; add new corporate vehicle sourcing accounts and increase consumer sourcing; have sufficient and suitable inventory for resale; increase our service offerings and price optimization; effectively promote our brand and increase brand awareness; expand our product offerings and introduce additional products and services; improve future operating and financial results; obtain financing in the future; acquire and protect intellectual property; attract, train and retain key personnel, including sales and customer service personnel; acquire and integrate other companies and technologies; remediate material weaknesses in internal control over financial reporting; comply with laws and regulations applicable to our business; successfully defend litigation; and successfully deploy the proceeds from the merger pursuant to that certain Agreement and Plan of Merger, dated as of October 21, 2020 (as amended by Amendment No. 1, dated December 16, 2020), by and among CarLotz, Inc. (f/k/a Acamar Partners Acquisition Corp.), Acamar Partners Sub, Inc., a wholly owned subsidiary of CarLotz, Inc., and CarLotz Group, Inc. (f/k/a CarLotz, Inc.), pursuant to which Acamar Partners Sub, Inc. merged with and into Former CarLotz, with Former CarLotz surviving as the surviving company and as a wholly owned subsidiary of CarLotz, Inc. (the "Merger"), are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results or other outcomes to differ materially from those expressed or implied by these forward-looking statements.

On August 9, 2022, we announced entry into an Agreement and Plan of Merger (the "Merger Agreement") with Shift Technologies, Inc., a Delaware corporation ("Shift"), and Shift Remarketing Operations, Inc., a Delaware corporation and direct wholly owned subsidiary of Shift ("Merger Sub"), pursuant to which, among other things and subject to the terms and conditions contained therein, Merger Sub will be merged with and into the Company, with the Company continuing as the surviving corporation and as a direct wholly owned subsidiary of Shift (the "Transaction"). Factors related to the Transaction that could cause actual results to differ from those projected or contemplated in any such forward-looking statements include, but are not limited to: (1) the risk that the conditions to the closing of the Transaction are not satisfied, including the risk that required approvals from the stockholders of Shift or the Company for the Transaction are not obtained; (2) litigation relating to the Transaction; (3) uncertainties as to the timing of the consummation of the Transaction and the ability of each party to consummate the Transaction; (4) risks that the proposed Transaction disrupts the current plans and operations of Shift or the Company; (5) the ability of Shift and the Company to retain and hire key personnel; (6) competitive responses to the proposed Transaction; (7) unexpected costs, charges or expenses resulting from the Transaction; (8) potential adverse reactions or changes to business relationships resulting from the announcement or completion of the Transaction; (9) the combined companies' ability to achieve the synergies expected from the Transaction, as well as delays, challenges and expenses associated with integrating the combined companies' existing businesses and (10) legislative, regulatory and economic developments.

Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled "Risk Factors" in this Quarterly Report on Form 10-Q, those discussed in Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021, filed on March 15, 2022, in the section entitled "Risk Factors" in the Quarterly Report on Form 10-Q for the three months ended March 31, 2022, filed on May 9, 2022, and those described from time to time in our future reports filed with the SEC. Many of these risk factors are outside of our control, and as such, they involve risks which are not currently known that could cause actual results to differ materially from those discussed or implied herein. The forward-looking statements in this document are made as of the date on which they are made and we do not undertake to update our forward-looking statements.

Website and Social Media Disclosure

We use our website (https://www.carlotz.com/) and various social media channels as a means of disclosing information about the Company and its products to its customers, investors and the public (e.g., @CarLotz411 on Twitter, CarLotz on YouTube, and CarLotz on LinkedIn). The information on our website (or any webpages referenced in this Quarterly Report on Form 10-Q) or posted on social media channels is not part of this or any other report that the Company files with, or furnishes to, the SEC. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts.

Overview

CarLotz operates a consignment-to-retail used vehicle marketplace that provides our corporate vehicle sourcing partners and retail sellers of used vehicles with the ability to easily access the retail sales channel**.** Our mission is to create the world's greatest vehicle buying and selling experience. We operate a technology-enabled buying, sourcing and selling model that offers an omni-channel experience and diverse selection of vehicles. Our proprietary technology provides our corporate vehicle sourcing partners with real-time performance metrics and data analytics along with custom business intelligence reporting that enables vehicle triage optimization between the wholesale and retail channels.

Our consignment model facilitates the sale of a vehicle by individuals and businesses alike. For our consignment partners we offer a physical location to display the vehicle, detailing, photography, marketing, a degree of separation between the seller and buyer, and the consumer confidence associated with a national dealership. Our asset-light model is designed to allow us to obtain vehicles through consignment, thereby limiting capital risk, as those vehicles consigned to us for sale (as opposed to purchased vehicles) are still owned by our corporate vehicle sourcing partners and retail sellers.

We offer our products and services to (i) corporate vehicle sourcing partners, (ii) retail sellers of used vehicles and (iii) retail customers seeking to buy used vehicles. Our corporate vehicle sourcing partners include fleet leasing companies, vehicle rental companies, banks, finance companies, third-party remarketers, wholesalers, corporations managing their own fleets and OEMs. We offer our corporate vehicle sourcing partners a pioneering, Retail Remarketing™ service that is designed to fully integrate with their existing technology platforms. For individuals who are our retail sellers, our goal is to offer a hassle-free selling experience that allows them to stay fully informed by tracking the sale process through our easy to navigate online portal. Buyers can browse our inventory online through our website or at our locations as well as select from our integrated financing and insurance products with ease.

Founded in 2011, CarLotz currently operates 11 retail hub locations in the U.S., initially launched in the Mid-Atlantic region and since expanded to the Southeast, Midwest and West regions of the United States. Our current facilities are located in Alabama, California, Colorado, Florida, Illinois, North Carolina, and Virginia. Generally, our hubs act as both physical showrooms with retail sales and as consignment centers where we can source, process and recondition newly acquired vehicles. With the aim of improving our operating and financial results, we paused our real estate growth efforts in 2022, except for one hub which we may open in 2023. Additionally, during the three months ended June 30, 2022, we ceased retail operations at 11 hub locations and decided not to commence retail operations at 3 unopened hub locations with executed lease agreements.

Business Update

During the three months ended June 30, 2022, the continuing semi-conductor chip shortage, COVID-related supply chain issues constraining supply of new vehicles and an elevated vehicle wholesale pricing environment relative to historic levels has continued to reduce the incremental value we may deliver to our corporate vehicle sourcing partners via Retail Remarketing™, at times making consignment less attractive to partners than quickly selling vehicles through the wholesale channel. Supply of used vehicles from our corporate vehicle sourcing partners has been severely constrained by the lack of new vehicle supply due to the semi-conductor chip shortage. Due to the continued uncertainty influencing the used vehicle market, we are unable to predict when there will be a return to a more normalized used vehicle market.

We performed a strategic review of the business during the three months ended June 30, 2022, in order to re-prioritize our objectives. As a result, we outlined a phased approach to renew our focus on our primary objectives including cash preservation and future profitable growth. The first phase commenced on June 21, 2022, as we closed retail sales operations at 11 hub locations and announced that three future planned hub locations with executed leases would not open (see Note 21 —

Restructuring Charges, Asset Impairment, and Assets Held For Sale in our interim unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information) in order to focus our resources across a smaller footprint and support future profitability at our remaining hubs. Subsequent phases, which have commenced, include achieving improved discipline related to vehicle sourcing efforts, better vehicle processing, optimization of our pricing strategy, improving conversion rates, and investment in and implementation of technology in order to drive profit and a scalable, differentiated customer value proposition.

During the six months ended June 30, 2022, some of our inventory was less profitable than expected and was held for sale longer than desired. As a result, our retail gross profit was negatively impacted in the three and six months ended June 30, 2022 by lower front-end profits on owned vehicles as well as processing center inefficiencies, and we expect gross profit to be under pressure until we are able to improve the productivity and efficiency at our hubs. At June 30, 2022, non-competitively sourced vehicles (i.e. vehicles sourced other than from auctions) represented approximately 80% of our vehicle inventory, as compared to 20% at June 30, 2021. As part of our goal to increase non-competitively sourced vehicles, our strategy is to increase our consignments from our sourcing partners and consumer acquired vehicles and reduce our reliance on sourcing via wholesale auction. Additionally, at June 30, 2022, we have vehicles in our inventory held for sale longer than desired. We expect that the future sale of this aged inventory, whether through our retail hubs or at wholesale auction, will negatively impact our desired gross profit.

During the three months ended June 30, 2022, although we experienced an increase in retail unit sales and revenue compared to same period in 2021, the increase was below expectations. Hubs opened in 2021, some of which have subsequently been closed, did not ramp to expected results and consequently did not provide the expected contribution to unit sales, revenue, and gross profit. Also, we experienced a weaker retail GPU performance for the three months ended June 30, 2022 compared to the same period in 2021, due to sourcing constraints, reconditioning inefficiency, and pricing actions taken in the quarter to sell aged inventory. We did not experience the uptick in sales that typically occurs late in the first calendar quarter and early in the second calendar quarter of each year in our industry, primarily due to market dynamics related to the continuing semi-conductor chip shortage, inventory constraints and COVID-related supply chain issues as well as a fall in consumer sentiment given rising interest rates, inflation, and the economic impact of the war in Ukraine such as increased fuel prices.

For the three and six months ended June 30, 2022, the corporate vehicle sourcing partner which accounted for 32%, 48%, and 31% of our sold vehicles in the three and six months ended June 30, 2021 and the year ended December 31, 2021, respectively, accounted for 24% of our sold vehicles. We cannot currently predict the ultimate volume and profitability of any sourced vehicles from this partner.

We have decreased our purchasing of vehicles through wholesale auctions as we increased our sourcing of non-competitively sourced vehicles. At June 30, 2022, consigned vehicles represented approximately 36% of our vehicle inventory, increased from 17% at June 30, 2021.

On June 7, 2022, we received a deficiency letter from the Listing Qualifications Department (the “Staff”) of the Nasdaq Stock Market (“Nasdaq”) notifying us that, for the last 30 consecutive business days, the bid price for our common stock had closed below the $1.00 per share minimum bid price requirement for continued inclusion on the Nasdaq Global Market pursuant to Nasdaq Listing Rule 5450(a)(1). Under Nasdaq Listing Rule 5810(c)(3)(A), we have a 180 calendar day grace period, or until December 5, 2022 (the “Compliance Date”), to regain compliance by meeting the continued listing standard. To regain compliance, the closing bid price of our common stock must meet or exceed $1.00 per share for a minimum of ten consecutive business days during this grace period (the “Bid Price Requirement”).

If we do not regain compliance with the Bid Price Requirement by the Compliance Date, we may be eligible for an additional 180 calendar day compliance period. To qualify, we would need to transfer the listing of our common stock to the Nasdaq Capital Market, provided that it meets the continued listing requirement for the market value of publicly held shares and all other initial listing standards, with the exception of the Bid Price Requirement. To effect such a transfer, we would also need to pay an application fee to Nasdaq and provide written notice to the Staff of our intention to cure the deficiency during the additional compliance period by effecting a reverse stock split, if necessary. As part of its review process, the Staff will make a determination of whether it believes we will be able to cure this deficiency. Should the Staff conclude that we will not be able to cure the deficiency, or should we determine not to submit an application for transfer to the Nasdaq Capital Market or notify the Staff of its intention to cure the deficiency, the Staff will provide written notification to us that our common stock will be subject to delisting. At that time, we may appeal the Staff’s delisting determination to a Nasdaq Listing Qualifications Panel. If we are delisted from Nasdaq and we are not able to list our common stock on another exchange, our securities could be quoted on the OTCQB, the OTC Bulletin Board or the pink sheets.

We are monitoring the bid price of our common stock and will consider options available to us to achieve compliance. There can be no assurances that we will be successful in restoring our compliance with the Nasdaq listing requirements.

Revenue Generation

CarLotz generates a significant majority of its revenue from contracts with retail customers related to the sales of vehicles. We sell used vehicles to our retail customers from our hubs located throughout the U.S. Customers also may trade-in their existing vehicle to apply toward the transaction price of a used vehicle, for which we generate revenue on the sale of a used vehicle to the customer trading-in their vehicle and on the traded-in vehicle when it is sold to a new owner. CarLotz also generates revenue from providing retail vehicle buyers with third-party options for financing, insurance, extended warranties, and other vehicle protection products, which CarLotz either marks up or earns commissions on based on our customers' purchases. Since we do not control these products before they are transferred to the consumer, we recognize net commission revenue at the time of sale.

We also sell vehicles to wholesalers or other dealers, primarily at auctions. Generally, the vehicles sold through the wholesale channel are vehicles acquired via trade-in, acquired via consignment that do not meet our quality standards for sale to retail customers, vehicles that remain unsold at the end of the consignment period, retail vehicles that did not sell through the retail channel within a reasonable period of time, or vehicles that the Company determines offer greater financial benefit through the wholesale channel. Additionally, in the three months ended June 30, 2022, the Company sold vehicles at the closed hub locations through the wholesale channel that may not have been sold through the wholesale channel if the hubs had remained open. The liquidation of the vehicles from closed hubs through the wholesale channel will continue in the third quarter of 2022.

Our revenue for the six months ended June 30, 2022 and 2021 was $139.5 million and $107.4 million, respectively.

Inventory Sourcing

We source vehicles from both corporate and consumer sellers, auctions and other wholesale channels. We source vehicles non-competitively (i.e. vehicles sourced other than from auctions) through our consignment to retail sales model, through purchases directly from consumers and through arrangements with corporate vehicle sourcing partners. We also source vehicles competitively through purchase at auction, as necessary, to provide inventory at our newer hub locations, to round out our inventory and during periods of tight supply.

We expect to maintain long-term sourcing relationships with a number of national accounts and to pursue sales from new accounts. We support our corporate vehicle sourcing partners by offering a technology platform designed to allow our supply partners to track the sale process of their vehicles in real-time, along with a custom system for managing customer leads and leads from third party providers. Our proprietary application includes a suite of tailored features designed to create value for sellers with tools for documenting and transmitting vehicle information.

We generally charge our retail sellers and some corporate vehicle sourcing partners a flat fee for our consignment services. In addition to our flat fee model, we also enter into alternative fee arrangements, such as profit sharing programs or programs with fees based on a return above a wholesale index. The profit sharing programs generally include arrangements where we share a percentage of vehicle sale profits and, in some cases, fees with our corporate sourcing partners. The programs with fees based on a return above a wholesale index generally include a payment above the wholesale price. Under these alternative fee arrangements, our gross profit for a particular unit could be higher or lower than the gross profit per unit we would realize under our flat fee pricing model depending on, among other things, the unit's sale price, shipping and reconditioning costs, and fees we are able to charge in connection with the sale. We do not have long-term contracts with any of our corporate vehicle sourcing partners and, under arrangements with them, they are not required to make vehicles available to us. For these and other reasons, our volume and mix of vehicles from our corporate vehicle sourcing partners has fluctuated in the past and will continue to fluctuate over time. In addition, our gross profit per unit has fluctuated in the past and is likely to fluctuate from period to period, perhaps significantly, due to, among other reasons, our mix of competitively sourced and non-competitively sourced inventory, and the sales prices and fees we are able to collect on the vehicles.

We also have dealer owned inventory, which includes inventory purchased at wholesale auctions or purchased from consumers and our corporate partners, that operates in a similar manner to traditional used car dealers and which exposes us directly to the effects of changes in vehicle prices (generally price depreciation) more directly than inventory sourced through consignment.

Our gross profit per unit has fluctuated and will continue to fluctuate from period to period, perhaps significantly, due to, among other things, our mix of competitively sourced and non-competitively sourced inventory, acquisition costs and the sales prices and fees we are able to collect on the vehicles. We expect to source a smaller volume of vehicles to align with our reduced footprint, while we focus on the profitability of each vehicle sourced.

Regional Hub Network

Through our e-commerce website and 11 regional hubs, we aim to provide a shopping experience for today's modern vehicle buyer, allowing our nationwide retail customers to transact online, in-person or a combination of both. We aim to offer a full-spectrum of inventory, including high-value and commercial vehicles, available for delivery anywhere in the U.S. Our regional hubs allow for test drives and on-site purchase. Our current facilities are located in Alabama, California, Colorado, Florida, Illinois, North Carolina, and Virginia.

Finance and Insurance (F&I)

CarLotz also generates revenue from providing retail vehicle buyers with options for financing, insurance and extended warranties; these services are provided by third parties that pay CarLotz a commission based on our customers' purchases. Since we do not control these products before they are transferred to the consumer, we recognize commission revenue at the time of sale.

Factors Affecting our Performance

Impact of COVID-19

Our ability to acquire and sell used vehicles can be negatively impacted by a number of factors that are outside of our control. Due to the impacts of the COVID-19 pandemic and shortages of semi-conductor chips and other automotive supplies starting in 2020, certain automobile manufacturers have slowed production of new vehicles. The reduction in supply of new vehicles has limited the supply of used vehicles available through our corporate sourcing partners and is likely to continue to do so until the market normalizes. To address the reduction from this supply source, we have sourced a higher percentage of our vehicles through wholesale auction channels than we have on average historically. Because we are purchasing these vehicles in a competitive environment and paying auction fees, there is greater risk to the Company that the margin between the cost of the vehicle and the selling price will be compressed, and, in turn, will result in reduced gross profit and retail GPU, which we expect to continue until the used vehicle market normalizes and we are able to improve the productivity and efficiency at our hubs. This risk could be compounded by our inability to turn inventory quickly and the pace at which used vehicles depreciate.

Volatility caused by, among other events, the COVID-19 pandemic, the global semi-conductor chip shortage, and inflationary pressures has resulted in, or may result in, reduced demand for our services, consigned and purchased vehicles and value-added products, reduced spending on vehicles, the inability of customers to obtain credit to finance purchases of vehicles, and decreased consumer confidence to make discretionary purchases. In addition, global inflation has increased during 2021, related to the COVID-19 economic recovery and associated disruptions in global demand, supply, geopolitical events, logistics and labor markets. Fears of recession, stock market volatility, inflationary pressures, inflation and regulations as a result of the COVID-19 pandemic may decrease consumer demand and reduce our revenue.

We cannot provide assurance of the ultimate significance and duration of the COVID-19 pandemic and the variants' disruption to our operations for several reasons, including, but not limited to, uncertainty regarding the duration of the pandemic and related disruptions, the impact of governmental orders and regulations that have been, and may in the future be, imposed, and the impact of the COVID-19 pandemic and the variants on our customers and corporate vehicle sourcing partners.

Like many companies, the COVID-19 pandemic has increased our focus on the health and safety of our guests, employees and their families. To maintain a safe work environment, we have implemented procedures aligned with the Centers for Disease Control and Prevention to limit the spread of the virus and provide a safe environment for our guests and teammates. Some of the measures taken include encouraging our teammates to take advantage of flexible work arrangements, and acquiring additional corporate office space.

Ability to Source a Profitable Mix of Vehicles

In addition to leveraging our retail-remarketing sourcing channel, we believe that we can benefit from the significant volume of vehicles which consumers are selling to dealers and to car buying companies. We intend to increase our efforts on sourcing vehicles from the consumer market. Our ability to successfully source vehicles from consumers is dependent on our marketing, brand, process and pricing. In addition to our consignment model, we partnered with a third-party company to be able to provide instant purchase offers to potential sellers.

Further Penetration of Existing Accounts and Key Vehicle Channels

We believe that we can benefit from volume with existing corporate vehicle sourcing partners. Many of our existing sourcing partners still sell only a small percentage of their volumes through the retail channel. As Retail Remarketing™ continues to develop as a more established alternative and as CarLotz expands to serve buyers and sellers in its markets, we believe we can grow our existing commercial seller accounts, after the supply of new vehicles returns to normal.

Seasonality

Used vehicle sales generally experience seasonality with sales typically peaking late in the first calendar quarter of each year and diminishing through the rest of the year, with the lowest relative level of vehicle sales expected to occur in the fourth calendar quarter. Used vehicle prices also exhibit seasonality, with used vehicle prices declining at a faster rate in the last two quarters of each year and a slower rate in the first two quarters of each year, all other factors being equal. Because of the market dynamics related to the continuing semi-conductor chip shortage and COVID-related supply chain issues constraining supply, we have not seen the typical seasonality related to used vehicle volume and prices.

Operational Efficiency

As we scaled our business, we incurred various costs to identify new hub locations, obtain licensing, build out our hubs and hire and train our employees. The costs we incurred scaling our business are non-recurring, and we further plan to focus on operational efficiency by reducing discretionary spending, optimizing our staffing level, and focusing on the efficiency of our processing centers. Following our strategic review of the business during the three months ended June 30, 2022, we outlined a phased approach to renew our focus on our primary objectives of achieving cash preservation and future profitable growth, which we began to implement in June 2022 (see Note 21 — Restructuring Charges, Asset Impairment, and Assets Held For Sale in our interim unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information).

In addition to achieving cost savings and operational efficiencies, we aim to lower our days to recondition. Going forward, our strategy is to focus on efficiency and reduce our use of the third party reconditioning services which are more costly and are not as timely as our internal reconditioning resources. All of these initiatives are designed to lower reconditioning costs per unit and thereby improve per unit economics.

Technological Capabilities

We are constantly reviewing our technology platform, and our goal is to enhance our online platform for seamless end-to-end transactions and to continually enhance both the car buying and selling experience. Our B2B portal and integration framework are designed to support the assignment, reconditioning, sale and remittance of vehicles from corporate vehicle sourcing partners. We plan to invest in our core suite of technology to enhance the buyer and seller experience, improve our B2B vehicle sourcing, enhance our business intelligence capabilities, and create a peer-to-peer virtual consignment marketplace.

Key Operating Metrics

We regularly review a number of metrics, including the following key metrics, to evaluate our business, measure our progress and make strategic decisions. Our operating metrics (which may be changed or adjusted over time as our business scales up or industry dynamics change) measure the key drivers of our growth, including opening new hubs, increasing our brand awareness through unique site visitors and continuing to offer a full spectrum of used vehicles to service all types of customers.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Retail vehicles sold	2,421	2,009	4,691	4,563
Number of hubs[(1)]	11	15	11	15
Average monthly unique visitors	264,565	177,377	260,794	178,080
Vehicles available for sale	981	1,431	981	1,431
Retail gross profit per unit	$ 1,200	$ 2,175	$ 1,019	$ 1,619
Percentage of unit sales sourced non-competitively[(2)]	78 %	92 %	72 %	96 %
Wholesale vehicles sold	$ 706	$ 394	$ 1,270	$ 837
Wholesale gross profit per unit	$ (2,210)	$ (723)	$ (1,186)	$ (1,677)

(1) The Company closed retail operations at 11 hub locations on June 21, 2022.

(2) Vehicles are sourced non-competitively through our consignment to retail sales model, through purchases directly from consumers and through arrangements with corporate vehicle sourcing partners.

Retail Vehicles Sold

We define retail vehicles sold as the number of vehicles sold to customers in a given period, net of returns. We currently have a three-day, 500 mile exchange policy. The number of retail vehicles sold is the primary contributor to our revenues and gross profit, since retail vehicles enable multiple complementary revenue streams, including all finance and insurance products. We view retail vehicles sold as a key measure of our growth, as growth in this metric is an indicator of our ability to successfully scale our operations while maintaining product integrity and customer satisfaction.

Number of Hubs

We define a hub as a physical location at which we may sell and purchase, recondition and store vehicles within a market.

Average Monthly Unique Visitors

We define a monthly unique visitor as an individual who has visited our website within a calendar month, based on data provided by Google Analytics. We calculate average monthly unique visitors as the sum of monthly unique visitors in a given period, divided by the number of months in that period. We view average monthly unique visitors as a key indicator of the strength of our brand, the effectiveness of our advertising and merchandising campaigns and consumer awareness.

Vehicles Available-for-Sale

We define vehicles available-for-sale as the number of vehicles listed for sale on our website on the last day of a given reporting period. We view vehicles available-for-sale as a key measure in determining whether our inventory levels are appropriate to drive hub productivity.

Retail Gross Profit per Unit

We define retail gross profit per unit as the aggregate retail and F&I gross profit in a given period divided by retail vehicles sold during that period. Total retail gross profit per unit is driven by sales of used vehicles and the profit margin and fees on sale of those vehicles, each of which may generate additional revenue from providing retail vehicle buyers with options for financing, insurance and extended warranties. We believe gross profit per unit is a key measure of our growth and long-term profitability.

Percentage of unit sales non-competitively sourced

We define percentage of unit sales sourced non-competitively as the percentage derived by dividing the number of vehicles sold during the period that were sourced non-competitively (i.e., number of vehicles sourced other than from auctions) divided by the total number of vehicles sold during the period. The percentage of unit sales sourced non-competitively dropped in the three and six months ended June 30, 2022 compared to the same periods in the prior year due to the low supply of vehicles available from our corporate vehicle sourcing accounts as a result of the chip shortage.

Wholesale vehicles sold

We define wholesale vehicles sold as the number of vehicles sold through channels other than to retail customers at our hub locations (at auction or directly to a wholesaler) in a given period, net of returns.

Wholesale vehicles gross profit per unit

We define wholesale vehicles sold as the wholesale gross profit in a given period divided by wholesale vehicles sold during that period.

Components of Results of Operations

Revenues

Retail Vehicle Sales

CarLotz sells used vehicles to retail customers through its hubs in various cities throughout the continental U.S. Revenue from retail vehicle sales is recognized when the title to the vehicle passes to the customer, at which point the customer controls the vehicle. We recognize revenue based on the total purchase price stated in the contract, including any processing fees. Our exchange policy allows customers to initiate the exchange of a vehicle until the earlier of the first three days or 500 miles after delivery.

Wholesale Vehicle Sales

Vehicles that do not meet the Company's standards for retail vehicle sales, retail vehicles that did not sell through the retail channel within a reasonable period of time and vehicles that the Company determines offer greater financial benefit through the wholesale channel are sold through various wholesale methods. Revenue from wholesale vehicle sales is recognized when the vehicle is sold, either at auction or directly to a wholesaler, and title to the vehicle passes to the buyer. Additionally, in the three months ended June 30, 2022, the Company sold vehicles at the closed hub locations through the wholesale channel that may not have been sold through the wholesale channel if the hubs had remained open.

Finance and Insurance, net

We provide customers with options for financing, insurance and extended warranties. Certain warranties sold beginning January 1, 2019 are serviced by a company owned by a major stockholder. All other such services are provided by third-party vendors with whom we have agreements giving us the right to offer such services directly. When a customer selects a service from these third-party vendors, we earn a commission based on the actual price paid or financed. We recognize finance and insurance revenue at the point in time when the customer enters into the contract.

Lease Income, net

Lease income, net represents revenue earned on the spread between the interest rate on leases we enter into with our B2B lease customers and the related leases we enter into with third party lessors, as well as revenue (net of depreciation and other costs to maintain the vehicles) earned on our owned vehicles leased to B2B lease customers.

Cost of Sales

Cost of sales includes the cost to acquire used vehicles and the related reconditioning costs to prepare the vehicles for resale. Vehicle reconditioning costs include parts, labor, inbound transportation costs and other costs such as mechanical inspection, vehicle preparation supplies and repair costs. Cost of sales also includes any necessary adjustments to reflect vehicle inventory at the lower of cost or net realizable value.

Selling, General and Administrative Expenses

Selling, general and administrative expenses primarily include compensation and benefits, marketing, facilities cost, technology expenses, logistics and other administrative expenses. Advertising costs are expensed as incurred.

Depreciation and Amortization

Depreciation on property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, which is: the lesser of 15 years or the underlying lease terms for leasehold improvements, one to five years for equipment, furniture and fixtures, and five years for corporate vehicles. Expenditures for maintenance, repairs and minor renewals are charged to expense as incurred. Major remodels and improvements are capitalized. Depreciation on vehicles leased to B2B customers is calculated using the straight-line method over the estimated useful life and is included as a charge to Lease income, net. Amortization of capitalized website and internal-use software costs is computed using the straight-line method over 3 years. Amortization of operating lease right-of-use assets is rent expense, included in selling, general, and administrative expenses.

Non-Operating Expenses

Non-operating expenses represent the change in fair value of the Merger warrants and the earnout shares. Additional non-operating income and expense include interest income on marketable securities, floor plan interest incurred on borrowings to finance the acquisition of used vehicle inventory under the Company's former $12 million revolving floor plan facility with Automotive Finance Corporation and floor plan interest incurred on borrowings to finance the acquisition of used vehicle inventory under the Company's current $40 million revolving floor plan facility with Ally.

Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	($ in thousands)			
Revenues:				
Retail vehicle sales	$ 59,211	$ 44,230	$ 109,799	$ 94,613
Wholesale vehicle sales	13,949	4,660	22,524	9,228
Finance and insurance, net	3,196	1,780	6,900	3,334
Lease income, net	137	98	283	205
Total Revenues	**76,493**	**50,768**	**139,506**	**107,380**
Cost of sales (exclusive of depreciation)	75,011	46,586	135,947	101,190
Gross Profit	**1,482**	**4,182**	**3,559**	**6,190**
Operating Expenses:				
Selling, general and administrative	27,009	19,386	54,684	38,259
Stock based compensation expense	1,141	3,704	2,825	45,667
Depreciation and amortization expense	2,359	95	4,147	478
Management fee expense – related party	—	—	—	2
Impairment expense	724	—	724	—
Restructuring expenses	10,731	—	10,731	—
Total Operating Expenses	**41,964**	**23,185**	**73,111**	**84,406**
Loss from Operations	**(40,482)**	**(19,003)**	**(69,552)**	**(78,216)**
Interest expense	594	184	1,210	359
Other Income (Expense), net				
Change in fair value of Merger warrants liability	3,213	325	4,813	12,683
Change in fair value of earnout provision	2,587	12,210	6,616	44,056
Other (expense) income	371	(553)	(408)	(391)
Total Other Income, net	**6,171**	**11,982**	**11,021**	**56,348**
Loss Before Income Tax Expense	**(34,905)**	**(7,205)**	**(59,741)**	**(22,227)**
Income tax expense	—	—	—	—
Net Loss	**$ (34,905)**	**$ (7,205)**	**$ (59,741)**	**$ (22,227)**

Presentation of Results of Operations

We present operating results down to gross profit for our three distinct revenue channels along with our net lease income:

Retail Vehicle Sales: Retail vehicle sales represent sales of vehicles to our retail customers through our hubs.

Wholesale Vehicle Sales: Wholesale vehicle sales represent sales of vehicles through wholesale channels, primarily through wholesale auctions.

Finance and Insurance: Finance and insurance represents commissions earned on financing, insurance and extended warranty products that we offer to our retail vehicle buyers.

Lease Income, net: Lease income, net represents revenue earned on the spread between the interest rate on leases we enter into with our B2B lease customers and the related leases we enter into with third party lessors, as well as revenue (net of depreciation and other costs to maintain the vehicles) earned on our owned vehicles leased to B2B lease customers.

Three and Six Months Ended June 30, 2022 and 2021

The following table presents certain information from our condensed consolidated statements of operations by channel:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change	2022	2021	Change
	($ in thousands, except per unit metrics)			($ in thousands, except per unit metrics)		
Revenue:						
Retail vehicle sales	$ 59,211	$ 44,230	33.9 %	$ 109,799	$ 94,613	16.1 %
Wholesale vehicle sales	13,949	4,660	199.3 %	22,524	9,228	144.1 %
Finance and insurance, net	3,196	1,780	79.6 %	6,900	3,334	107.0 %
Lease income, net	137	98	39.8 %	283	205	38.0 %
Total revenues	76,493	50,768	50.7 %	139,506	107,380	29.9 %
Cost of sales:						
Retail vehicle cost of sales	59,502	41,641	42.9 %	111,917	90,558	23.6 %
Wholesale vehicle cost of sales	15,509	4,945	213.6 %	24,030	10,632	126.0 %
Total cost of sales	$ 75,011	$ 46,586	61.0 %	$ 135,947	$ 101,190	34.3 %
Gross profit:						
Retail vehicle gross profit (loss)	$ (291)	$ 2,589	(111.2)%	$ (2,118)	$ 4,055	(152.2)%
Wholesale vehicle gross profit (loss)	(1,560)	(285)	(447.4)%	(1,506)	(1,404)	7.3 %
Finance and insurance gross profit	3,196	1,780	79.6 %	6,900	3,334	107.0 %
Lease income, net	137	98	39.8 %	283	205	38.0 %
Total gross profit	$ 1,482	$ 4,182	(64.6)%	$ 3,559	$ 6,190	(42.5)%
Retail gross profit per unit(1):						
Retail vehicle gross profit (loss)	(291)	2,589	(111.2)%	(2,118)	4,055	(152.2)%
Finance and insurance gross profit	3,196	1,780	79.6 %	6,900	3,334	107.0 %
Total retail vehicle and finance and insurance gross profit	2,905	4,369	(33.5)%	4,782	7,389	(35.3)%
Retail vehicle unit sales	2,421	2,009	20.5 %	4,691	4,563	2.8 %
Retail vehicle gross profit per unit	$ 1,200	$ 2,175	(44.8)%	$ 1,019	$ 1,619	(37.1)%
Wholesale gross profit per unit(2):						
Wholesale vehicle gross profit (loss)	(1,560)	(285)	(447.4)%	(1,506)	(1,404)	7.3 %
Wholesale vehicle unit sales	706	394	79.2 %	1,270	837	51.7 %
Wholesale vehicle gross profit per unit	$ (2,210)	$ (723)	(205.7)%	$ (1,186)	$ (1,677)	29.3 %

(1) Retail gross profit per unit is calculated as gross profit for retail vehicles and finance and insurance, each of which is divided by the total number of retail vehicles sold in the period.

(2) Wholesale gross profit per unit is calculated as gross profit for wholesale vehicles, each of which is divided by the total number of wholesale vehicles sold in the period.

Retail Vehicle Sales

Retail vehicle sales revenue increased by $15.0 million, or 33.9%, to $59.2 million during the three months ended June 30, 2022, from $44.2 million in the comparable period in 2021. The increase was primarily driven by an increase in average sale price per unit of $3,715, to $25,108 in addition to an increase in retail vehicle unit sales to 2,421 retail vehicles in the three months ended June 30, 2022, compared to 2,009 retail vehicles in the comparable period in 2021. The average sale price has increased consistent with macroeconomic trends in the used car industry.

Retail vehicle sales revenue increased by $15.2 million, or 16.1%, to $109.8 million during the six months ended June 30, 2022, from $94.6 million in the comparable period in 2021. The increase was primarily driven by an increase in average sale price per unit of $3,589, to $24,069 in addition to an increase in retail vehicle unit sales to 4,691 retail vehicles in the six months ended June 30, 2022, compared to 4,563 retail vehicles in the comparable period in 2021. The average sale price has increased consistent with macroeconomic trends in the used car industry.

Wholesale Vehicle Revenue

Wholesale vehicle revenue increased by $9.3 million, or 199.3%, to $13.9 million during the three months ended June 30, 2022, from $4.7 million in the comparable period in 2021. The increase was primarily due to a 79.2% increase in wholesale vehicle unit sales from the comparable period in 2021, combined with an increased average selling price of the wholesale vehicles sold.

Wholesale vehicle revenue increased by $13.3 million, or 144.1%, to $22.5 million during the six months ended June 30, 2022, from $9.2 million in the comparable period in 2021. The increase was primarily due to a 51.7% increase in wholesale vehicle unit sales from the comparable period in 2021, combined with an increased average selling price of the wholesale vehicles sold.

Finance and Insurance (F&I)

F&I revenue increased by $1.4 million, or 79.6%, to $3.2 million during the three months ended June 30, 2022, from $1.8 million in the comparable period in 2021. This increase in F&I revenue was driven by an increase in retail unit sales and a higher penetration of contract sales per unit sold and higher profit per contract.

F&I revenue increased by $3.6 million, or 107.0%, to $6.9 million during the six months ended June 30, 2022, from $3.3 million in the comparable period in 2021. This increase in F&I revenue was driven by an increase in retail unit sales and a higher penetration of contract sales per unit sold and higher profit per contract.

Lease Income, net

Lease income, net was $0.1 million during the three months ended June 30, 2022 and 2021.

Lease income, net was $0.3 million during the six months ended June 30, 2022 and $0.2 million in the comparable period in 2021.

Cost of Sales

Cost of sales increased by $28.4 million, or 61.0%, to $75.0 million during the three months ended June 30, 2022, from $46.6 million in the comparable period in 2021. The increase was due to the increase in vehicles sold, an increased average acquisition price of the vehicles we sold in that period, as well as increased shipping and reconditioning costs.

Cost of sales increased by $34.8 million, or 34.3%, to $135.9 million during the six months ended June 30, 2022, from $101.2 million in the comparable period in 2021. The increase was due to the increase in vehicles sold, an increased average acquisition price of the vehicles we sold in that period, as well as increased shipping and reconditioning costs.

Retail Vehicle Gross Profit

Retail vehicle gross profit (loss) decreased by $(2.9) million, or (111.2)%, to $(0.3) million during the three months ended June 30, 2022, from $2.6 million in the comparable period in 2021. The decrease in retail gross profit for the three months ended June 30, 2022 resulted from a decrease in front-end margin per unit compared to the same period in 2021, driven by decreased front-end margins due to a combination of elevated acquisition prices of inventory consistent with the rise in used vehicle prices seen across the industry, as well as increased shipping and reconditioning costs.

Retail vehicle gross profit (loss) decreased by $(6.2) million, or (152.2)%, to $(2.1) million during the six months ended June 30, 2022, from $4.1 million in the comparable period in 2021. The decrease in retail gross profit for the six months ended June 30, 2022 resulted from a decrease in front-end margin per unit compared to the same period in 2021, driven by decreased front-end margins due to a combination of elevated acquisition prices of inventory primarily sourced through auction towards the end of prior year and the lowering of retail prices relative to the acquisition costs as the inventory aged, as well as increased shipping and reconditioning costs.

Wholesale Vehicle Gross Profit

Wholesale vehicle gross profit (loss) decreased by $1.3 million, to $(1.6) million during the three months ended June 30, 2022, from $(0.3) million in the comparable period in 2021. The decrease was primarily due to increased wholesale vehicle cost of sales, as retail-ready vehicles from closed hubs were moved to the wholesale channel by the end of the period, which resulted in a lower of cost or market adjustment of $1.0 million to reflect the value of the vehicles at June 30, 2022.

Wholesale vehicle gross profit (loss) decreased by $(0.1) million, to $(1.5) million during the six months ended June 30, 2022, from $(1.4) million in the comparable period in 2021.

F&I Gross Profit

F&I revenue consists of 100% gross margin products for which there are no costs associated with the products. Therefore, changes in F&I gross profit and the associated drivers are identical to changes in F&I revenue and the associated drivers.

Components of SG&A

	Three Months Ended June 30,		Six Months Ended June 30,		
	2022	2021	2022	2021	Change
	($ in thousands)		($ in thousands)		
Compensation and benefits[(1)]	$ 9,307	$ 5,907	$ 20,105	$ 12,763	58 %
Marketing	2,393	3,906	5,547	6,432	(39)%
Technology	1,400	2,453	2,935	5,378	(43)%
Accounting and legal	1,680	2,017	3,745	4,668	(17)%
Insurance	2,270	1,890	4,507	3,221	20 %
Occupancy	3,046	1,580	6,337	2,611	93 %
Other costs[(2)]	6,913	1,634	11,508	3,186	323 %
Total selling, general and administrative expenses	$ 27,009	$ 19,386	$ 54,684	$ 38,259	39 %

(1) Compensation and benefits includes all payroll and related costs, including benefits, and payroll taxes, except those related to preparing vehicles for sale, which are included in cost of sales, and those related to the development of software products for internal use, which are capitalized to software and depreciated over the estimated useful lives of the related assets.

(2) Other costs include all other selling, general and administrative expenses such as logistics and other administrative expenses.

Selling, general and administrative expenses increased by $7.6 million, to $27.0 million during the three months ended June 30, 2022, from $19.4 million in the comparable period in 2021. Costs related to the expansion of the Company, prior to the hub closures announced on June 21, 2022, since the prior year period increased $6.8 million, primarily due to insurance, occupancy and vehicle listing costs. Compensation and benefits increased $3.4 million due to increased corporate headcount and new hub openings, prior to the hub closures announced on June 21, 2022. Marketing expense decreased $(1.5) million as we have refocused on direct marketing as opposed to brand marketing compared to the same period in the prior year during our national expansion, and technology expense decreased $(1.1) million due to elevated costs in the prior year quarter when the Company began website enhancements.

Selling, general and administrative expenses increased by $16.4 million, to $54.7 million during the six months ended June 30, 2022, from $38.3 million in the comparable period in 2021. Costs related to the expansion of the Company since the prior year period increased $12.4 million, primarily due to insurance, occupancy and vehicle listing costs. Compensation and benefits increased $7.3 million due to increased corporate headcount and new hub openings, prior to the hub closures announced on June 21, 2022. Marketing expense decreased $(0.9) million as we have refocused on direct marketing as opposed to brand marketing compared to the same period in the prior year during our national expansion, and technology expense decreased $(2.4) million due to elevated costs in the prior year quarter when the Company began website enhancements.

Non-GAAP Financial Measures

To supplement the interim unaudited condensed consolidated financial statements, which are prepared and presented in accordance with U.S. generally accepted accounting principles (GAAP), we also present the following non-GAAP measures: EBITDA and Adjusted EBITDA. We believe the presentation of both GAAP and non-GAAP financial measures provides investors with increased transparency into financial measures used by our management team, and it also improves investors' understanding of our underlying operating performance and their ability to analyze our ongoing operating trends. All historic non-GAAP financial measures have been reconciled with the most directly comparable GAAP financial measures.

EBITDA is defined as net loss attributable to common stockholders adjusted to exclude interest expense, income tax expense and depreciation and amortization expense.

Adjusted EBITDA is EBITDA adjusted to exclude certain expenses related to the Company's capital structure and management fee expense prior to the Merger, stock compensation expense and other non-operating income and expenses, including interest, investment gain/loss and nonrecurring income/expense.

Management believes the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA is useful to investors in comparing the Company's performance prior to the Merger and the Company's performance following the Merger.

EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation or as a substitute for analysis of the results as reported under GAAP. These measures may not be comparable to similarly titled measures reported by other companies.

The following tables reconcile EBITDA and Adjusted EBITDA to net loss attributable to common stockholders:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	($ in thousands)			
Net Loss	$ (34,905)	$ (7,205)	$ (59,741)	$ (22,227)
Adjusted to exclude the following:				
Interest expense	594	184	1,210	359
Income tax expense	—	—	—	—
Depreciation and amortization expense	2,359	95	4,147	478
EBITDA	$ (31,952)	$ (6,926)	$ (54,384)	$ (21,390)
Other expense	(371)	553	408	391
Stock compensation expense	1,141	3,704	2,825	45,667
Management fee expense - related party	—	—	—	2
Change in fair value of warrants liability	(3,213)	(325)	(4,813)	(12,683)
Change in fair value of earnout provision	(2,587)	(12,210)	(6,616)	(44,056)
Restructuring expense	11,741	—	11,741	—
Adjusted EBITDA	$ (25,241)	$ (15,204)	$ (50,839)	$ (32,069)

Liquidity and Capital Resources

Sources of liquidity

Our main source of liquidity is cash generated from financing activities, which primarily includes proceeds from the Merger (see Note 3 — *Merger* in our interim unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information). In connection with the Merger, pursuant to subscription agreements dated October 21, 2020 by and between Acamar Partners Acquisition Corp. ("Acamar Partners") and certain strategic and accredited investors (the "PIPE Investors"), with respect to a private placement of shares of Acamar Partners Class A common stock, the Company issued and sold 12.5 million shares of Acamar Partners Class A common stock to the PIPE Investors at a price per share of $10.00 and an aggregate purchase price of $125.0 million.

Since inception, we have generally operated at a loss for most periods. As of June 30, 2022, we had cash and cash equivalents, restricted cash and short-term marketable securities of $128.1 million. We believe our available cash, restricted cash, short-term marketable securities and liquidity available under the Ally Facility are sufficient to fund our operations for at least the next 12 months. In the event amounts are not available under the Ally Facility or otherwise, we expect to continue to operate at a loss until we improve productivity and efficiency at our hubs and are able to leverage our operating costs. We may also seek additional funds as needed through alternative sources of liquidity, including equity or debt financings, additional floorplan financing or other arrangements. However, additional funds may not be available when we need them on terms that are acceptable to us, or at all.

Debt obligations

On March 10, 2021, we entered into an Inventory Financing and Security Agreement (the "Ally Facility") with Ally Bank, a Utah chartered state bank ("Ally Bank"), and Ally Financial, Inc., a Delaware corporation ("Ally" and, together with Ally Bank, the "Lender"), pursuant to which the Lender may provide up to $30 million in financing, or such lesser sum which may be advanced to or on behalf of us from time to time, as part of our floorplan vehicle financing program. In June 2021, the Company expanded the floor plan credit facility by $10 million to a total of $40 million. As of June 30, 2022, we had $15.7 million principal outstanding under the Ally Facility, primarily from increased sourcing through vehicle purchases.

Under the Ally Facility, the Company is subject to financial covenants that require the Company to maintain at least 10% of the credit line in cash and cash equivalents, to maintain at least 10% of the credit line on deposit with Ally Bank and to maintain a minimum tangible net worth of $90 million calculated in accordance with U.S. GAAP.

Advances under the Ally Facility bear interest at a per annum rate designated from time to time by the Lender determined using a 365/360 simple interest method of calculation, unless expressly prohibited by law. The interest rate is currently the prime rate plus 2.50% per annum, or 8.00%. Advances under the Ally Facility, if not demanded earlier, are due and payable for each vehicle financed under the Ally Facility as and when such vehicle is sold, leased, consigned, gifted, exchanged, transferred, or otherwise disposed of. Interest under the Ally Facility is due and payable upon demand, but, in general, in no event later than 60 days from the date of request for payment. Upon any event of default (including, without limitation, our obligation to pay upon demand any outstanding liabilities of the Ally Facility), the Lender may, at its option and without notice to us, exercise its right to demand immediate payment of all liabilities and other indebtedness and amounts owed to the Lender and its affiliates by us and our affiliates. In addition, the Lender may, upon sixty (60) calendar days prior written notice to us, for any or no reason, with or without cause, terminate our ability to request and obtain financing from the Lender. We have recently had discussions with the Lender about the terms of the Ally Facility, and liquidity availability thereunder. If the Lender were to terminate the Ally Facility, no assurance can be given that we would be able to secure a replacement facility, or alternative financing, on terms that are acceptable to us, or at all.

The Ally Facility is secured by a grant of a security interest in certain vehicle inventory and other assets of the Company.

We are not a party to any off-balance sheet arrangements, including guarantee contracts, retained or contingent interests, certain derivative instruments and variable interest entities that either have, or are reasonably likely to have, a current or future material effect on our interim unaudited condensed consolidated financial statements.

Cash Flows — Six Months Ended June 30, 2022 and 2021

The following table summarizes our cash flows for the periods indicated:

	Six Months Ended June 30,	
	2022	2021
	($ in thousands)	
Cash Flow Data:		
Net cash (used in) operating activities	$ (47,796)	$ (70,664)
Net cash provided by (used in) investing activities	54,783	(189,099)
Net cash provided by (used in) financing activities	(12,309)	340,752

Operating Activities

For the six months ended June 30, 2022, net cash used in operating activities was $(47.8) million, primarily driven by net loss of $(59.7) million adjusted for non-cash charges of $11.3 million and net changes in our operating assets and liabilities of $0.6 million. The non-cash adjustments primarily relate to a decrease in fair value of the warrants and earnout shares of $(11.4) million, offset by depreciation and amortization of $6.7 million, stock compensation of $2.8 million, and restructuring charges of $10.7 million. The changes in operating assets and liabilities were primarily driven by a decrease in inventories of $9.0 million, partially offset by an increase in accounts receivable of $(2.6) million, an increase other current assets of $(3.0) million, and a decrease in accounts payable of $(2.4) million.

For the six months ended June 30, 2021, net cash used in operating activities was $(70.7) million, primarily driven by net loss of $(22.2) million adjusted for non-cash charges of $(9.8) million and net changes in our operating assets and liabilities of $(38.6) million. The non-cash adjustments primarily relate to a decrease in fair value of the warrants and earnout shares of $(56.7) million, partially offset by stock compensation of $45.7 million. The changes in operating assets and liabilities are primarily driven by an increase in inventories $(36.3) million, an increase other current assets of $(5.5) million and an increase in other long-term assets of $(4.1) million, partially offset by an increase in accrued expenses of $6.2 million and an increase in accounts payable of $2.5 million.

Investing Activities

For the six months ended June 30, 2022, net cash provided by investing activities was $54.8 million, primarily driven by sales and maturities of marketable securities of $114.9 million and partially offset by the purchase of property and equipment of $(5.1) million and purchases of marketable securities of $(52.1) million.

For the six months ended June 30, 2021, net cash used in investing activities was $(188.9) million, primarily driven by purchases of marketable securities of $(307.6) million, the purchase of property and equipment of $(3.7) million and capitalized software costs of $(6.6) million, partially offset by proceeds from sales and maturities of marketable securities of $129.0 million.

Financing Activities

For the six months ended June 30, 2022, net cash used in financing activities was $(12.3) million, primarily driven by payments on floor plan notes payable of $(82.4) million, partially offset by borrowings on the floor plan facility of $70.3 million.

For the six months ended June 30, 2021, net cash provided by financing activities was $340.8 million, primarily driven by the issuance of common stock to the PIPE investors and Former CarLotz shareholders of $435.0 million, an advance from the holder of marketable securities of $4.7 million, and borrowings on the floor plan facility of $52.4 million, partially offset by the payments made to existing shareholders of Former CarLotz as part of the Merger of $(62.7) million, transaction costs and advisory fees of $(47.6) million, payments on floor plan notes payable of $(29.1) million, payments made on accrued dividends of $(4.9) million, repayment of debt of $(4.7) million and the payment of cash consideration on options of $(2.5) million.

Material Contractual Obligations

The Company had contractual obligations as of June 30, 2022 that are material to an assessment of the Company's short- and long-term cash requirements. As of June 30, 2022, the Company has total outstanding debt of $15.7 million under the floorplan facility, which represents the principal amount outstanding due to the uncertainty of forecasting the timing of expected variable interest rate payments. Borrowings under the floorplan facility are payable when the underlying vehicle is sold, which is expected to be in 2022.

Off-Balance Sheet Arrangements

We are not a party to any off-balance sheet arrangements, including guarantee contracts, retained or contingent interests, certain derivative instruments and variable interest entities that either have, or are reasonably likely to have, a current or future material effect on our interim unaudited consolidated financial statements.

Critical Accounting Policies and Estimates

For information on critical accounting policies, see "Critical Accounting Policy and Estimates" in the Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Form 10-K filed with the SEC on March 15, 2022.

There have been no changes to our critical accounting policies during the three months ended June 30, 2022 other than the new critical accounting policy and estimate below.

Asset Impairment and Assets Held-For-Sale

Asset impairment is subject to uncertainty as the recoverability of asset costs is subjective. The fair value of each asset is estimated at a point in time and compared to the carrying value of the asset. If the fair value is less than the carrying value, the asset impairment expense is recognized in the period in which the asset fair value is estimated to be lower than the carrying value. The hub closures on June 21, 2022 (see Note 21 — Restructuring Charges, Asset Impairment, and Assets Held For Sale in our interim unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information), was a triggering event in the current period and the fair value of associated lease and other fixed assets was estimated and compared to the carrying value. The assumptions used in estimating the fair value of lease and other fixed assets included our most current and best available information based on negotiations with third parties to relieve us of our obligation under the leases of each closed location and include: if we expect to assign the lease or sub-lease a property to a third party, the timeline by which we expect assignments or sub-leases to be finalized, and the recoverability of fixed asset costs based on negotiations with potential third party assignee, sub-lessee, or, in some cases, the vendor that we purchased the fixed assets from.
The assumption, by lease, of potential assignment or sub-lease directly impacts the classification of lease assets held-for-sale as only leases that we expect to be assignable are classified as held-for-sale. The held-for-sale criteria is subject to uncertainty given the fluid nature of negotiations with third parties.

Because of the magnitude of the carrying value of lease and other fixed assets, small changes in assumptions could have a material impact on the financial condition of the Company.

Recently Issued and Adopted Accounting Pronouncements

See the section titled "Recently Issued Accounting Pronouncements" in Note 2 in the "*Notes to Condensed Consolidated Financial Statements*" in our interim unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Cash and cash equivalents include highly liquid investments that are due on demand or have a remaining maturity of three months or less at the date of purchase. As of June 30, 2022, cash and cash equivalents consisted of bank deposits, money market placements and debt securities that have a remaining maturity of three months or less at the date of purchase.

The cash and cash equivalents are held primarily for working capital purposes. These interest-earning instruments are subject to interest rate risk. To date, fluctuations in interest income have not been significant. Our surplus cash has been invested in money market fund accounts, interest-bearing savings accounts and U.S. government debt securities as well as corporate debt securities from time to time. We have not entered into investments for trading or speculative purposes. Due to the conservative nature of our investment portfolio, which is predicated on capital preservation of investments with short-term maturities, we do not believe an immediate one percentage point change in interest rates would have a material effect on the fair market value of our portfolio, and therefore, we do not expect our operating results or cash flows to be significantly affected by changes in market interest rates.

We also have exposure to changing interest rates in connection with the floor plan facility. Interest rate risk is highly sensitive due to many factors, including U.S. monetary and tax policies, U.S. and international economic factors and other factors beyond our control. Advances under the floor plan facility accrue interest at the most recent prime rate published in The Wall Street Journal plus 2.50% per annum and, as of June 30, 2022, the prime rate as published in The Wall Street Journal was 4.75%. We believe a change to our interest rate of 1% applicable to our outstanding indebtedness would have an immaterial financial impact. As of June 30, 2022, we had total outstanding debt of $15.7 million under the floor plan facility.

Credit Risk

Financial instruments that potentially subject us to concentration of credit risk consist of cash and cash equivalents and accounts receivable. Substantially all of our cash and cash equivalents were deposited in accounts at one financial institution, and account balances may at times exceed federally insured limits. Management believes that we are not exposed to significant credit risk due to the financial strength of the depository institution in which the cash is held.

Concentrations of credit risk with respect to trade receivables are limited due to the large diversity and number of customers comprising our retail customer base.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2021. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were not effective as of June 30, 2022 due to the existence of material weaknesses in internal control over financial reporting that were identified in connection with the audits of our consolidated financial statements as of December 31, 2021 and 2020 and for the years in the three year period ended December 31, 2021, and which are still being remediated.

Material Weaknesses in Internal Control Over Financial Reporting

Control Environment

We did not maintain an effective control environment to enable the identification and mitigation of risks of material misstatement, either individually or in the aggregate, based on the criteria established in the COSO Framework relating to the lack of sufficient accounting and financial reporting resources to address internal control over financial reporting.

Specifically, we did not attract, develop and retain accounting and financial resources commensurate with the size and complexity of our organization to support the oversight of processes and procedures in applying internal control over financial reporting to adequately prevent or detect accounting errors.

Control Activities

We did not design and implement effective control activities to enable the identification and mitigation of risks of material misstatement, either individually or in the aggregate, based on the criteria established by the COSO Framework. We have identified deficiencies in the principles associated with the control activities component of the COSO Framework relating to our: (i) inability to appropriately and timely reconcile account balances to detect accounting errors and evaluate balances for completeness and accuracy, and (ii) selecting and developing control activities and information technology that contribute to the mitigation of risks and support achievement of objectives.

The following deficiencies in control activities, among others, contributed to accounting errors or the potential for there to have been accounting errors that are material to the financial statements:

- Lack of sufficient resources within the accounting and financial reporting department to review for the completeness and accuracy of source data supporting account reconciliations.
- Inadequate segregation of duties.
- Inadequate general information technology controls in the areas of access security and program change-management over certain information technology systems that support the Company’s financial reporting processes.

Remediation Efforts to Address Material Weaknesses

Remediation of the identified material weaknesses and strengthening of our internal control environment will require a substantial effort throughout 2022 and beyond as necessary. The material weaknesses cannot be considered completely remediated until the applicable controls have operated for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

While we have taken steps to address the material weaknesses, our current information technology systems have limited automated capabilities which create manual processes that require the time of our accounting and financial reporting resources. We are creating more streamlined and efficient accounting processes to allow the accounting and financial reporting resources to effectively operate the controls that we have designed and implemented.

We are designing and implementing controls to establish and maintain appropriate segregation of duties, formalize accounting policies and controls around user access and change management and evaluating options for a new ERP system.

We will also continue to attract, develop and retain competent management to ensure oversight of our processes and procedures in applying internal control over financial reporting.

The process of designing and implementing an effective financial reporting system is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a financial reporting system that is adequate to satisfy our reporting obligations.

Changes in Internal Control Over Financial Reporting

Except as disclosed above, there were no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

The information with respect to this Part II, Item 1 can be found in Note 15 to our interim unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

In addition to the other information set forth in this report, readers should carefully consider the additional risk factor included below as well as the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021 and in our Quarterly Report on Form 10-Q for the three months ended March 31, 2022, which could materially affect our business, financial condition or future results. The risks described in our most recent Annual Report on Form 10-K and our Quarterly Report on Form 10-Q for the three months ended March 31, 2022 are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results. The impact of COVID-19 may implicate and exacerbate other risks discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, including but not limited to risks relating to general economic conditions. This situation continues to evolve and additional impacts may arise that we are not currently aware of. Due to the unprecedented nature of the COVID-19 pandemic and responses thereto, we cannot identify all of the risks we face from the pandemic and its aftermath.

We closed hub locations in connection with our recent strategic review, which resulted in the acceleration of costs, and the closure of hub locations in the future may result in the acceleration of costs in connection with any such closure.

As part of our strategic review of the business, on June 21, 2022, we announced the closure of 11 hub locations and determined not to commence retail operations at 3 unopened hub locations with executed lease agreements. For the three months ended June 30, 2022, we incurred charges related to the impairment of property and equipment, operating lease assets and finance lease assets, inventory reserves associated with restructuring, severance and labor and other costs incurred closing hubs (see Note 21 — Restructuring Charges, Asset Impairment, and Assets Held For Sale in our interim unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information).

In the future, we may determine to close one or more hub locations. If we determine to close further hub locations, we may not be able to complete the planned hub closures in the timeframe, on the terms or in the manner expected. Hub closures involve numerous risks, including, without limitation, the diversion of management's attention from our business and operations. In addition, if we decide to close an existing or future hub, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. Moreover, even if a lease has an early cancellation clause, we may not satisfy the contractual requirements for early cancellation under that lease. Our inability to be released from our obligations under leases for hubs that we close could materially adversely affect us. In addition, closure of a hub may result in significant costs, including charges related the impairment of property and equipment, severance costs, and closure related costs. In addition, we may not be able to maintain relationships with some corporate vehicle sourcing partners given the reduced volume of vehicle sourcing to align with our reduced number of hubs.

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

We believe our success depends on the efforts and talents of our executives and employees. Our future success depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and we may incur significant costs to attract and retain them. In addition, the loss of any of our key employees or senior management, could have a material adverse effect on our ability to execute our business plan and strategy, and we may not be able to find adequate replacements on a timely basis, or at all. Our future performance will depend, in part, on the successful transition of our new Chief Executive Officer. If we do not successfully manage the transition, it could be viewed negatively by our customers, employees, investors, suppliers and other third-party partners, and could have an adverse impact on our business and results of operations. Most of our staff are at-will employees, which means they may terminate their employment relationship with us at any time, and their knowledge of our business and industry would be difficult to replace. We do not, and do not currently expect to have in the future, "key person" insurance on the lives of any member of our senior management. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees, our business could be materially and adversely affected.

We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel have greater resources than we have. If we hire employees from competitors or other companies, their former employers may attempt to assert that these employees or we have breached legal obligations, resulting in a diversion of our time and resources. In addition, job candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. If our stock price performs poorly, it may adversely affect our ability to retain or attract employees. The value to employees of equity awards that vest over time may be significantly affected by movements in our stock price that are beyond our control and may at any time be insufficient to counteract more lucrative offers from other companies. In addition, we may have to take additional steps, such as issuing additional equity, to make the equity component of our compensation packages more attractive to attract and retain employees. These steps could result in dilution to stockholders. Any changes in our compensation practices or those of our competitors could affect our ability to retain and motivate existing personnel and recruit new personnel. The inability to hire and/or retain employees with appropriate qualifications could have a material adverse effect on our business, financial condition and results of operations.

We may be required to replace or expand our existing floorplan credit facility, and/or to secure additional debt and equity capital to pursue our business objectives and respond to business opportunities, challenges or unforeseen circumstances, and if such capital is not available, it could have a material adverse effect on our business, financial condition and results of operations.

We may be required to replace or expand our existing floorplan credit facility, and/or to secure additional equity or debt capital to pursue our business objectives and respond to business opportunities, challenges or unforeseen circumstances, including to finance our purchase of inventory, fund our marketing expenditures to improve our brand awareness, enhance our technology, develop new products or services or further improve existing products and services, enhance our operating infrastructure and acquire complementary businesses and technologies. However, funds may not be available when we need them on terms that are acceptable to us, or at all. Our ability to raise additional capital may be adversely impacted by potential worsening global economic conditions, the recent disruptions to and volatility in the credit and financial markets in the United States and worldwide, including rising interest rates, and the impact of the COVID-19 pandemic. In addition, any debt financing that we secure in the future could involve restrictive covenants, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. Continuing operating losses could lead to a violation of covenants related to our existing floorplan credit facility and could lead the lender under such facility to call the debt. If we raise additional funds through further issuances of equity or convertible debt securities, our stockholders could experience significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to pursue our business objectives and to respond to business opportunities, challenges or unforeseen circumstances could be significantly limited, and our business, financial condition and results of operations could be adversely affected.

We face risks related to cybersecurity threats and incidents, as well as significant disruptions of our information technology systems or data security incidents that could result in significant financial, legal, regulatory, business and reputational harm.

We have in the past and may in the future face attempts by others to gain unauthorized access through the Internet or to introduce malicious software, to our IT systems. Additionally, individuals or organizations, including malicious hackers, state-sponsored organizations, insider threats including employees and third-party service providers or intruders into our physical facilities, may attempt to gain unauthorized access and try to steal our technology and data. In connection with heightened geopolitical tensions stemming from the Ukraine War, the risk of such attacks from nation-state and nation-state supported actors may increase. We are also a potential target of malicious attackers who attempt to gain access to our network or data centers or those of our customers or end users; steal proprietary information related to our business, products, employees and customers; interrupt our systems and services or those of our customers or others; or demand ransom to return control of such systems and services. Such attempts by malicious attackers in general are increasing in number and in technical sophistication, and if successful, expose us and the affected parties to risk of loss or misuse of proprietary or confidential information or disruptions of our business operations, including our technology operations. Furthermore, malicious online actors may employ false pretenses or technical measures in an attempt to induce our employees to use IT systems in a manner contrary to our benefit, such as, by authorizing payment of false bills or to run software that would encrypt our information in such a way that it cannot be used by us without paying ransom. While we have implemented security measures and employee training programs intended to protect our information technology systems and infrastructure, there can be no assurance that such measures will successfully prevent service interruptions or further security incidents. We have also outsourced elements of our operations (including elements of our information technology infrastructure) to third parties, and as a result, we manage a number of third-party vendors who may or could have access to our computer networks or our confidential information. Many of those third parties in turn subcontract or outsource some of their responsibilities to third parties. These providers can experience breaches of their systems and products that impact the security of our systems and our proprietary or confidential information. Responding to cyber-attacks and mitigating the risk of future attacks could result in additional operating and capital costs.

Our information systems may also experience interruptions, delays, or cessations of service or produce errors in connection with system integration, software upgrades, or system migration work that takes place from time to time. While all information technology operations are inherently vulnerable to inadvertent or intentional security breaches, incidents, attacks and exposures, the size, complexity, accessibility and distributed nature of our information technology systems, and the large amounts of sensitive information stored on those systems, make such systems potentially vulnerable to unintentional or malicious, internal and external attacks on our technology environment. While we have implemented security measures intended to protect our information technology systems and infrastructure, there can be no assurance that such measures will successfully prevent service interruptions or further security incidents.

Should we fail to maintain required security qualifications, we may face regulatory concerns or be in breach of contract, which may trigger regulatory action, litigation and/or damages, reputational harm, or loss of certain contracts. While we actively work to manage our information security compliance program, we cannot guarantee that we will always meet the certification standard going forward.

We may encounter intrusions or unauthorized access to our network, services or infrastructure. Any such incidents, whether or not successful, could result in our incurring significant costs related to, for example, rebuilding internal systems, implementing additional threat protection measures, defending against litigation, responding to regulatory inquiries or actions, paying damages, providing customers with incentives to maintain the business relationship, or taking other remedial steps with respect to third parties, as well as reputational harm. In addition, these threats are constantly evolving, thereby increasing the difficulty of successfully defending against them or implementing adequate preventative measures. While we seek to detect and investigate all unauthorized attempts and attacks against our network, products and services and to prevent their recurrence where practicable through changes to our internal processes and tools and changes or updates to our products and services, we may not be successful in doing so and remain potentially vulnerable to additional known or unknown threats. In some instances, we, our customers and the users of our products and services can be unaware of an incident or its magnitude and effects.

While we maintain cyber liability insurance with coverage we believe adequate to cover our risk profile, we cannot guarantee that tail risks, should they occur, would not cause us to incur significant losses or liabilities resulting from data security incidents. Any litigation or regulatory review arising from these types of data security incidents could result in significant legal exposure to us. In addition, information technology system disruptions, whether from attacks on our technology environment or from computer viruses or malware, natural disasters, terrorism, war and telecommunication and electrical failures, could result in a material disruption of our facilities, R&D activities, manufacturing activities and general business operations. Any event that leads to unauthorized access to, use or disclosure of personal information could, among other consequences, disrupt our business, harm our reputation and/or compel us to comply with applicable federal and/or state breach notification laws and foreign law equivalents. In addition, failure to maintain effective internal accounting controls related to security breaches and cybersecurity in general could impact our ability to produce timely and accurate financial statements and subject us to regulatory scrutiny.

Exhibit Index

Item 6. Exhibits and Financial Statement Schedules

Exhibit No.	Description
3.1	Second Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (File No. 333-252993), filed with the SEC on February 11, 2021)
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Form 8-K (File No. 001-38818), filed with the SEC on January 27, 2021)
10.1†	Separation and Release Agreement, dated March 14, 2022, between Michael Bor and CarLotz, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 001-38818), filed with the SEC on March 15, 2022)
10.2†	Employment Agreement, dated March 12, 2022, between Lev Peker and CarLotz, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K (File No. 001-38818), filed with the SEC on March 15, 2022)
10.3†	Employment Agreement, dated March 19, 2022, between Ozan Kaya and CarLotz, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 001-38818), filed with the SEC on March 31, 2022)
10.4†	Separation and Release Agreement, dated April 8, 2022, between John Foley and CarLotz, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 001-38818), filed with the SEC on April 11, 2022)
10.5*†	Separation and Release Agreement, dated April 1, 2022, between Daniel Valerian and CarLotz, Inc. (incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q (File No. 001-38818), filed with the SEC on May 9, 2022)
10.5.1*†	Amendment to Separation and Release Agreement, dated May 5, 2022, between Daniel Valerian and CarLotz, Inc. (incorporated by reference to Exhibit 10.5.1 to the Company's Form 10-Q (File No. 001-38818), filed with the SEC on May 9, 2022)
10.6†	Form of Inducement Award Restricted Stock Unit Award Grant Notice and Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-8 (File No. 333-264980), filed with the SEC on May 16, 2022)
10.7†	Form of Inducement Award Stock Option Award Grant Notice and Stock Option Agreement (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-8 (File No. 333-264980), filed with the SEC on May 16, 2022)
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
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
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
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
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

Exhibit No.	Description
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded with the Inline XBRL document and included in Exhibit 101)

* Filed herewith

† Indicates a management contract or compensatory plan or arrangement.

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.

CarLotz, Inc.

By: /s/ THOMAS W. STOLTZ

Thomas W. Stoltz

Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)

Date: August 9, 2022

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Lev Peker, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CarLotz, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 9, 2022	/s/ Lev Peker
	Lev Peker
	Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas W. Stoltz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CarLotz, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 9, 2022	/s/ Thomas W. Stoltz
	Thomas W. Stoltz
	Chief 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 CarLotz, Inc. (the “Company”) for the quarterly period ended June 30, 2022, as filed with the U.S. Securities and Exchange Commission (the “Report”), I, Lev Peker, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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: August 9, 2022	/s/ Lev Peker
	Lev Peker
	Chief 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 CarLotz, Inc. (the "Company") for the quarterly period ended June 30, 2022, as filed with the U.S. Securities and Exchange Commission (the "Report"), I, Thomas W. Stoltz, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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: August 9, 2022

/s/ Thomas W. Stoltz

Thomas W. Stoltz
Chief Financial Officer