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

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT

Pursuant to Section 13 or Section 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **January 21, 2021**

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

Delaware	**001-38818**	**83-2456129**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

611 Bainbridge Street, Suite 100
Richmond, Virginia 23224
(Address of principal executive offices, including zip code)

Registrant’s telephone number, including area code: **(804) 728-3833**

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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 is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☒

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

EXPLANATORY NOTE

This Amendment No. 1 to CarLotz, Inc.'s (the "Company") Current Report on Form 8-K (the "Original Report") originally filed by the Company on January 27, 2021, is being filed solely for the purpose of amending the historical financial statements provided under Items 9.01(a) and 9.01(b) in the Original Report to include the audited consolidated financial statements of CarLotz Group, Inc. ("Former CarLotz") as of December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations of Former CarLotz for the year ended December 31, 2020. This Amendment No. 1 does not amend any other item of the Original Report or purport to provide an update or a discussion of any developments at the Company subsequent to the filing date of the Original Report.

Capitalized terms used but not defined herein have the meanings assigned to them in the Original Report.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired

The audited consolidated financial statements of Former CarLotz as of December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 are filed herewith as Exhibit 99.1.

(d) Exhibits

See the Exhibit Index below, which is incorporated by reference herein.

EXHIBIT INDEX

Exhibit No.	Exhibit Title
99.1	Audited consolidated financial statements of Former CarLotz as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations of Former CarLotz for the year ended December 31, 2020

SIGNATURE

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 hereunto duly authorized.

CARLOTZ, INC.

Dated: March 15, 2021

By: /s/ Rebecca C. Polak
Name: Rebecca C. Polak
Title: Chief Commercial Officer and General Counsel

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of CarLotz, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of CarLotz, Inc. and subsidiaries (the “Company”) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), redeemable convertible preferred stock and stockholders’ equity (deficit), and cash flows, for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

Detroit, Michigan
March 15, 2021
We have served as the Company’s auditor since 2020.

CarLotz, Inc. and Subsidiaries — Consolidated Balance Sheets
December 31, 2020 and 2019
(In thousands, except share data)

	2020	2019
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,208	$ 3,214
Restricted cash	605	888
Marketable securities – at fair value	1,032	—
Accounts receivable, net	4,132	3,256
Inventories	11,202	7,625
Other current assets	6,679	234
Total Current Assets	**25,858**	**15,217**
Property and equipment, net	1,868	631
Lease vehicles, net	173	444
Other assets	299	343
Total Assets	**$ 28,198**	**$ 16,635**
Liabilities, Redeemable Convertible Preferred Stock, Stockholders' Equity (Deficit)		
Current Liabilities:		
Long-term debt, current	$ 6,370	$ 2,825
Floor plan notes payable	6,039	6,739
Accounts payable	6,283	2,134
Accrued transaction expenses	6,052	—
Accrued expenses	3,563	1,576
Accrued expenses – related party	5,082	3,102
Other current liabilities	256	434
Total Current Liabilities	**33,645**	**16,810**
Long-term debt, less current portion	2,999	—
Redeemable convertible preferred stock tranche obligation	2,832	3,755
Other liabilities	1,959	931
Total Liabilities	**41,435**	**21,496**
Commitments and Contingencies (Note 17)	—	—
Redeemable Convertible Preferred Stock:		
Series A Preferred Stock $0.001 stated value; authorized 3,052,127 shares; issued and outstanding 2,034,751 shares; aggregate liquidation preference of approximately $37,114 and $34,300 as of December 31, 2020 and 2019, respectively	17,560	17,560
Stockholders' Equity (Deficit):		
Common stock, $0.001 par value; authorized 7,600,000 shares, issued 3,869,118 shares, and outstanding 3,716,526 shares	4	4
Additional paid-in capital	4,721	6,560
Accumulated deficit	(34,037)	(27,485)
Accumulated other comprehensive income	15	—
Treasury stock, $0.001 par value; 152,592 shares	(1,500)	(1,500)
Total Stockholders' Equity (Deficit)	**(30,797)**	**(22,421)**
Total Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)	**$ 28,198**	**$ 16,635**

See notes to consolidated financial statements.

CarLotz, Inc. and Subsidiaries — Consolidated Statements of Operations
Years Ended December 31, 2020, 2019, and 2018
(In thousands, except per share and share data)

	2020	2019	2018
Revenues:			
Retail vehicle sales	$ 104,253	$ 90,382	$ 53,448
Wholesale vehicle sales	9,984	8,454	3,153
Finance and insurance, net	3,898	3,117	1,608
Lease income, net	490	533	142
Total Revenues	**118,625**	**102,486**	**58,351**
Cost of sales (exclusive of depreciation)	107,369	93,780	52,708
Gross Profit	**11,256**	**8,706**	**5,643**
Operating Expenses:			
Selling, general and administrative	17,552	18,305	11,661
Depreciation expense	341	504	338
Management fee expense – related party	215	250	250
Total Operating Expenses	**18,108**	**19,059**	**12,249**
Loss from Operations	**(6,852)**	**(10,353)**	**(6,606)**
Interest Expense	518	651	466
Other Income (Expense), net			
Management fee income – related party	—	—	127
Change in fair value of warrants liability	(14)	24	(2)
Change in fair value of redeemable convertible preferred stock tranche obligation	923	(1,396)	(272)
Other income (expense)	(81)	(291)	662
Total Other Income (Expense), net	**828**	**(1,663)**	**515**
Loss Before Income Tax Expense	**(6,542)**	**(12,667)**	**(6,557)**
Income Tax Expense	10	11	3
Net Loss	**$ (6,552)**	**$ (12,678)**	**$ (6,560)**
Redeemable convertible preferred stock dividends (undeclared and cumulative)	(1,884)	(1,579)	(1,014)
Net loss attributable to common stockholders	**$ (8,436)**	**$ (14,257)**	**$ (7,574)**
Net loss per share attributable to common stockholders, basic and diluted	**$ (2.27)**	**$ (3.84)**	**$ (2.04)**
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	**3,716,526**	**3,716,526**	**3,716,526**

See notes to consolidated financial statements.

CarLotz, Inc. and Subsidiaries — Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31, 2020, 2019, and 2018
(In thousands, except per share and share data)

	2020	2019	2018
Net loss	$(6,552)	$(12,678)	$(6,560)
Other comprehensive income, net of tax:			
Unrealized gains on marketable securities arising during the period	16	—	—
Tax effect	—	—	—
Unrealized gains on marketable securities arising during the period, net of tax	16	—	—
Reclassification adjustment for realized losses	(1)	—	—
Tax effect	—	—	—
Reclassification adjustment for realized losses, net of tax	(1)	—	—
Other Comprehensive Income, net of tax	15	—	—
Total Comprehensive Income	**$(6,537)**	**$(12,678)**	**$(6,560)**

See notes to consolidated financial statements.

CarLotz, Inc. and Subsidiaries — Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)
Years Ended December 31, 2020, 2019, and 2018
(In thousands, except share data)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock		Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance January 1, 2018	1,220,851	$ 8,670	3,869,118	$ 4	$ 8,889	$ (8,247)	$—	(152,592)	$(1,500)	$ (854)
Net loss	—	—	—	—	—	(6,560)	—	—	—	(6,560)
Accrued dividends on redeemable convertible preferred stock	—	—	—	—	(1,014)	—	—	—	—	(1,014)
Stock-based compensation expense	—	—	—	—	151	—	—	—	—	151
Balance December 31, 2018	1,220,851	$ 8,670	3,869,118	$ 4	$ 8,026	$(14,807)	$—	(152,592)	$(1,500)	$ (8,277)
Net loss	—	—	—	—	—	(12,678)	—	—	—	(12,678)
Redeemable convertible preferred stock issuance	813,900	8,890	—	—	—	—	—	—	—	—
Accrued dividends on redeemable convertible preferred stock	—	—	—	—	(1,579)	—	—	—	—	(1,579)
Stock-based compensation expense	—	—	—	—	113	—	—	—	—	113
Balance December 31, 2019	2,034,751	$17,560	3,869,118	$ 4	$ 6,560	$(27,485)	$—	(152,592)	$(1,500)	$(22,421)
Net loss	—	—	—	—	—	(6,552)	—	—	—	(6,552)
Other comprehensive income, net of tax	—	—	—	—	—	—	15	—	—	15
Accrued dividends on redeemable convertible preferred stock	—	—	—	—	(1,884)	—	—	—	—	(1,884)
Stock-based compensation expense	—	—	—	—	45	—	—	—	—	45
Balance December 31, 2020	2,034,751	$17,560	3,869,118	$ 4	$ 4,721	$(34,037)	$15	(152,592)	$(1,500)	$(30,797)

See notes to consolidated financial statements.

CarLotz, Inc. and Subsidiaries — Consolidated Statements of Cash Flows
Years Ended December 31, 2020, 2019, and 2018
(In thousands, except share data)

	2020	2019	2018
Cash Flow from Operating Activities			
Net loss	$ (6,552)	$(12,678)	$ (6,560)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation – property and equipment	195	260	253
Depreciation – lease vehicles	146	244	85
Loss on disposition of property and equipment	—	321	—
Gain on sale of lease vehicles	—	—	(16)
Provision for doubtful accounts	40	(14)	(30)
Share-based compensation expense	45	113	151
Gain on marketable securities	(36)	—	—
Change in fair value of warrants liability	14	(24)	2
Amortization of debt issuance costs	14	—	—
Amortization of warrant liability	11	—	—
Change in fair value of redeemable convertible preferred stock tranche obligation	(923)	1,396	272
Other	—	—	(599)
Change in Operating Assets and Liabilities:			
Accounts receivable	(916)	(830)	(706)
Inventories	(3,333)	2,883	(4,810)
Other current assets	(6,445)	(6)	48
Other assets	44	(38)	(164)
Accounts payable	4,149	1,392	223
Accrued expenses and transaction expenses	8,039	525	133
Accrued expenses – related party	96	172	(9)
Other current liabilities	(178)	229	20
Other liabilities	998	582	(54)
Net Cash Used in Operating Activities	(4,592)	(5,473)	(11,761)
Cash Flows from Investing Activities			
Cash related to consolidation of Orange Grove	—	—	5
Purchase of property and equipment	(154)	(235)	(474)
Proceeds from sale of lease vehicles	—	—	119
Purchase of lease vehicles	(92)	(252)	(12)
Purchase of marketable securities	(1,049)	—	—
Proceeds from sales of marketable securities	68	—	—
Net Cash Used in Investing Activities	(1,227)	(487)	(362)
Cash Flows from Financing Activities			
Issuance of redeemable convertible preferred stock, net	—	7,988	—
Payments made on long-term debt	(9)	(8)	(4)
Borrowings on long-term debt	5,249	3,000	—
Payments of debt issuance costs	(10)	(112)	—
Payments on floor plan notes payable	(24,948)	(41,711)	(24,567)
Borrowings on floor plan notes payable	24,248	39,753	29,171
Payments made on promissory note	—	(418)	(97)
Net Cash Provided by Financing Activities	4,530	8,492	4,503

See notes to consolidated financial statements.

	2020	2019	2018
Net Change in Cash and Cash Equivalents and Restricted Cash	(1,289)	2,532	(7,620)
Cash and cash equivalents and restricted cash, beginning	4,102	1,570	9,190
Cash and cash equivalents and restricted cash, ending	$ 2,813	$ 4,102	$ 1,570
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	$ 346	$ 684	$ 436
Supplementary Schedule of Non-cash Investing and Financing Activities:			
Purchases of property under capital lease obligations	$ 1,305	$ —	$ —
Transfer from property and equipment to inventory	$ 27	$ 53	$ 26
Transfer from lease vehicles to inventory	$ 217	$ 295	$ —
Redeemable convertible preferred stock distributions accrued	$ 1,884	$ 1,579	$ 1,014
Purchase of property and equipment with long-term debt	$ —	$ —	$ 21
Promissory note based on consolidation of Orange Grove	$ —	$ —	$ 515
Issuance of common stock warrants	$ 15	$ 72	$ —
Settlement of redeemable convertible preferred stock tranche obligation	$ —	$ (902)	$ —

See notes to consolidated financial statements.

Note 1 — Description of Business

CarLotz, Inc. and its wholly-owned subsidiaries (collectively, the “Company”) is a used vehicle consignment and automotive retailer company based in Richmond, Virginia. The Company offers an innovative and one-of-a-kind consumer and commercial used vehicle consignment and sales business model, with an online marketplace and ten retail hub locations throughout the United States, including in Florida, Illinois, North Carolina, Texas, Virginia and Washington.

CarLotz, Inc. was formed as a Delaware corporation and commenced operations in 2011.

Subsidiaries are consolidated when the parent is deemed to have control over the subsidiaries’ operations. Investments in which the Company has the ability to exercise significant influence, but does not have a controlling interest, are accounted for using the equity method.

Unless the context otherwise requires, references to “we,” “us,” “our,” and the “Company” refer to Former CarLotz and its consolidated subsidiaries prior to the consummation of the Merger. See Note 23 — Subsequent Events for additional detail on the Acamar Partners Acquisition Corp. Merger.

Subsidiary Operations

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

Orange Grove Fleet Solutions, LLC (“Orange Grove”)

Orange Grove is primarily engaged in the leasing of fleet vehicles to commercial customers and was originally established as a joint venture with a third party to expand Orange Grove’s products to the Company’s customer base.

On September 13, 2018, Orange Grove redeemed the 80% membership interest of its majority member (the “redemption”). Prior to the redemption, CarLotz, Inc. had a 20% membership interest in Orange Grove and accounted for its investment using the equity method. As a result of the redemption, CarLotz, Inc. became the sole member of Orange Grove. Accordingly, CarLotz, Inc. accounted for the redemption as a business combination (step-acquisition with no consideration transferred) using the acquisition method of accounting under Accounting Standards Codification (“ASC”) 805 *Business Combinations*. The net assets acquired and liabilities assumed as of September 13, 2018 were not material. In accordance with ASC 805, the Company remeasured its 20% membership interest in Orange Grove at its acquisition date fair value and used the acquisition date fair value of its remeasured interest in determining the fair value of the consideration transferred when applying the acquisition method of accounting. The result of the remeasurement and application of acquisition method of accounting was an immaterial gain on the transaction that is recorded in Other income (expense) in the consolidated statements of operations. Subsequent to the redemption of the majority member interest, CarLotz, Inc. consolidated Orange Grove.

The results of operations of Orange Grove since September 13, 2018 are included in the Company’s consolidated statements of operations. The revenues and results of operations attributable to Orange Grove for the period from the date of acquisition, September 13, 2018, through December 31, 2018 were immaterial. The impact on the Company’s revenues and net loss for purposes of pro forma statements of operations for the year ended December 31, 2018 were immaterial.

Note 2 — Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Principles of Consolidation

The consolidated financial statements include the accounts of CarLotz, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of 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.

Estimating the change in fair value of the liability for stock warrants requires determining both the fair value valuation model to use and inputs to the valuation model. The stock warrants liability is valued using the Black Scholes pricing model, which is a commonly used valuation model for this type of financial instrument. Inputs that have a significant effect on the stock warrants liability valuation include the expected life of the stock warrants, the fair value per share of the Company's common stock, volatility of the Company's common stock fair value and related dividend yield. See Note 5 — Fair Value of Financial Instruments and Note 11 — Long-term Debt for additional detail.

The fair value of the obligation to purchase future tranches of Series A Redeemable Convertible Preferred Stock ("Series A Preferred Stock") was estimated by utilizing the Black Scholes pricing model and included the impact of the lack of marketability of the instruments. The key inputs for the fair value measurement include the fair value per share of the Company's Series A Preferred Stock, expected volatility, the remaining years to liquidity and the risk-free interest rate. The most significant input impacting the fair value of the Series A Preferred Stock tranche obligation is the fair value of the Series A Preferred Stock as of each remeasurement date. The determination of the fair value per share of the redeemable convertible preferred stock is estimated by taking into consideration the most recent sales of redeemable convertible preferred stock, results obtained from third-party valuations and additional factors that are deemed relevant. As a private company, there was a lack of Company-specific historical and implied volatility information of the Company's Series A Preferred Stock. Therefore, estimates of expected stock volatility are based on the historical volatility of publicly traded peer companies for a term equal to the remaining contractual term of the obligations. The risk-free interest rate was determined by reference to the U.S. Treasury yield curve for time periods approximately equal to the remaining years to liquidity. See Note 5 — Fair Value of Financial Instruments and Note 18 — Redeemable Convertible Preferred Stock for additional detail.

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.

Cash and Cash Equivalents

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. The Company places its cash with financial institutions and has balances that generally exceed federally insured amounts.

Restricted Cash

As of December 31, 2020 and 2019, restricted cash was approximately $605 and $888, respectively. The restricted cash is legally and contractually restricted as collateral for two letters of credit issued on behalf of CarLotz, Inc. and of the reinsurance subsidiaries for the payment of claims.

Marketable Securities

The Company's reinsurance subsidiaries invest excess cash in marketable securities in the ordinary course of conducting their operations and maintain a portfolio of marketable securities primarily comprised of equity and fixed income debt securities. The Company's investments in marketable securities are classified as available-for-sale securities and are reported at fair value. Unrealized gains and losses related to changes in the fair value of equity securities are recognized in other income (expense) in the Company's consolidated statements of operations. Unrealized gains and losses related to changes in the fair value of available-for-sale debt securities are recognized in Accumulated Other Comprehensive Income in the Company's consolidated balance sheets. Changes in the fair value of available-for-sale debt securities impact the Company's net income only when such debt securities are sold or when other-than-temporary impairment is recognized. Realized gains and losses on the sale of securities are determined by specific identification of each security's cost basis and are recognized on the trade date.

Management determines the appropriate classification of its investments at the time of purchase and re-evaluates the designations at each balance sheet date. The Company may sell certain of the Company's marketable debt securities prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration and duration management. The Company reviews its fixed maturity debt securities on a regular basis to evaluate whether or not any security has experienced an other-than-temporary decline in fair value. The Company considers factors such as the length of time and extent to which the market value has been less than the cost, the financial condition and near-term prospects of the issuer and the Company's intent to sell, or whether it is more likely than not the Company will be required to sell the debt security before recovery of the investment's amortized cost basis. If the Company believes that an other-than-temporary decline exists in one of these debt securities, the Company will write down these debt securities to fair value through earnings.

Accounts Receivable, Net

Accounts receivable consist primarily of contracts in transit that represent amounts due from financial institutions on retail installment contracts from retail vehicle sales, and also includes receivables related to wholesale vehicle sales.

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 customer base.

Inventories

All inventories, which are comprised of vehicles and parts held for sale, are reported at the lower of cost or net realizable value. Cost of vehicle inventory is determined on a specific identification basis. Vehicles held on consignment are not recorded in the Company's inventory balance, as title to those vehicles, and, therefore control of the vehicle, remain with the consignors until a customer purchases the vehicle and the vehicle is delivered.

Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance, repairs and minor renewals are charged to expense as incurred. Major renewals and betterments are capitalized. Property held under capital leases are stated at the present value of minimum lease payments less accumulated amortization. Property held under capital leases are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset. Depreciation on owned property and equipment is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Leasehold Improvements	Lesser of 15 years or underlying lease terms
Equipment, Furniture and Fixtures	1 – 5 years
Corporate Vehicles	5 years

Lease Vehicles, net

The Company leases vehicles to customers with lease terms that are typically 1 — 4 years. The leases are accounted for as operating leases. Lease income is recorded on a straight line basis over the period the vehicle is rented. Depreciation on the lease vehicles is calculated using the straight-line method over the estimated useful life.

Reinsurance — Deferred Acquisition Costs

The Company defers certain costs of acquiring new contracts. These costs are limited to incremental direct costs that result from the successful acquisition of new contracts and would not have been incurred, had the acquisition of the contract not occurred. Deferred acquisition costs (“DAC”) consist primarily of amounts paid for ceding fees and premium taxes and are amortized over the term of the contracts in relation to premiums earned. Acquisition costs that do not result in the successful acquisition of new contracts, or that would have been incurred even if a new contract was not acquired, are expensed as incurred. DAC are included in other assets on the consolidated balance sheets.

Floor Plan Notes Payable

The Company classifies notes payable for inventory purchased as “Floor plan notes payable” on the accompanying consolidated balance sheets. The Company presents borrowings and repayments on Floor plan notes payable within Cash flows from financing activities on the consolidated statements of cash flows because the Company uses a third-party lender for its floor plan financing arrangement.

Classification and Accretion of Redeemable Convertible Preferred Stock

The Company has classified its Series A Preferred Stock outside of stockholders’ equity (deficit) because the shares contained certain redemption features that were not solely within the control of the Company. Costs incurred in connection with the issuance of Series A Preferred Stock, as well as the recognition of the redeemable convertible preferred stock tranche obligation, are recorded as a reduction of gross proceeds from issuance. The Series A Preferred Stock was not redeemable as of the periods of these financial statements because while the holders of the Series A Preferred Stock had the power to direct the Company’s actions through its control of the Company’s board of directors, the deemed liquidation provision is considered a substantive condition that was contingent on the identification of a market participant willing to purchase the Company’s assets for consideration in an amount sufficient to distribute the redemption amount to the holders of the Series A Preferred Stock. Since the Series A Preferred Stock was not currently redeemable and it was not currently probable that it would become redeemable because a change of control feature is not considered probable until the change of control actually occurs, the net carrying value of Series A Preferred Stock was not accreted to its redemption value. See Note 18 — Redeemable Convertible Preferred Stock for additional details.

Reinsurance — Contract Reserves

The Company sells certain finance and insurance contracts that are underwritten by third parties. The Company, through its reinsurance subsidiaries, reinsures those contracts, thereby assuming the risk of loss on the underlying insurance contracts. The Company establishes insurance reserves in accordance with ASC 944, *Financial Services — Insurance*. These amounts are recorded as Other liabilities on the consolidated balance sheets.

Contract Reserves

Subsequent to the sale of a vehicle to a customer, the Company sells the related retail installment contracts to financial institutions on a non-recourse basis. The Company receives commissions from the financial institutions for these sales. The Company also receives commissions from other third-party providers for the arrangement of the sale of other products such as guaranteed vehicle protection insurance. The Company is subject to future chargebacks in the event of an early contract termination or payoff by customers. A reserve for future amounts estimated to be charged back is recorded as a reduction of Finance and insurance, net in the consolidated statements of operations, at the time of sale. The chargeback reserve is estimated based on the Company's historical chargeback results and is recorded in Other liabilities on the consolidated balance sheets.

Legal Contingencies

The Company is involved in various claims and legal proceedings that arise in the normal course of business. The Company records an accrual for legal contingencies when it determines that it is probable that it has incurred a liability and it can reasonably estimate the amount of the loss. See Note 17 — Commitments and Contingencies for additional details.

Fair Value Measurements

Fair value as defined under U.S. GAAP is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1: Observable inputs such as quoted prices in active markets.

Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and affects how the measurement is classified within the fair value hierarchy levels. See Note 5 — Fair Value of Financial Instruments for additional information.

Revenues

The Company recognizes revenue upon transfer of control of goods or services to customers, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Control passes to the retail and wholesale vehicle sales customer when the title is delivered to the customer, who then assumes control of the vehicle.

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.

Sales Tax

The Company collects and remits sales tax on vehicle sales and sales of parts. Sales tax collected is not included in revenues and remittances are not included in cost of sales. Sales tax collected is recorded as a liability, with the liability relieved upon remittance of payments to tax authorities.

Selling, General, and Administrative Expenses

Selling, general and administrative expenses primarily include compensation and benefits, advertising, facilities cost, technology expenses, logistics, and other administrative expenses. Advertising costs are expensed as incurred and were $3,199, $3,803, and $1,871 for the years ended December 31, 2020, 2019, and 2018, respectively.

Equity-Based Compensation

The Company classifies equity-based awards granted in exchange for services as either equity awards or liability awards. The classification of an award as either an equity award or a liability award is generally based upon cash settlement options. Both equity and liability awards are measured based on the fair value of the award at the grant date, however, liability awards are then re-measured to fair value each reporting period. The Company recognizes equity-based compensation on a straight-line basis over the award’s requisite service period, which is generally the vesting period of the award, less actual forfeitures. For equity and liability awards earned based on performance or upon occurrence of a contingent event, when and if the awards will be earned is estimated. If an award is not considered probable of being earned, no amount of equity-based compensation is recognized. If the award is deemed probable of being earned, related equity-based compensation is recorded over the estimated service period. To the extent the estimate of awards considered probable of being earned changes, the amount of equity-based compensation recognized will also change. See Note 19 — Stock-Based Compensation Plan for additional information on equity-based compensation.

Redeemable Convertible Preferred Stock Tranche Obligation

The Company classified the Series A Preferred Stock tranche obligations for the future purchase, and option to purchase, three additional tranches of Series A Preferred Stock (See Note 5 — Fair Value of Financial Instruments and Note 18 — Redeemable Convertible Preferred Stock for additional detail) as a liability on its consolidated balance sheets as the Series A Preferred Stock tranche obligations were freestanding financial instruments that required the Company to transfer equity instruments upon future closings of the Series A Preferred Stock. The Series A Preferred Stock tranche obligations were initially recorded at fair value upon the date of issuance and were subsequently remeasured to fair value at each reporting date. Changes in the fair value of the Series A Preferred Stock tranche obligation were recognized as a component of Other Income (Expense), net in the consolidated statements of operations. Changes in the fair value of the second Series A Preferred Stock tranche obligations were recognized until the tranche obligations were fulfilled in the first and second quarter of 2019.

Income Tax

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to depreciable assets (use of different depreciation methods and lives for financial statement and income tax purposes), contract expenses, and certain accrued expenses. Deferred tax assets and liabilities represent future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Deferred income taxes are recorded using enacted tax rates based upon differences between financial statement and tax bases of assets and liabilities. A valuation allowance has been established for all deferred tax assets because the Company has incurred cumulative losses in recent years and the Company has not determined that the net deferred tax assets are more likely than not to be realized. In future periods, if the Company determines it is more likely than not that the deferred tax assets will be realized, the valuation allowance may be reduced, and an income tax benefit recorded.

Net Loss Per Share Attributable to Common Stockholders

Basic and diluted net loss per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities. The Company considers its Series A Preferred Stock to be participating securities. Under the two-class method, net income is attributed to common stockholders and participating securities based on their participation rights. However, net loss is not allocated to the Series A Preferred Stock as the holders of the Company's Series A Preferred Stock did not have a contractual obligation to share in the Company's losses.

Under the two-class method, basic net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Net loss attributable to common stockholders is calculated by adjusting the net loss for the accrual of cumulative and undeclared dividends on Series A Preferred Stock outstanding during the period.

Diluted earnings per share attributable to common stockholders adjusts basic earnings per share for all potentially dilutive common stock equivalents outstanding during the period. Potentially dilutive securities consisted of Series A Preferred Stock, stock options, warrants, and convertible notes payable. Since the Company has reported net losses for all periods presented, the Company has excluded all potentially dilutive securities from the calculation of the diluted net loss per share attributable to common stockholders as their effect is antidilutive and accordingly, basic and diluted net loss per share attributable to common stockholders is the same for all periods presented. (See Note 21 — Net Loss Per Share Attributable to Common Stockholders for additional detail)

Segments

The Company's chief operating decision maker ("CODM") is its chief executive officer. The Company derives its revenue primarily from sales of automobiles via retail and wholesale channels. The CODM reviews financial information presented on a consolidated basis for the purposes of allocating resources and evaluating financial performance. Accordingly, the Company determined that it has one reportable segment.

Adoption of New Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminates certain disclosure requirements for fair value measurements for all entities, requires public entities to disclose certain new information and modifies some disclosure requirements. ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years, and early adoption is permitted. An entity is permitted to early adopt either the entire standard or only the provisions that eliminate or modify requirements. The Company adopted ASU 2018-13 on January 1, 2020 and the adoption of this standard did not have a material impact on the consolidated financial statements or related disclosures.

In August 2018, the FASB issued ASU 2018-15, *Intangibles — Goodwill and Other — Internal — Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. This standard aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for emerging growth companies following private company adoption dates in fiscal years beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020, with early adoption permitted. The Company adopted ASU 2018-15 on January 1, 2020 for annual periods and the adoption of this standard did not have a material impact on the consolidated financial statements or related disclosures.

In October 2018, the FASB issued ASU 2018-17, *Consolidation (Topic 810), Targeted Improvements to Related Party Guidance for Variable Interest Entities*, which addresses the cost and complexity of financial reporting associated with consolidation of variable interest entities ("VIE"). ASU 2018-17 is effective for emerging growth companies following private company adoption dates in fiscal years beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020, with early adoption permitted. The new guidance must be applied on a retrospective basis as a cumulative-effect adjustment as of the date of adoption. The Company adopted ASU-2018-17 on January 1, 2020 and the adoption of this standard did not have a material impact on the consolidated financial statements or related disclosures because the Company does not currently have any indirect interests through related parties under common control for which it receives decision making fees.

Recently Issued Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The standard will affect all entities that lease assets and will require 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, 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, and early adoption is permitted. For leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, lessees and lessors must apply a modified retrospective transition approach. While the Company expects the adoption of this standard to result in an increase to the reported assets and liabilities, it has not yet determined the full impact the adoption of this standard will have on its financial statements and related disclosures.

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 the consolidated 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 to the consolidated financial statements.

Note 3 — Revenue Recognition

Disaggregation of Revenue

The significant majority of the Company's revenue is 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.

(In thousands, except share data)

The tables below include disaggregated revenue under ASC 606:

	2020		
	Vehicle Sales	Fleet Management	Total
Retail vehicle sales	$104,253	$ —	$104,253
Wholesale vehicle sales	9,984	—	9,984
Finance and insurance, net	3,898	—	3,898
Lease income, net	—	490	490
Total Revenues	**$118,135**	**$490**	**$118,625**

	2019		
	Vehicle Sales	Fleet Management	Total
Retail vehicle sales	$ 90,382	$ —	$ 90,382
Wholesale vehicle sales	8,454	—	8,454
Finance and insurance, net	3,117	—	3,117
Lease income, net	—	533	533
Total Revenues	**$101,953**	**$533**	**$102,486**

	2018		
	Vehicle Sales	Fleet Management	Total
Retail vehicle sales	$53,448	$ —	$53,448
Wholesale vehicle sales	3,153	—	3,153
Finance and insurance, net	1,608	—	1,608
Lease income, net	—	142	142
Total Revenues	**$58,209**	**$142**	**$58,351**

The following table summarizes revenues and cost of sales for retail and wholesale vehicle sales for the years ended December 31, 2020, 2019, and 2018:

	2020	2019	2018
Retail vehicles:			
Retail vehicle sales	$104,253	$90,382	$53,448
Retail vehicle cost of sales	96,983	84,534	48,523
Gross Profit – Retail Vehicles	**$ 7,270**	**$ 5,848**	**$ 4,925**
Wholesale vehicles:			
Wholesale vehicle sales	$ 9,984	$ 8,454	$ 3,153
Wholesale vehicle cost of sales	10,386	9,246	4,185
Gross Profit – Wholesale Vehicles	**$ (402)**	**$ (792)**	**$ (1,032)**

Retail Vehicle Sales

The Company sells used vehicles to retail customers through its several 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 that the Company measures at estimated fair value of the vehicle received on 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.

(In thousands, except share data)

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 return policy allows customers to initiate a return during the first three days or 500 miles after delivery, whichever comes first. A return reserve is estimated based on the Company's historical activity and is recorded in Other liabilities in the consolidated balance sheets.

Wholesale Vehicle Sales

The Company sells wholesale vehicles primarily through auction as wholesale vehicles often do not meet the Company's standards for retail vehicle sales. The Company satisfies its performance obligation and recognizes revenue for wholesale vehicle sales at a point in time when the vehicle is sold at auction or directly to a wholesaler and title to the vehicle passes to the customer.

Finance and Insurance, net

The Company provides customers with options for financing, insurance, and extended warranties. Extended warranties sold beginning January 1, 2019 are serviced by a company owned by a holder of Series A Preferred Stock. 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.

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 service 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 4 — Marketable Securities

The Company began investing in debt securities with fixed maturities and equity securities during February 2020.

The following table summarizes amortized cost, gross unrealized gains and losses, and estimated fair values of the Company's investments in fixed maturity debt securities, as of December 31, 2020:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed Maturity Debt Securities				
U.S. Treasuries	$ 240	$ 6	$—	$246
Corporates	261	5	(1)	265
U.S. states, territories, and political subdivisions	141	5	—	146
Total Fixed Maturity Debt Securities	**$ 642**	**$16**	**$ (1)**	**$657**

The amortized cost and estimated fair value of the Company's fixed maturity debt securities as of December 31, 2020 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.

(In thousands, except share data)

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 77	$ 78
Due after one year through five years	379	388
Due after five years through ten years	186	191
Total	**$642**	**$657**

The following table summarizes the Company's gross unrealized losses in fixed maturity debt securities as of December 31, 2020:

	Less Than 12 Months		12 Months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Fixed maturity debt securities:						
Corporate Bonds	$39	$(1)	$—	$—	$39	$(1)
Total Fixed Maturity Debt Securities	**$39**	**$(1)**	**$—**	**$—**	**$39**	**$(1)**

Unrealized losses shown in the table above are believed to be temporary. Fair value of investments in fixed maturity debt securities change are based primarily on market rates. At December 31, 2020, the Company's fixed maturity portfolio had no securities with gross unrealized losses that were in excess of 12 months and 2 securities with gross unrealized losses totaling $1 that were less than 12 months. No single issuer had a gross unrealized loss position greater than $325 (actual), or 1.6%, of its amortized cost.

The following table summarizes cost and estimated fair values of the Company's investments in equity securities, as of December 31, 2020:

	Cost	Estimated Fair Value
Equity securities	$335	$375

Proceeds from sales and maturities, gross realized gains, gross realized losses, and net realized gains (losses) from sales and maturities of fixed maturity debt securities for the year ended December 31, 2020 consist of the following:

	Proceeds	Gross Realized Gains	Gross Realized Losses	Net Realized (Losses)
Fixed maturity debt securities	$18	$—	$—	$—
Equity securities	50	1	(2)	(1)
Total Marketable Securities	**$68**	**$ 1**	**$ (2)**	**$ (1)**

Note 5 — Fair Value of Financial Instruments

Items Measured at Fair Value on a Recurring Basis

As of December 31, 2020 and December 31, 2019, the Company held certain assets and liabilities that were required to be measured at fair value on a recurring basis.

(In thousands, except share data)

The following tables are summaries of fair value measurements and hierarchy level as of December 31, 2020 and 2019:

	2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$ 405	$ —	$ —	$ 405
Equity securities	375	—	—	375
Fixed maturity debt securities	246	411	—	657
Total Assets:	**1,026**	**411**	**—**	**1,437**
Liabilities:				
Redeemable convertible preferred stock tranche obligation	—	—	2,832	2,832
Stock warrants liability	—	—	144	144
Total Liabilities:	**$ —**	**$ —**	**$2,976**	**$2,976**

	2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$688	$—	$ —	$ 688
Liabilities:				
Redeemable convertible preferred stock tranche obligation	—	—	3,755	3,755
Stock warrants liability	—	—	115	115
Total Liabilities:	**$ —**	**$—**	**$3,870**	**$3,870**

Money market funds consist of highly liquid investments with original maturities of three months or less and classified in restricted cash in the accompanying 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 years ended December 31, 2020 and 2019.

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 and Level 3 stock warrants liability for the years ended December 31, 2020 and 2019:

Year-ended December 31, 2020	January 1,	Issuances	Settlements	Change in Fair Value	December 31,
Redeemable convertible preferred stock tranche obligation	$3,755	$—	$—	$(923)	$2,832
Stock warrants liability	115	15	—	14	144
Total	**$3,870**	**$15**	**$—**	**$(909)**	**$2,976**

Year-ended December 31, 2019	January 1,	Issuances	Settlements	Change in Fair Value	December 31,
Redeemable convertible preferred stock tranche obligation	$3,261	$—	$(902)	$1,396	$3,755
Stock warrants liability	67	72	—	(24)	115
Total	**$3,328**	**$72**	**$(902)**	**$1,372**	**$3,870**

(In thousands, except share data)

The fair value of the obligation to purchase future tranches of Series A Preferred Stock was estimated by utilizing the Black Scholes pricing model. The inputs into the Black Scholes pricing model included significant unobservable inputs. The table below summaries the significant inputs used when valuing the redeemable convertible preferred stock tranche obligation as of December 31, 2020 and 2019:

	2020	2019
Expected volatility	65.00%	45.00%
Expected dividend yield	0.00%	0.00%
Expected term (in years)	4 years	5 years
Risk-free interest rate	0.27%	1.69%
Marketability discount	60.00%	50.00%

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. The carrying value of the floor plan notes payable outstanding as of December 31, 2020 and December 31, 2019 approximates its fair value due to its variable interest rate determined to approximate current market rates. The convertible note payable was issued on December 20, 2019 and was entered into at prevailing interest rates on the date of issuance. Given the proximity of the issuance of the convertible note payable to December 31, 2019, the fair value of the convertible note payable was determined to approximate carrying value as of December 31, 2019. The fair value of the convertible note is $3,264 versus a carrying value of $3,325 as of December 31, 2020. The difference between the carrying value and the fair value of the Paycheck Protection Program (PPP) loan of $1,749 as of December 31, 2020 is immaterial. The Promissory Note with a carrying value of $2,990 was issued on December 2, 2020 and was entered into at prevailing interest rates on the date of issuance. Given the proximity of the issuance of the Promissory Note payable to December 31, 2020, the fair value of the Promissory Note was determined to approximate carrying value as of December 31, 2020.

Note 6 — Accounts Receivable, Net

Accounts receivable consist of the following as of December 31, 2020 and 2019:

	2020	2019
Contracts in transit	$3,321	$2,645
Trade	240	202
Finance commission	132	87
Other	506	349
Total	4,199	3,283
Allowance for doubtful accounts	(67)	(27)
Total Accounts Receivable, net	**$4,132**	**$3,256**

Contracts in transit are typically collected within fifteen days. Other amounts due are from third parties as a result of vehicle sales and parts sold or services provided. Receivables also include commissions on aftermarket products. Receivables from the sale of vehicles are secured by the related vehicles. Receivables arising from the sale of parts and service are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date.

The carrying amount of receivables is reduced by an allowance for doubtful accounts that reflects management’s best estimate of the amounts that will not be collected. Management reviews each receivable balance monthly, and, based on historical bad debt experience and management’s evaluation of customer creditworthiness, estimates that portion, if any, of the balance that will not be collected. No interest is charged on delinquent receivables.

(In thousands, except share data)

Note 7 — Inventory and Floor Plan Notes Payable

Inventory consists of the following as of December 31, 2020 and 2019:

	2020	2019
Used vehicles	$11,202	$7,592
Parts	—	33
Total	**$11,202**	**$7,625**

As of December 31, 2020, the Company has a $12,000 revolving floor plan facility with Automotive Finance Corporation ("AFC") to finance the acquisition of used vehicle inventory. Borrowings under this facility accrue interest at a variable rate based on the most recent prime rate plus 2.00% per annum. The weighted average interest rate on the floor plan notes payable was 5.25% and 6.75% as of December 31, 2020 and 2019, respectively.

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

Note 8 — Property and Equipment, Net

Property and equipment consist of the following as of December 31, 2020 and 2019:

	2020	2019
Capital lease asset building	$ 1,305	$ —
Leasehold improvements	702	688
Furniture, fixtures, and equipment	760	715
Corporate vehicles	143	104
Total property and equipment	2,910	1,507
Less: accumulated depreciation	(1,042)	(876)
Property and Equipment, net	**$ 1,868**	**$ 631**

Depreciation expense for property and equipment was approximately $195, $260 and $253 for the years ended December 31, 2020, 2019 and 2018, respectively. On December 23, 2020, the Company entered into a capital lease for a new hub location building. Amortization of the capital lease asset for the year ended December 31, 2020 was $0 and is included in depreciation expense in the consolidated statements of operations.

Note 9 — Lease Vehicles, Net

Lease vehicles, net consists of the following as of December 31, 2020 and 2019:

	2020	2019
Vehicles	$ 629	$1,083
Less: accumulated depreciation	(456)	(639)
Total Lease Vehicles, net	**$ 173**	**$ 444**

Depreciation expense for lease vehicles, net was approximately $146, $244 and $85 for the years ended December 31, 2020, 2019 and 2018, respectively. Lease vehicles are leased to end customers under various noncancelable operating leases with terms ranging up to five years and payments varying from $323 to $780 (actual) per month.

When a customer requests a vehicle lease, the Company may enter into a lease with its customer for a vehicle owned by the Company. Income received for leases of owned vehicles under noncancelable operating leases is recorded in Lease income, net in the consolidated statements of operations.

(In thousands, except share data)

The following table summarizes minimum rental payments due to the Company on leases of owned vehicles under noncancelable operating leases having initial or remaining noncancelable terms in excess of one year as of December 31, 2020:

Year	Minimum Rental Receipts Under Operating Leases
2021	$37
2022	24
2023	2
Total	**$63**

Note 10 — Other Assets

Other Assets consists of the following as of December 31, 2020 and 2019:

	2020	2019
Other Current Assets:		
Lease receivable, net	$ 36	$ 13
Deferred acquisition costs	72	32
Prepaid expenses	679	189
Stock issuance costs	5,892	—
Total Other Current Assets	**$6,679**	**$234**
Other Assets:		
Lease receivable, net	$ 16	$ 38
Deferred acquisition costs	48	50
Security deposits	235	255
Total Other Assets	**$ 299**	**$343**

Stock issuance costs consist of legal, accounting, underwriting fees and other costs that are directly related to the Acamar Partners Acquisition Corp. Merger. Stock issuance costs amounting to approximately $5,892 as of December 31, 2020 will be charged to shareholder’s equity upon completion of the merger. See Note 23 — Subsequent Events for additional information on the merger.

The following table summarizes deferred acquisition costs that the Company has deferred and is amortizing over the effective term of the related contracts as of December 31, 2020 and 2019:

	2020	2019
Beginning	$ 82	$ 22
Written	173	93
Amortized	(135)	(33)
Ending	120	82
Less: current portion	72	32
Non-current	48	50
Total Deferred Acquisition Costs	**$ 120**	**$ 82**

Note 11 — Long-term Debt

Long-term debt, including capital lease obligations, consists of the following as of December 31, 2020 and 2019:

(In thousands, except share data)

	2020	2019
Term note payable	$ —	$ 9
Capital lease obligation	1,305	—
Promissory note	2,990	
Convertible notes payable, net	3,325	2,816
Paycheck Protection Program loan	1,749	
	9,369	2,825
Current portion of long-term debt	(6,370)	(2,825)
Long-term Debt	**$ 2,999**	**$ —**

Term Note Payable

The Company had a note payable to a financial institution due in monthly installments of approximately $1, including interest of 16.01% through December 2020. The note is secured by real property. The balance as of December 31, 2020 and 2019 was $0 and $9, respectively.

Capital Lease Obligation

The Company entered into a 10-year and three-month lease for a new hub location building that commenced on December 23, 2020 and is set to expire on March 23, 2031. As lessee, CarLotz is obligated to pay the lessor total future minimum lease payments of $1,971. This capital lease does not carry an explicit interest rate but is subject to an annual rent escalation of 2.0% throughout the lease term. At the end of the lease term, CarLotz has three 5-year renewal options with the same terms of 2.0% annual rent escalations.

Promissory Note

On December 2, 2020, the Company entered into a promissory note with AFC. Under this promissory note, the Company borrowed a principal sum of $3,000 which was recorded net of issuance costs of $10. The promissory note is due and payable upon the earlier to occur of (i) an Event of Default, as defined below and in the promissory note, (ii) the Merger Closing Date, as defined below and in the merger agreement, dated as of October 21, 2020 (as amended), between Acamar Partners Acquisition Corp and the Company (See Note 23 — Subsequent Events for additional details) , and (iii) two years from the date of the note, December 2, 2022. Interest on the promissory note accrues at a fixed rate equal to 6% per annum and totaled $15 from December 2, 2020 to December 31, 2020.

An Event of Default is defined as either a) the Payor defaults in the payment of any amount owing under the note or other payment obligation to Payee when due (whether at stated maturity, by acceleration, upon optional or mandatory prepayment, or otherwise) or b) the Payor i) is dissolved; ii) makes a general assignment, arrangement or composition with or for the benefit of its creditors; iii) institutes or has instituted against it a proceeding seeking a judgement of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition (x) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation, or y) is not dismissed, discharged, stayed or restrained in each case within 60 days of the institution of presentation thereof; iv) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); or v) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets.

The Closing is defined in the merger agreement as the date which is second Business Day after the date on which all conditions set forth in Article VII (of the merger agreement) shall have been satisfied or waived (other than those conditions that by their terms are to be satisfied at the Closing, but subject to the satisfaction or waiver thereof) or such other time and place as Acquiror and the Company may mutually agree in writing. The Merger Closing Date is defined as the date on which the Closing actually occurs.

(In thousands, except share data)

Convertible Notes Payable

On December 20, 2019, the Company entered into a note purchase agreement ("NPA") with AFC. AFC's parent company is also a common equity holder of the Company. Under this agreement, AFC agreed to purchase up to $5,000 in notes, with the initial tranche equal to $3,000 and up to two additional tranches of at least $1,000 on or prior to September 20, 2021. For each note of $1,000 or portion thereof that AFC purchases, AFC receives stock warrants constituting 0.20% of the Company's fully-diluted common stock.

In December 2019, AFC purchased the initial tranche of $3,000, which were recorded as a convertible notes payable net of issuance costs totaling approximately $112 and net of the fair value of stock warrants issued of $72.

On April 8, 2020, the Company entered into an Amendment to the NPA to allow for up to four additional tranches of $500 each, instead of two additional tranches of at least $1,000 each, as stated in the NPA. As a result, the Company issued a second tranche of convertible notes of $500 in the second quarter of 2020.

The note accrues interest at 6.00% on a 365-day basis and the outstanding interest payable as of December 31, 2020 and 2019 is approximately $212 and $6, respectively.

AFC has the right to convert this note into a variable number of shares of the Company's common stock at any time. The note is due on demand and is reflected as Long-term debt, current on the accompanying consolidated balance sheets. Since the note has a conversion price that was not in the money at the date of issuance, there was no beneficial conversion feature recorded. On the date of issuance, the Company also assessed the conversion feature for possible derivative treatment (under ASC 815 *Derivatives and Hedging*) and determined the conversion feature did not meet the definition of a derivative because the embedded conversion option requires physical settlement and the underlying shares to be delivered upon conversion are not readily convertible to cash.

The fair value of the stock warrants has been estimated using the Black-Scholes pricing model with the following weighted average assumptions:

Maturity	4 years
Risk-free interest rate	0.27%
Volatility	85.00 %
Dividend yield	0.00%
Weighted average fair value per common share	1.89

The exercise price of the stock warrants is $0.01 per share (actual). The stock warrants are only exercisable upon a sale or change of control. No stock warrants were exercised during the year.

The stock warrants met the definition of a derivative in accordance with ASC 815 and were classified as a liability because they permit a cash exercise which is considered a contractual net settlement provision. The fair value of the stock warrants has been included in Other liabilities in the consolidated balance sheets. Changes in the fair value of the stock warrants liability were recognized as a component of Other income (expense), net in the consolidated statements of operations.

The following is an analysis of stock warrants to purchase shares of the Company's common stock issued and outstanding as of December 31, 2020 and 2019:

(In thousands, except share data)

	2020	2019
Stock warrants outstanding, January 1	68,581	23,460
Stock warrants issued with convertible notes payable	7,676	45,121
Stock warrants cancelled	—	—
Stock warrants exercised	—	—
Stock warrants outstanding, December 31	76,257	68,581

Paycheck Protection Program Loan

In April 2020, the Company received a PPP loan, a new loan program under the Small Business Administration’s 7(a) program providing loans to qualifying businesses, totaling approximately $1,749. The full amount of the PPP loan was repaid in connection with the closing of the merger with Acamar Partners Acquisition Corp (“Acamar”).

Subsequent to year end December 31, 2020, and as a result of the Acamar Partners Acquisition Corp. Merger, CarLotz settled its debt obligations, excluding the floor plan facility and capital lease obligation. See Note 23 — Subsequent Events for additional details about the merger with Acamar.

Note 12 — Accrued Expenses

Accrued expenses consist of the following as of December 31, 2020 and 2019:

	2020	2019
License and title fees	$ 785	$ 399
Payroll and bonuses	837	388
Deferred rent	199	300
Other accrued expenses	1,742	489
Total Accrued Expenses	**$3,563**	**$1,576**

The Company had accrued transaction expenses of $6,052 as of December 31, 2020, including legal, accounting, underwriting fees and other costs that are directly related to the Acamar Partners Acquisition Corp. Merger. See Note 23 — Subsequent Events for additional information on the merger.

Note 13 — Orange Grove Promissory Notes

During 2018, Orange Grove issued a promissory note of approximately $515 to the former holder of the 80% membership interest in Orange Grove, with an interest rate of 8.00%, as part of the consideration for the redemption of such membership interest (See Note 1 — Description of Business). As of December 31, 2018, the promissory note balance was $418. The balance was paid in full during the year ended December 31, 2019. Interest expense for the years ended December 31, 2019 and 2018 was $19 and $11, respectively.

(In thousands, except share data)

Note 14 — Other Liabilities

Other Liabilities consists of the following as of December 31, 2020 and 2019:

	2020	2019
Other Liabilities, Current		
Unearned insurance premiums	$ 257	$434
Other Liabilities		
Unearned insurance premiums	1,680	719
Other long-term liabilities	135	97
Stock warrants liability	144	115
Other Liabilities, Long-term	**$1,959**	**$931**

Note 15 — Lease Commitments

The Company leases its operating facilities from various third parties under noncancelable operating leases. The leases require various monthly rental payments ranging from approximately $3 to $50 with various ending dates through March 2031. The leases are triple net, whereby the Company is liable for taxes, insurance and repairs. Rent expense for all operating facility leases was approximately $1,720, $2,000 and $1,000 for the years ended December 31, 2020, 2019, and 2018, respectively. Most of these leases have escalating rent payments which are expensed on a straight-line basis and are included in deferred rent, within accrued expenses on the accompanying consolidated balance sheets.

The following is a table of facility lease commitments due for the next five years, and thereafter as of December 31, 2020:

	Operating Leases	Capital Leases
2021	$2,303	$ 139
2022	2,372	183
2023	2,209	187
2024	1,216	190
2025	993	194
Thereafter	511	1,078
Total Minimum Lease Payments	**$9,604**	**$1,971**
Less: amount representing interest		(666)
Present value of minimum lease payments		1,305
Less: current obligation		(55)
Long-term obligations under capital lease		$1,250

The Company is obligated under capital leases for a hub location which expires in March 2031. The Company recorded the lease liability at the fair market value of the underlying asset of $1,305 in the consolidated balance sheets.

The Company also leases vehicles from unrelated third parties 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 $291 to $1,770 (actual) with various ending dates through December 2023.

(In thousands, except share data)

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, 2020:

	Payments Due to Third Parties	Future Receipts
2021	$1,538	$1,862
2022	1,024	1,236
2023	596	711
2024	194	233
2025	2	3
Total	**$3,354**	**$4,045**

Note 16 — Related Party Transactions

During the normal course of business, Orange Grove may purchase used vehicles from CarLotz, Inc. as well as sell off-lease vehicles through CarLotz, Inc. These transactions were immaterial prior to the consolidation of Orange Grove, and the transactions were handled as any other third party with terms the same as other customers. Subsequent to the Company becoming sole member of Orange Grove on September 13, 2018, such sales have been eliminated in consolidation.

Prior to becoming the sole member of Orange Grove and as part of the arrangement with the previous majority owner, Orange Grove paid a management fee to CarLotz, Inc. and reimbursed CarLotz, Inc. for the salaries and expenses of the employees dedicated to the business of the fleet vehicle joint venture. For the year ended December 31, 2018, management fee income received from Orange Grove was approximately $127, and expense reimbursements totaled approximately $250. The management fee and expense reimbursement ceased when CarLotz, Inc. became the sole member of Orange Grove.

The Company incurs monthly management fees of $21 payable to the holders of Series A Preferred Stock, or approximately $250 per year, payable to the holder of Series A Preferred Stock, of which $331 and $250 is accrued as of December 31, 2020 and 2019, respectively. The management fee expenses are reflected as Management fee expense — related party on the accompanying consolidated statements of operations.

The Company has a payable to the holder of Series A Preferred Stock, totaling approximately $5,100 and $3,100 as of December 31, 2020 and 2019, respectively, which is included in Accrued expenses — related party on the accompanying consolidated balance sheets.

Subsequent to year end December 31, 2020, and as a result of the Acamar Partners Acquisition Corp. Merger, the monthly management fees incurred and payable amount due to the holder of Series A Preferred Stock were settled and the agreement was terminated. See Note 23 — Subsequent Events for additional detail.

Note 17 — Commitments and Contingencies

The Company sells retail installment contracts to financial institutions without recourse. Some buyers of the contracts retain portions of the finance commissions as reserves against early payoffs. The Company is subject to chargebacks against such income in the event of a cancellation or early payoff.

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.

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 the results of operations.

Note 18 — Redeemable Convertible Preferred Stock

The Amended and Restated Certificate of Incorporation of the Company provides for two classes of ownership: Common stock and Series A Preferred Stock. The holder of Series A Preferred Stock receives distribution priority in order of 1.5 times the sum of any unpaid returns and unreturned capital contributions. Preferred returns are calculated at an 8.00% annual rate. Unpaid cumulative distributions are approximately $4,800 and $2,900 as of December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, the Series A Preferred Stock has a liquidation preference of $37,114 and $34,300, respectively. Upon liquidation of the Company, proceeds in excess of the Series A Preferred Stock would be 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 consolidated balance sheets.

The Company's Series A Preferred Stock is classified as temporary equity. ASC 480 *Distinguishing Liabilities from Equity*, Accounting Series Release 268 requires equity instruments with redemption features that are not solely within the control of the issuer to be classified outside of permanent equity, in temporary equity. The Series A Preferred Stock is redeemable for cash and other assets on the occurrence of a deemed liquidation event such as a change of control which is considered an event that is not solely within the control of the Company because the holders of the Series A Preferred Stock control the Company's Board of Directors.

The Company's September 2017 issuance and sale of Series A Preferred Stock is to be issued in four tranches on different dates. The first issuance of 1,220,851 preferred shares occurred in September 2017. The second tranche closing of 813,900 shares was contingent upon the achievement of certain performance conditions before December 31, 2020 ("Tranche Two Performance Date") or the waiver of the performance conditions by the holders of the Series A Preferred Stock. The performance conditions are defined in the Series A Preferred Stock Purchase Agreement and are based on the achievement of operating metrics such as earnings before interest, taxes, depreciation, and amortization exceeding targets for existing stores, achievement of opening a minimum number of new stores and meeting financial targets for those new stores, corporate overhead goals, and commercial vehicle sales objectives. Upon the attainment or waiver of the performance conditions, the founding stockholders of the Company may cause the Company to issue and sell to the Series A Preferred Stockholders the shares contemplated in the second tranche closing. The Company classified the obligation for the future purchase of additional shares under the second closing as a liability on the Company's consolidated balance sheets as the obligation met the definition of a freestanding financial instrument. This Series A Preferred Stock tranche liability was initially recorded at a fair value of $482 upon the date of issuance and was subsequently remeasured to fair value at each reporting date using Level 3 fair value inputs. Changes in the fair value of the Series A Preferred Stock tranche obligation were recognized as a component of other income (expense), net in the consolidated statements of operations until the tranche obligation was fulfilled and extinguished. The second tranche was funded in two separate closings in January 2019 for 305,188 shares and May 2019 for 508,712 shares.

The 2017 Series A Preferred Stock Purchase Agreement contains two additional funding dates such that, contingent upon the Tranche Two Performance Date, the stockholders of the Series A Preferred Stock have the right, but not the obligation, to purchase an additional 508,688 shares in each tranche at a price equal to the original issuance purchase price. The third and fourth tranche obligations were initially recorded at a fair value of $1,214 each and were subsequently remeasured to fair value at each reporting date with changes in the fair value of the Series A Preferred Stock tranche obligation recognized in other income (expense), net in the consolidated statements of operations.

Significant terms of the outstanding Series A Preferred Stock are as follows:

1) **Conversion** — Each share of Series A Preferred Stock may be converted into shares of common stock based upon dividing the original issue price of the Series A Preferred Stock by the conversion price. Conversion is (a) at the option of the preferred stockholders and (b) mandatory upon the closing of an initial public offering of the Company's common stock, meeting certain minimum requirements with respect to net cash proceeds, and upon the consent of a majority of the outstanding shares of Series A Preferred Stock. In accordance with ASC 480, the conversion feature was determined to be clearly and closely related to the host contract and was not bifurcated from the equity-like host instrument and accounted for separately. In addition, the conversion feature was not determined to be a beneficial conversion feature because there was zero intrinsic value to the conversion option at the commitment date.

2) **Dividends** — The holders of Series A Preferred Stock are entitled to receive, in any fiscal year, cumulative dividends which accrue at the rate of 8.00% of the original issuance price, plus all accrued but unpaid dividends, compounded quarterly. As of December 31, 2020 and 2019, the aggregate cumulative preferred dividends were approximately $4,800 and $2,900, respectively, or an amount per outstanding share of Series A Preferred Stock of $2.34 and $1.41, respectively.

3) **Liquidation** — In the event of any liquidation, dissolution or winding-up of the Company, either voluntarily or involuntarily, the holders of Series A Preferred Stock are entitled to receive from the remaining assets of the Company available for distribution, before any payment shall be made in respect of the common stock, an amount equal to 1.5 times the sum of the per share original issuance price of Series A Preferred Stock, plus any dividends thereon declared but unpaid. If the assets of the Company available for distribution are not sufficient to pay the full amount of distribution, plus any dividends thereon declared but unpaid, such assets will be distributed ratably in proportion to the respective amounts per share that each holder is entitled to receive.

4) **Redemption —** Shares of Series A Preferred Stock are not subject to mandatory redemption.

5) **Voting Rights** — Each share of Series A Preferred Stock has voting rights equal to the number of common shares into which it is convertible. Additionally, upon the initial funding of the Series A Preferred Stock, the holders of the Series A Preferred Stock were entitled to elect three members to the Company's Board of Directors. Upon the funding of the second tranche of the Series A Preferred Stock, the Series A holders were entitled to elect a total of five directors to the Company's Board of Directors.

6) **Other Rights —** At any time from and after September 15, 2024, the holders of the Series A Preferred Stock may cause a Sale of the Company by means of an Initial Public Offering or a sale of all Series A Preferred Stock owned by the holders and an exercise of its drag-along rights, a controlled auction, or a negotiated sale to a third party. These rights are subject to right of first offer from the founding stockholders to purchase the Company in the event a sales process is initiated by the holders of the Series A Preferred Stock.

Note 19 — Stock-Based Compensation Plan

2011 Stock Option Plan

In March 2011, the Company adopted a stock incentive plan (the "2011 Stock Option Plan") to promote the long-term growth and profitability of the Company. The 2011 Stock Option Plan does 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. In February 2012, the Company set aside 325,660 shares of common stock for the 2011 Stock Option Plan under an amended stock incentive plan.

(In thousands, except share data)

The Company estimates the fair value of stock options related to the 2011 Stock Option Plan using the Black-Scholes pricing model. The Black-Scholes option-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. The expected life input is based on the contractual term as per the agreements with employees, the risk-free interest rate input is based on U.S. Treasury instruments and the volatility input is calculated based on the implied volatility of publicly traded companies in a similar industry with adjustments for size, revenues, and business life cycle. The fair value of shares was estimated based on the Company's per share price for common stock from the Company's last financing round.

There were no grants related to the 2011 Stock Option Plan in the years ended December 31, 2020, 2019, or 2018 and no stock options were exercised during 2020, 2019, or 2018 related to the 2011 Stock Option Plan.

Share-based compensation expense for the years ended December 31, 2020, 2019, and 2018 totaled approximately $45, $113, and $151, respectively, and has been included in selling, general, and administrative expenses in the accompanying consolidated statements of operations.

The following table summarizes the activity number of stock options outstanding and weighted average exercise price related to the shares set aside for the 2011 Stock Option Plan:

	Number of Stock Options	Weighted Averaged Exercise Price
Balance (January 1, 2018)	175,150	$5.99
Granted	—	—
Forfeited	(13,500)	5.56
Balance (December 31, 2018)	161,650	6.07
Granted	—	—
Forfeited	(7,500)	6.82
Balance (December 31, 2019)	154,150	6.03
Granted	—	—
Forfeited	—	—
Balance (December 31, 2020)	154,150	6.03
Vested (as of December 31, 2020)	146,613	$5.99

The following summarizes certain information about stock options vested and expected to vest as of December 31, 2020 related to the 2011 Stock Option Plan:

	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Outstanding	154,150	1.67 years	$6.03
Exercisable	146,613	1.67 years	$5.99

As of December 31, 2020, there was approximately $33 of total unrecognized compensation cost related to unvested stock based compensation arrangements, which is expected to be recognized over a weighted-average period of 0.36 years.

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 stock. There were no stock options exercised in the years ended December 31, 2020, 2019, or 2018. The aggregate intrinsic value for stock options outstanding and options exercisable as of December 31, 2020 is $0.

(In thousands, except share data)

2017 Stock Option Plan

During the year ended December 31, 2017, the Company adopted a stock incentive plan (the “2017 Stock Option Plan”) to promote the long-term growth and profitability of the Company. The 2017 Stock Option Plan does 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 various equity arrangements to these stakeholders. The Company set aside 601,875 shares of common stock for the 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 stock options. All stock options related to the 2017 Stock Option Plan have an exercise price of $9.82 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 October 2029.

The following summarizes the number of stock options outstanding and weighted average exercise price related to shares set aside for the 2017 Stock Option Plan:

	Number of Stock Options	Weighted Averaged Exercise Price
Balance (January 1, 2018)	—	—
Granted	261,552	$9.82
Forfeited	(6,500)	9.82
Balance (December 31, 2018)	255,052	9.82
Granted	154,000	9.82
Forfeited	(129,876)	9.82
Balance (December 31, 2019)	279,176	$9.82
Granted	109,500	$9.82
Forfeited	—	$9.82
Balance (December 31, 2019)	388,676	$9.82

The weighted average grant date fair value of options granted during the year ended December 31, 2020, was $0.61.

As of December 31, 2020, there was approximately $236 of total unrecognized compensation cost related to unvested stock options related to the 2017 Stock Option Plan. Management determined no compensation expense was required for the 2017 Stock Option Plan during the years ended December 31, 2020 and 2019 as no triggering events have occurred or were determined to be probable of occurring.

The weighted average inputs used for the 2017 Stock Option Plan were as follows as of December 31, 2020:

Expected volatility	81.00%
Expected dividend yield	—%
Expected term (in years)	5 years
Risk-free interest rate	0.37%

(In thousands, except share data)

Note 20 — Income Taxes

The Company's income tax expense consisted of the following for the years ended December 31, 2020, 2019 and 2018:

	2020	2019	2018
***Current Income Tax Expense*:**			
Federal	$—	$—	$—
State and local	10	11	3
Total Current Income Tax Expense	10	11	3
***Deferred Income Tax Expense*:**			
Federal	—	—	—
State and local	—	—	—
Total Income Tax Expense	$10	$11	$ 3

Deferred income taxes are recorded using enacted tax rates based upon differences between financial statement and tax bases of assets and liabilities. The significant components of the Company's estimated deferred tax assets and liabilities as of December 31, 2020 and 2019 are as follows:

	2020	2019
***Deferred Tax Assets*:**		
Net operating losses	$ 7,042	$ 5,881
Accrued expenses	109	
Unearned premiums	466	
Contract expense	332	262
Intangible assets	204	
Other	406	809
Total deferred tax assets	8,559	6,952
Less: valuation allowance	(8,559)	(6,910)
Net Deferred Tax Assets	—	42
Deferred Tax Liabilities		
Fixed assets	—	(42)
Total deferred tax liabilities	—	(42)
Net Deferred Tax Liabilities	—	(42)
Net Deferred Tax Assets/Liabilities	$ —	$ —

A valuation allowance has been established for all deferred tax assets because the Company has incurred cumulative losses in recent years and the Company has not determined that the net deferred tax assets are more likely than not to be realized. In future periods, if the Company determines it is more likely than not that the deferred tax assets will be realized, the valuation allowance may be reduced and an income tax benefit recorded. The following table presents the change in the deferred tax asset valuation allowance for the years ended December 31, 2020, 2019 and 2018:

(In thousands, except share data)

	2020	2019	2018
January 1,	**$6,910**	**$3,986**	**$2,008**
Additions – Charged	1,649	2,924	1,731
Deductions – Charged	—	—	—
Other	—	—	247
December 31,	**$8,559**	**$6,910**	**$3,986**

As of December 31, 2020, the Company has Federal net operating loss carryforwards of approximately $29,200, of which $6,400 will expire at various dates from 2031 — 2038 and $22,800 will carryforward indefinitely but can only be used up to 80.00% of taxable income. The Company has state net operating loss carryforwards of approximately $22,100, which will expire at various dates from 2031 — 2038.Certain tax attributes of the net operating loss carryforwards may be subject to an annual limitation as a result of a change of ownership in prior years as defined under Internal Revenue Code Section 382.

The differences between income tax benefit expected at the U.S. federal statutory income tax rates of 21.00% (for 2020 and 2019) and 35.00% (for 2018) and the reported income tax expense are summarized as follows:

	2020	2019	2018
Loss Before Income Tax Expense	**$(6,542)**	**$(12,667)**	**$(6,557)**
Income tax benefit at federal statutory rates	(1,372)	(2,660)	(1,377)
State and local income taxes	(79)	(471)	(238)
Investment remeasurement	—	—	(126)
Valuation allowances	1,649	2,924	1,731
Change in fair value of redeemable convertible preferred stock tranche obligation	(194)	293	57
Other	6	(75)	(44)
Total Income Tax Expense	$ 10	$ 11	$ 3
Effective Tax Rate	(0.15)%	(0.09)%	(0.05)%

Income tax returns are filed in the U.S., including multiple state jurisdictions, and are subject to examination by tax authorities in the jurisdictions where the Company operates. The Company has open tax years from 2018 to 2020. The Company has determined that it does not have any unrecognized tax benefits or obligations as of December 31, 2020 and 2019.

(In thousands, except share data)

Note 21 — 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 years ended December 31, 2020, 2019 and 2018:

	2020	2019	2018
Numerator:			
Net loss	$ (6,552)	$ (12,678)	$ (6,560)
Redeemable Convertible Preferred Stock dividends (undeclared and cumulative)	(1,884)	(1,579)	(1,014)
Net loss attributable to common stockholders	(8,436)	(14,257)	(7,574)
Denominator:			
Weighted average shares outstanding, basic and diluted	3,716,526	3,716,526	3,716,526
Net loss per share attributable to common stockholders, basic and diluted	**$ (2.27)**	**$ (3.84)**	**$ (2.04)**

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 years ended December 31, 2020, 2019, and 2018:

	2020	2019	2018
Redeemable Convertible Preferred Stock outstanding	2,034,751	2,034,751	1,220,851
Convertible notes payable	348,910	282,211	—
Stock warrants	76,257	68,581	23,460
Stock options outstanding to purchase shares of common stock	542,826	433,326	416,702
Total	**3,002,744**	**2,818,869**	**1,661,013**

Note 22 — Concentrations

The suppliers who accounted for 10% or more of the Company's total purchases and its outstanding balance of accounts payable are presented as follows:

	Total purchases from vendor to total purchases for the year ended December 31,		
Vendor	2020	2019	2018
Vendor A	33%	—%	—%
Vendor B	13%	12%	—%

	Accounts payable to the vendor as of December 31,	
Vendor	2020	2019
Vendor A	$2,918	$ —
Vendor B	$ 368	$257—

The Company believes there are other suppliers that could be substituted should the supplier become unavailable or non-competitive.

For the years ended December 31, 2020, 2019, and 2018, no retail or wholesale customers accounted for more than 10% of the Company's revenue.

Note 22 — Subsequent Events

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 15, 2021, the date the financial statements were available to be issued.

Acamar Partners Acquisition Corp. Merger

On October 21, 2020, the Company entered into an Agreement and Plan of Merger (the “Agreement”) among the Company, Acamar Partners Acquisition Corp. (“Acamar”), an entity listed on the Nasdaq Capital Market (“Nasdaq”) under the trading symbol ACAM, Acamar Partners Sub, Inc., a Delaware corporation and direct wholly owned subsidiary of Acamar (“Merger Sub”), providing for, among other things, and subject to the conditions therein, the combination of the Company and Acamar pursuant to the proposed merger of Merger Sub with and into the Company with the Company continuing as the surviving entity (the “Merger”). As a result of the Merger, each outstanding share of the Company’s common stock was converted into the right to receive newly issued shares of Acamar’s Class A common stock, as calculated pursuant to the terms of the Agreement.

The business combination was accounted for as a reverse capitalization with CarLotz as the continuing company, and was consummated on January 21, 2021, after the approval of Acamar Partners’ stockholders. Beginning January 22, 2021, new CarLotz’ shares began trading on the Nasdaq Global Market under the ticker symbol “LOTZ.” The business combination was funded with a combination of Acamar Partners’ $311 million cash-in-trust and $125 million of Private Investment in Public Equity proceeds.

As a result of the business combination, CarLotz received approximately $315 million of net cash in the business combination. Concurrently, CarLotz settled its debt obligations, excluding the floor plan facility and capital lease obligation. The Company extinguished the convertible notes with a principal balance of $3,500, the PPP loan with a principal balance of $1,749 and the promissory note with a principal balance of $3,000. The Company also settled its stock warrants liability, redeemable convertible preferred stock and redeemable convertible preferred stock tranche obligation with carrying values of $144, $17,560 and $2,832, respectively, as of December 31, 2020.

In addition, beginning March 10, 2021, the Company entered into a $30 million floor plan credit facility with Ally Financial. Concurrently, proceeds from the agreement were used to settle outstanding debt obligations on the preexisting floor plan facility with AFC. The interest rate is the prime rate plus 2.50% per annum, or 5.75% as of the date of the agreement.

Additional Hub Locations

Subsequent to the year ended December 31, 2020 and in accordance with the Company’s strategy to generate significant growth going forward, CarLotz expanded into two new locations with hub openings in Seattle, Washington and Orlando, Florida. The Seattle-area hub located in Lynnwood, Washington, is CarLotz’ first location on the west coast and ninth location overall. The Orlando-area hub is located in Merritt Island, Florida and is CarLotz’ second location in the state of Florida and tenth location overall. These two hub openings align with the Company’s strategic goals which include expanding into new geographic markets while innovating and expanding the Company’s technological leadership.

The Company signed a lease agreement for a new hub in Nashville, Tennessee in February 2021 that expires in July 2031 with the option of three 5 year renewal periods. The Company also signed a lease agreement for a new hub in Charlottesville, Virginia in March 2021 that expires in March 2026 with the option of two 5 year renewal periods.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of CarLotz’ consolidated results of operations and financial condition. The discussion should be read in conjunction with the consolidated financial statements and notes thereto contained in Exhibit 99.1 to this Amendment No. 1. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described under the headings “Risk Factors” and “Forward-Looking Statements; Market Ranking and Other Industry Data” included in our Annual Report on Form 10-K. Actual results may differ materially from those contained in any forward-looking statements. Unless the context otherwise requires, references in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” to “we,” “us,” “our,” and the “Company” refer to Former CarLotz and its consolidated subsidiaries prior to the consummation of the Merger.

Overview

CarLotz is a leading 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 while simultaneously providing buyers with prices that are, on average, below those of traditional dealerships**.** 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 a seamless omni-channel experience and comprehensive 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 price and vehicle triage optimization between the wholesale and retail channels. Through our marketplace model, we generate significant value for both sellers and buyers through price, selection and experience.

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, rental car companies, banks, captive 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 fully integrates with their existing technology platforms. For individuals who are our retail sellers, we offer a hassle-free selling experience while allowing them to generate on average up to $1,000 or more for their vehicle, net of all fees and expenses, than when utilizing the alternative wholesale sales channel and stay fully informed by tracking the sale process through our easy to navigate online portal. We offer our retail customers a hassle-free vehicle buying experience at prices generally lower than our competitors. Buyers can browse our extensive, and growing, inventory online through our website or at our locations as well as select from our fully integrated financing and insurance products with ease.

We believe our marketplace model drives higher returns relative to our competition. Through the industry’s leading consignment-to-retail sales model, CarLotz is able to obtain non-competitively sourced inventory to sell. Consigned vehicles represent on average approximately 75% of our vehicle inventory at our hubs after an initial ramp-up period following the opening of a new hub during which we usually have a higher portion of purchased vehicles to ensure a well-stocked inventory, with approximately 60% or more of our total vehicles sales originating from our growing relationships with corporate vehicle sourcing partners.

Founded in 2011, CarLotz currently operates ten retail hub locations in the U.S., with two more facilities under lease, initially launched in the Mid-Atlantic region and since expanded to the Southeast, Southcentral, Midwest, and Pacific Northwest regions of the United States. Our current facilities are located in Midlothian, Richmond and Chesapeake, VA, Greensboro and Charlotte, NC, Tampa and Merritt Island, FL, Chicago, IL, San Antonio, TX and Seattle, WA. We also have newly leased facilities in Nashville, TN and Charlottesville, VA.

Our hubs act as both physical showrooms with predictable retail sales volumes and as consignment centers where we can source, process and recondition newly acquired inventory. Our ability to source inventory through these locations is important to our asset-light business model. At these hubs, our vehicles undergo an extensive 133-point inspection and reconditioning in preparation for resale. Our hubs are more than just locations to buy, sell and repair vehicles and are crucial to the information and data-analytics that we make available to our corporate vehicle sourcing partners and retail customers. With experience from our initial locations, we have learned how to scale our hub and processing operations to drive efficiencies. As we continue to grow our physical and online footprint, these hubs and the vast amount of information they provide will continue to be an important source of value to our buyers, sellers and our business model.

For our corporate vehicle sourcing partners, we have developed proprietary technology that integrates with their internal systems and supports every step in the consignment, reconditioning and sales process. For our retail buyers, we have developed a fully digital, end-to-end e-commerce platform that includes every step in the vehicle selection, financing and check-out process. To supplement these systems, we have developed custom-built data analytics tools that provide real time information to our corporate vehicle sourcing partners, retail sellers, retail buyers and ourselves. Using this technology, we are able to lower the days-to-sale while assisting sellers to receive higher vehicle values and track every step of the sales process. For our retail buyers, we offer a fully digital and hassle-free process that offers our full range of services, from vehicle selection to at home, touchless delivery, as we continue to expand our technological solutions. Our strategy is to roll out a fully integrated mobile application while continuing to expand our digital car buying platform.

Revenue Generation

CarLotz generates a significant majority of its revenue from contracts with customers related to the sales of vehicles. We sell used vehicles to our retail customers from our hubs located throughout the US. Consigned vehicles represent on average approximately 75% of our vehicle inventory at our hubs after an initial ramp-up period following the opening of a new hub during which we usually have a higher portion of purchased vehicles to ensure a well-stocked inventory. Customers also frequently 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. We also sell vehicles to wholesalers or other dealers, primarily at auctions, generally for vehicles acquired via trade-in or vehicles acquired via consignment that do not meet our quality standards for sale to retail customers or that remain unsold at the end of the consignment period. CarLotz also generates revenue from providing retail vehicle buyers with options for financing, insurance and extended warranties. Our revenue for the years ended December 31, 2020, 2019 and 2018 was $118.6 million, $102.5 million and $58.4 million, respectively. Our strategy is to generate significant growth going forward by expanding into new geographic markets, innovating and expanding our technological leadership, further penetrating existing accounts and key vehicle channels, adding new corporate vehicle sourcing accounts, investing in brand and tactical marketing and increasing our service offerings and further optimizing our pricing.

Inventory Sourcing

We source vehicles from both corporate and consumer sellers. Through the industry’s leading consignment to retail sales model, we have access to non-competitively sourced inventory. At our mature retail hubs (year three or later of operation), we generally source 60% or more of our inventory non-competitively from our corporate vehicle sourcing partners, 15% non-competitively from consumers, 15% non-competitively from other sources and 10% is competitively sourced, meaning other buyers have the ability to purchase the same vehicle. We maintain stable long-term relationships with numerous key blue-chip national accounts with a robust sales pipeline of potential new accounts. We support our corporate vehicle sourcing partners by offering an attractive sell-through rate and our integrated technology platforms 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 features tailored to create significant value for both buyers and sellers with tools for photographing, documenting and transmitting vehicle information. This includes a proprietary custom-built vehicle retailing and wholesaling platform that creates and verifies all documents for the purchase, sale and financing over the web or in-hub. Our technology offers a custom system for managing customer leads, scheduling appointments and test drives from our applications and websites as well as from third party providers.

For the year ended December 31, 2020, two of our corporate vehicle sourcing partners, with whom we do not have long-term consignment contracts, accounted for over 40% of the cars we sold. Furthermore, for the fourth quarter of 2020 and continuing during the first quarter of 2021 to date, one of our corporate vehicle sourcing partners has accounted for over 60% of our vehicles sourced. Such concentrations can result from a variety of factors, some of which are beyond our control, and we may elect to source a higher percentage of our vehicles from one or more corporate vehicle sourcing partners for a variety of reasons. If a corporate vehicle sourcing partner from which we are sourcing a significant portion of our vehicles was to cease or significantly reduce making vehicles available to us, we would likely need to increase our sourcing of vehicles from other vehicle sourcing partners potentially on less favorable terms and conditions. Such an effort may take a number of months and may not precisely replicate the variety and quality of vehicles that we have been sourcing from a single source.

In addition to our flat fee model, we also enter into alternative fee arrangements with certain corporate vehicle sourcing partners based on a return above a wholesale index or based on a profit share program. 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 the unit's sale price and fees we are able to charge in connection with the sale. As we do not have long-term contracts with our corporate vehicle sourcing partners and do not require them to make vehicles available to us, our mix of vehicles under alternative fee arrangements is likely to fluctuate over time. Our gross profit per unit is therefore likely to fluctuate from period to period, perhaps significantly, due to mix of flat fee and alternative fee arrangements as well as due to the sales prices and fees we are able to collect on the vehicles we source under alternative fee arrangements.

We have an alternative fee arrangement with the corporate vehicle sourcing partner that accounted for over 60% of our vehicles sourced during the fourth quarter of 2020 and first quarter of 2021 to date. Under this fee arrangement, vehicles are returned to the corporate vehicle sourcing partner from consignment if the vehicle has not been sold through our retail channel within a specified time period. In such instances, we are responsible for the expenses we have incurred with respect to the vehicle, including shipping costs and any refurbishment costs we have incurred. We have returned a number of vehicles from consignment during the first quarter of 2021 to date and expect to continue to return vehicles into the second quarter of 2021 as we work through the additional inventory that we sourced during the second half of 2020 to drive our growth. The inventory surge put pressure on our processing centers resulting in lower inventory processing and increased days to sale.

The expenses associated with these returned vehicles will reduce our gross profit during the first quarter of 2021 and for subsequent periods during which we experience such vehicle returns. We are taking steps to match our intake of vehicles under this arrangement to our sales and reconditioning capacity and expect that we will begin to mitigate these expenses beginning in the second quarter and improving throughout 2021.

Integrated Vehicle Processing Centers

Our hubs with integrated vehicle processing centers allow us to add value by efficiently reconditioning vehicles and quickly move them to market. Our step-by-step process includes all aspects of preparing a vehicle for sale, including a 133-point inspection, mechanical and body reconditioning, paint, detail, merchandising and imaging. Our reconditioning program is driven by years of experience that allows us to cost-effectively repair, enhance and process a large number of vehicles. As we scale our business, our plan is to invest in increased processing capacity. In addition to achieving cost savings and operational efficiencies, we aim to lower our days to sale. Going forward, our strategy is to make capital investments in additional hubs with integrated vehicle processing centers by leveraging our data analytics and deep industry experience, and taking into account a combination of factors, including proximity to buyers and sellers, transportation costs, access to inbound inventory and sustainable low-cost labor. All of these initiatives are designed to lower reconditioning costs per unit.

Regional Hub Network

Through our full service e-commerce website and ten regional hubs, we provide a seamless shopping experience for today's modern vehicle buyer, allowing our nationwide retail customers to fully transact online, in-person or a combination of both (including contactless delivery). We have a full-spectrum of inventory, including high-value and commercial vehicles, available for delivery anywhere in the U.S., with sales completed in all 50 states. Our regional hubs allow for test drives and on-site purchase, which we plan to expand to nationwide coverage.

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 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. We plan to expand our F&I product offering to drive additional gross profit.

Factors Affecting our Performance

Expansion into New Geographic Markets

We actively monitor attractive markets to enter, with a focus on highly concentrated or growing demographic areas and attractive start-up costs. Our real estate team has identified our first set of new hub locations, in furtherance of our strategy of opening three to four new hubs per quarter in 2021, and more than 40 hubs by the end of 2023. We believe an expanded footprint will enable us to increase our vehicle sales and further penetrate our national vehicle sourcing partners while also attracting new corporate vehicle sourcing partners that were previously unavailable due to our geographic limitations. As we increase the number of retail hubs, we expect to raise service levels, enabling increased per vehicle economics. The laws of certain states that we enter may currently or in the future restrict our operations or limit the fees we can charge for certain services. See "*Risk Factors — Risks Related to Our Business — Certain state laws prohibit or restrict vehicle consignment and, if additional states enact similar laws, our geographic expansion strategy and our business, financial condition and results of operations could be adversely affected*" in our Annual Report on Form 10-K.

Further Penetration of Existing Accounts and Key Vehicle Channels

We believe that we can benefit from significant untapped volume with existing corporate vehicle sourcing partners and that our growing footprint will allow us to better serve our national accounts. Many of our existing sourcing partners still sell less than 5% of their volumes through the retail channel. As retail remarketing continues to develop as a more established alternative and as CarLotz expands to service buyers and sellers nationwide, we anticipate substantial growth with our existing commercial sellers.

Innovation and Expanded Technological Leadership

We are constantly reviewing our technology platform and our strategy is to leverage our existing technological leadership through our end-to-end e-commerce platform to continually enhance both the car buying and selling experience, while providing insightful data analytics in real time. Over the next two years, we plan to invest significantly in our core suite of technology to enhance the buyer and seller experience, improve our B2B vehicle sourcing and enhance our business intelligence capabilities with increased machine learning and artificial intelligence. In addition, we plan to invest significant amounts for various retail and processing enhancements, the commercialization of our proprietary technology solutions for our corporate vehicle sourcing partners and the creation of industry standards for retail remarketing communication and marketplace analytics.

Investments in Additional Processing Capacity

As we scale our business, our plan is to invest in increased processing capacity. In addition to achieving cost savings and operational efficiencies, we aim to lower our days to sale. Going forward, our strategy is to make capital investments in additional processing centers by leveraging our data analytics and deep industry experience and taking into account a combination of factors, including proximity to buyers and sellers, transportation costs, access to inbound inventory and sustainable low-cost labor. All of these initiatives are designed to lower reconditioning costs per unit and thereby improve per unit economics.

Addition of New Corporate Vehicle Sourcing Accounts

We plan to leverage our national footprint in order to access new corporate vehicle sourcing partners, which may not have been accessible in the past due to our current limited geographic reach. Additional vehicle volume from new accounts would allow us to improve our consigned vehicle market share at existing and new locations.

Investment in Brand and Tactical Marketing

Utilizing a portion of the additional capital we raised in the Merger, we intend to ramp up our local advertising and begin to focus on a more national audience. Our plan includes analytics-driven, targeted marketing investments to accelerate growth while being accretive to margins. With improved awareness of our brand and our services, we plan to identify, attract and convert new sourcing partners at optimized cost.

Increased Service Offerings and Price Optimization

As we further develop the CarLotz brand, we believe our enhanced platform will support increased revenue from product sales and optimized vehicle pricing. Areas of potential further investment in service offerings include (i) expansion of existing and new F&I products to cover appearance, roadside assistance, key insurance and wheel and tire production, (ii) expansion of our digital wholesale remarketing alternatives for corporate vehicle sourcing partners by building an in-house wholesale vehicle market for those vehicles that we do not sell through our retail channel and (iii) further development of a front-end digital solution to source more vehicles from consumers.

Seasonality

Used vehicle sales exhibit seasonality with sales typically peaking late in the first calendar quarter and diminishing through the rest of the year, with the lowest relative level of vehicle sales expected to occur in the fourth calendar quarter. Due to our rapid growth, our overall sales patterns to date have not reflected the general seasonality of the used vehicle industry, but we expect this to change once our business and markets mature. Used vehicle prices also exhibit seasonality, with used vehicle prices depreciating at a faster rate in the last two quarters of each year and a slower rate in the first two quarters of each year. Historically, this has led our gross profit per unit to be higher on average in the first half of the year than in the second half of the year.

Impact of COVID-19

In March 2020, the World Health Organization declared the outbreak and spread of the COVID-19 virus a pandemic. During initial shelter in place orders and economic shutdowns, we saw a decrease in sales activity as consumers for the most part stayed home during the months of March through May of 2020. As our sales began to return to pre-COVID-19 levels late in the second quarter of 2020, the ongoing OEM plant shut-downs and repossession moratoriums limited vehicle supply from our corporate vehicle sourcing partners through most of the third quarter. During this time, we maintained our aggressive cost cutting measures by limiting marketing expense and inventory purchases in an effort to preserve liquidity. As we exited the third quarter and relaxed our capital preservation strategy, we saw record consignment and inventory volume that led to record quarterly unit sales and revenue.

Like many companies, COVID-19 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, acquiring additional corporate office space and mandating social distancing.

Although the ultimate impacts of COVID-19 remain uncertain, recent surveys found that 55% of those surveyed are actively considering buying a car and 67% reported an increased reliance on personal vehicles, with 60% open to buying a car online as compared to 32% prior to the pandemic. Similarly, 61% expressed a preference for contactless services and 62% were more likely to complete the purchase steps for a vehicle online. Although we can provide no assurance that we will not see further negative impacts of the pandemic and related economic recession, we believe that these changing preferences will result in positive long-term trends for our business. However, we cannot provide assurance of the ultimate significance and duration of COVID-19's 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, the impact of COVID-19 on our customers and corporate vehicle sourcing partners and the deterioration of economic conditions in the United States, as well as record high unemployment levels, which could have an adverse impact on discretionary consumer spending.

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.

	Year Ended December 31,		
	2020	**2019**	**2018**
Retail vehicles sold	6,215	6,435	4,077
Number of hubs	8	8	8
Average monthly unique visitors	66,505	57,151	39,781
Vehicles available for sale	2,019	1,061	1,067
Retail gross profit per unit	$ 1,797	$ 1,393	$ 1,602
Percentage of unit sales via consignment	66%	46%	41%

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 return policy. The number of retail vehicles sold is the primary contributor to our revenues and, indirectly, 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 recondition and store vehicles purchased and sold within a market. Our hubs cover a geographic area of approximately 300 miles, while some of our commercial accounts expand our coverage up to 1,000 miles, based on available inventory type. This is a key metric as each hub expands our service area, vehicle sourcing, reconditioning and storage capacity.

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. Until we reach an optimal pooled inventory level, we view vehicles available-for-sale as a key measure of our growth. Growth in vehicles available-for-sale increases the selection of vehicles available to consumers in all of our markets simultaneously, which we believe will allow us to increase the number of vehicles we sell. Moreover, growth in inventory units available is an indicator of our ability to scale our vehicle sourcing, inspection and reconditioning operations.

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, each of which generates potential additional revenue from also 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 sourced via consignment

We define percentage of unit sales sourced via consignment as the percentage derived by dividing the number of vehicles sold during the period that were sourced via consignment divided by the total number of vehicles sold during the period. This is key because this metric underlies our competitive advantage in the market.

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 return policy allows customers to initiate a return until the earlier of the first three days or 500 miles after delivery.

Wholesale Vehicle Sales

We sell wholesale vehicles primarily through auction as wholesale vehicles acquired often do not meet our standards for retail vehicle sales. Revenue from wholesale vehicle sales is recognized when the vehicle is sold at auction or directly to a wholesaler and title to the vehicle passes to the customer.

Finance and Insurance, net

We provide customers with options for financing, insurance and extended warranties. Extended warranties sold beginning January 1, 2019 are serviced by a company owned by a significant shareholder of the Company. 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

When a customer requests a vehicle lease, we may enter into a lease with the customer for a vehicle owned by us. Income received for leases of owned vehicles under noncancelable operating leases is recorded in Lease income, net in the consolidated statements of operations.

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 ("SG&A") expenses primarily include compensation and benefits, advertising, 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 renewals and betterments are capitalized. Depreciation on vehicles leased to customers is calculated using the straight-line over the estimated useful life.

Non-Operating Expenses

Non-operating expenses primarily represent floor plan interest incurred on borrowings to finance the acquisition of used vehicle inventory under the Company's $12 million revolving floor plan facility with Automotive Finance Corporation.

Results of Operations

The following table presents certain information from our consolidated statements of operations by channel for the years indicated:

	Year Ended December 31,		
	2020	2019	2018
	(audited, $ in thousands)		
Retail vehicle sales	$ 104,253	$ 90,382	$ 53,448
Wholesale vehicle sales	9,984	8,454	3,153
Finance and insurance, net	3,898	3,117	1,608
Lease income, net	490	533	142
Total revenues	118,625	102,486	58,351
Cost of sales (exclusive of depreciation)	107,369	93,780	52,708
Gross profit	11,256	8,706	5,643
Operating expenses:			
Selling, general and administrative	17,552	18,305	11,661
Depreciation expense	341	504	338
Management fee expense – related party	215	250	250
Total operating expenses	18,108	19,059	12,249
Loss from operations	(6,852)	(10,353)	(6,606)
Interest expense	518	651	466
Other income (expense), net			
Management fee income – related party	—	—	127
Change in fair value of warrants liability	(14)	24	(2)
Change in fair value of redeemable convertible preferred stock tranche obligation	923	(1,396)	(272)
Other income (expense)	(81)	(291)	662
Total other income (expense), net	828	(1,663)	515
Loss before income tax expense	(6,542)	(12,667)	(6,557)
Income tax expense	10	11	3
Net loss	$ (6,552)	$ (12,678)	$ (6,560)

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 in various cities.

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 lease customers and the related leases we enter into with third party lessors.

Years Ended December 31, 2020, 2019 and 2018

The following table presents certain information from our consolidated statements of operations by channel for the periods indicated:

	Years Ended December 31,				
	2020	2019	Change	2018	Change
	($ in thousands, except per unit metrics)				
Revenue:					
Retail vehicle sales	$ 104,253	$ 90,382	15.3%	$ 53,448	69.1%
Wholesale vehicle sales	9,984	8,454	18.1%	3,153	168.1%
Finance and insurance, net	3,898	3,117	25.1%	1,608	93.8%
Lease income, net	490	533	(8.1)%	142	275.4%
Total revenues	$ 118,625	$ 102,486	15.7%	$ 58,351	75.6%
Cost of sales (exclusive of depreciation):					
Retail vehicle cost of sales	$ 96,983	$ 84,534	14.7%	$ 48,523	74.2%
Wholesale vehicle cost of sales	10,386	9,246	12.3%	4,185	120.9%
Total cost of sales	$ 107,369	$ 93,780	14.5%	$ 52,708	77.9%
Gross profit:					
Retail vehicle gross profit	$ 7,270	$ 5,848	24.3%	$ 4,925	18.7%
Wholesale vehicle gross profit	(402)	(792)	(49.2)%	(1,032)	(23.3)%
Finance and insurance gross profit	3,898	3,117	25.1%	1,608	93.8%
Lease income, net	490	533	(8.1)%	142	275.4%
Total gross profit	$ 11,256	$ 8,706	29.3%	$ 5,643	54.3%
Unit sales information:					
Retail vehicles unit sales	6,215	6,435	(3.4)%	4,077	57.8%
Wholesale vehicles unit sales	1,059	1,159	(8.6)%	610	90.0%
Gross profit per unit[1]:					
Retail vehicles gross profit per unit	$ 1,797	$ 1,393	29.0%	$ 1,602	(13.1)%
Wholesale vehicles gross profit per unit	$ (380)	$ (683)	(44.4)%	$ (1,692)	(59.6)%
Total gross profit per unit	$ 1,547	$ 1,146	35.0%	$ 1,204	(4.8)%

(1) 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, and gross profit for wholesale vehicles, which is divided by the total number of wholesale vehicles sold in the period.

Retail Vehicle Sales

2020 Versus 2019. Retail vehicle sales revenue increased by $13.9 million, or 15.3%, to $104.3 million during 2020, from $90.4 million in 2019. The increase was primarily due to an increase in average sale price of $2,729 and partially offset by a decrease in retail vehicle unit sales to 6,215, compared to 6,435 retail vehicles sales in the comparable period in 2019. The increase in average sale price was primarily due to an increase in the percentage of units sourced via consignment, and the decrease in retail vehicle unit sales was due to the COVID-19 pandemic and related government lockdown and travel restrictions imposed.

2019 Versus 2018. Retail vehicle sales revenue increased by $37.0 million, or 69.1%, to $90.4 million during 2019, from $53.4 million in 2018. The increase was primarily due to an increase in the number of retail vehicle unit sales as we sold 6,435 retail vehicles in 2019, compared to 4,077 retail vehicles in 2018 as well as an increase of the average sale price of $936. Our retail vehicle unit sale growth was primarily driven by the maturation of existing hubs, full-year effect of those hubs opened during 2018, and an increase in percentage of units sourced via consignment.

Wholesale Vehicle Sales

2020 Versus 2019. Wholesale vehicle sales revenue increased by $1.5 million, or 18.1%, to $10.0 million during 2020, from $8.5 million in 2019. The increase was primarily due to an increase in average sale price of $2,134 and partially offset by a decrease in wholesale vehicle units sales to 1,059 in 2020, compared to 1,159 wholesale vehicles sold in 2019.

2019 Versus 2018. Wholesale vehicle sales revenue increased by $5.3 million, or 168.1%, to $8.5 million during 2019, from $3.2 million in 2018. The increase was primarily due to an increase in wholesale vehicle unit sales as we sold 1,159 wholesale vehicles in 2019, compared to 610 wholesale vehicles in 2018, as well as an increase in average sale price of $2,125.

Finance and Insurance (F&I)

2020 Versus 2019. F&I revenue increased by $0.8 million, or 25.1%, to $3.9 million during 2020, from $3.1 million in 2019. The increase was primarily due to increased penetration of our F&I product offerings.

2019 Versus 2018. F&I revenue increased by $1.5 million, or 93.8%, to $3.1 million during 2019, from $1.6 million in 2018. The increase was primarily due to an increase in retail vehicle unit sales as we sold 6,435 retail vehicles in 2019, compared to 4,077 retail vehicles in 2018.

Lease Income, net

2020 Versus 2019. Lease income, net was $0.5 million during 2020, as compared to $0.5 million during 2019.

2019 Versus 2018. Lease income, net was $0.5 million during 2019, as compared to $0.1 million during 2018. The increase was primarily due to the full-year effect of CarLotz becoming the sole member of Orange Grove via redemption of the remaining 80% membership interest.

Cost of Sales

2020 Versus 2019. Cost of sales increased by $13.6 million, or 14.5%, to $107.4 million during 2020, from $93.8 million in 2019. The increase was primarily due to an increase in average sale price of $2,625.

2019 Versus 2018. Cost of sales increased by $41.1 million, or 77.9%, to $93.8 million during 2019, from $52.7 million in 2018. The increase was primarily due to an increase in unit sales as we sold 7,594 vehicles in 2019, compared to 4,687 vehicles in 2018.

Retail Vehicle Gross Profit

2020 Versus 2019. Retail vehicle gross profit increased by $1.5 million, or 24.3%, to $7.3 million during 2020, from $5.8 million in 2019. This increase was primarily driven by a shift in the sale of owned units to consigned units, which typically have higher margins, as well as increased sales of F&I product offerings.

2019 Versus 2018. Retail vehicle gross profit increased by $0.9 million, or 18.7%, to $5.8 million during 2019, from $4.9 million in 2018. This increase was primarily driven by an increase in retail vehicle unit sales.

Wholesale Vehicle Gross Profit

2020 Versus 2019. Wholesale vehicle gross profit (loss) improved by $0.4 million, or 49.2%, to $(0.4) million during 2019, from $(0.8) million in 2019. This improvement was primarily driven by a decrease in negative gross profit per unit and a decrease in wholesale vehicle unit sales.

2019 Versus 2018. Wholesale vehicle gross profit (loss) improved by $0.2 million, or 23.3%, to $(0.8) million during 2019, from $(1.0) million in 2018. This improvement was primarily driven by a decrease in negative gross profit per unit, which was partially offset by increased wholesale vehicle unit sales.

F&I Gross Profit

F&I revenue consists of 100% gross margin products for which gross profit equals revenue. 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

	Year Ended December 31,				
	2020	**2019**	**Change**	**2018**	**Change**
			($ in thousands)		
Compensation and benefits[1]	$ 7,909	$ 8,992	(12.0)%	$ 6,418	40.1%
Marketing expense	2,808	3,803	(26.2)%	1,871	103.3%
Other costs[2]	6,835	5,510	24.0%	3,372	63.4%
Total selling, general and administrative expenses	$ 17,552	$ 18,305	(4.1)%	$ 11,661	57.0%

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(1) Compensation and benefits includes all payroll and related costs, including benefits, payroll taxes and equity-based compensation, 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 facilities costs, technology expenses, logistics and other administrative expenses.

2020 Versus 2019. SG&A expenses decreased by $0.7 million, or (4.1)%, to $17.6 million during 2020, from $18.3 million in 2019. The decrease was due to a decrease in compensation and benefits costs of $(1.1) million and marketing expenses of $(1.0) million, partially offset by an increase in other costs of $1.3 million.

2019 Versus 2018. SG&A expenses increased by $6.6 million, or 57.0%, to $18.3 million during 2019, from $11.7 million in 2018. The increase was due to the increase in compensation and benefits costs of $2.6 million, marketing expenses of $1.9 million and other costs of $2.1 million.

Liquidity and Capital Resources

Sources of liquidity and Debt Obligations

In December 2019, we entered into a note purchase agreement with Automotive Finance Corporation ("AFC") under which AFC agreed to purchase up to $5.0 million in notes, with the initial tranche equal to $3.0 million issued at closing and two additional tranches of at least $1.0 million on or prior to September 20, 2021, of which $0.5 million was issued prior to the completion of the Merger. The notes were converted into Former CarLotz common stock immediately prior to the consummation of the Merger and received the Merger Consideration.

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.

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 GAAP.

Advances under the Ally Facility will bear interest at a per annum rate designated from time to time by the Lender and will be 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 5.75%. 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.

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

Prior to our entry into the Ally Facility, we had a $12.0 million revolving floor plan facility available with AFC (the "AFC Facility") to finance the purchase of used vehicles. The AFC Facility was secured by all of our assets. As of December 31, 2020, we had total outstanding debt of $6.0 million under the AFC Facility. Borrowings under the AFC Facility accrued interest at a variable interest rate based on the most recent prime rate published in The Wall Street Journal plus 2.00% per annum, which was 5.25% and 6.75% as of December 31, 2020 and December 31, 2019, respectively. In connection with the entry into the Ally Facility, we repaid in full and terminated the AFC Facility.

In April 2020, we received a loan totaling approximately $1.7 million from the Small Business Administration under the Paycheck Protection Program ("PPP") to help us keep our workforce employed and avoid further headcount reduction during the COVID-19 crisis. The full amount of the PPP loan was repaid in connection with the closing of the Merger.

On December 2, 2020, CarLotz issued a promissory note (the "Note") to AFC. Under the terms of the Note, AFC agreed to make one advance to CarLotz upon request of $3.0 million. Amounts due under the Note accrued interest at 6.0% per year on a 365-day basis. The Note was due and payable on the earlier of the closing of the Merger and December 2, 2022. Amounts drawn on the Note were used for working capital purposes in the ordinary course of business. The Note was repaid upon the consummation of the Merger.

As a result of the Merger and the PIPE Investment, CarLotz received approximately $315 million of net cash after giving effect to the repayment of debt described above. We believe our available cash and liquidity available under the Ally Facility are sufficient to fund our operations and expansion plans for at least the next 12 months.

Cash Flows — Annual Results

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

	Year Ended December 31,		
	2020	2019	2018
	($ in thousands)		
Cash Flow Data:			
Net cash used in operating activities	$ (4,592)	$ (5,473)	$ (11,761)
Net cash used in investing activities	(1,227)	(487)	(362)
Net cash provided by financing activities	4,530	8,492	4,503

Operating Activities

For the year ended December 31, 2020, net cash used in operating activities was $4.6 million, primarily driven by a net loss of $6.6 million adjusted for non-cash charges of $0.5 million and net changes to our operating assets and liabilities of $2.5 million. For the year ended December 31, 2020, the non-cash adjustments primarily related to a decrease in fair value of the preferred stock tranche obligation of $0.9 million, partially offset by an increase in depreciation and amortization of $0.3 million. The changes in operating assets and liabilities are primarily driven by an increase in accrued expenses, including accrued transaction expenses, of $8.0 million, an increase in accounts payable of $4.1 million, and an increase in other long-term liabilities of $1.0 million, partially offset by an increase in other current assets of $6.4 million, an increase in inventories of $3.3 million, and an increase in accounts receivable of $0.9 million.

For the year ended December 31, 2019, net cash used in operating activities was $5.5 million, primarily driven by a net loss of $12.7 million adjusted for non-cash charges of $2.3 million and net changes in our operating assets and liabilities of $4.9 million. For the year ended December 31, 2019, the non-cash adjustments primarily related to change in fair value of redeemable convertible preferred stock tranche obligation of $1.4 million, depreciation and amortization of $0.5 million, loss due to disposition of property and equipment of $0.3 million and share-based compensation expense of $0.1 million. The changes in operating assets and liabilities are primarily driven by a decrease in inventories of $2.9 million, an increase in accounts payable of $1.4 million, an increase in accrued expenses of $0.5 million and an increase in other current and noncurrent liabilities of $0.8 million, partially offset by an increase in accounts receivable of $0.8 million.

For the year ended December 31, 2018, net cash used in operating activities was $11.8 million, primarily driven by a net loss of $6.6 million adjusted for non-cash gains of $0.1 million and net changes in our operating assets and liabilities of $(5.3) million. The non-cash adjustments primarily related to other charges of $0.6 million, partially offset by depreciation and amortization of $0.3 million and share-based compensation expense of $0.2 million. The changes in operating assets and liabilities are primarily driven by an increase in inventories of $4.8 million and an increase in accounts receivable of $0.7 million, partially offset by a $0.2 million increase in accounts payable and a $0.1 million increase in accrued expenses.

Investing Activities

For the year ended December 31, 2020, net cash used in investing activities was $1.2 million, driven by $1.0 million of purchases of marketable securities and $0.2 million of purchases of property and equipment.

For the year ended December 31, 2019, net cash used in investing activities was $0.5 million, driven by $0.2 million of purchases of property and equipment and $0.3 million of purchases of leased vehicles.

For the year ended December 31, 2018, net cash used in investing activities was $0.4 million, primarily driven by $0.5 million of purchases of property and equipment, partially offset by $0.1 million in proceeds from the sale of leased vehicles.

Financing Activities

For the year ended December 31, 2020, net cash provided by financing activities was $4.5 million, primarily driven by $5.3 million in proceeds from borrowings on long-term debt and $24.2 million in proceeds from borrowings under the AFC Facility, partially offset by repayment of borrowings under the AFC Facility of $25.0 million.

For the year ended December 31, 2019, net cash provided by financing activities was $8.5 million, primarily driven by $8.0 million in proceeds from the issuance of redeemable convertible preferred stock, $39.8 million in proceeds from borrowings under the AFC Facility and $3.0 million of borrowings on long-term debt, partially offset by repayment of borrowings under the AFC Facility of $41.7 million.

For the year ended December 31, 2018, net cash provided by financing activities was $4.5 million, primarily driven by $29.1 million in proceeds from borrowings under the AFC Facility, partially offset by repayment of borrowings under the AFC Facility of $24.6 million.

Contractual Obligations

The following table includes aggregated information about contractual obligations that affect our liquidity and capital needs. As of December 31, 2020, our contractual obligations were as follows:

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 years
	($ in thousands)				
AFC Facility[(1)]	$ 6,039	$ 6,039	$ —	$ —	$ —
Convertible note	3,500	3,500	—	—	—
Cumulative preferred dividends payable	4,751	4,751	—	—	—
Promissory note	3,000	3,000	—	—	—
Operating lease obligations	9,604	2,303	4,581	2,209	511
Capital lease obligations	1,971	139	370	384	1,078
Total	$ 28,865	$ 19,732	$ 4,951	$ 2,593	$ 1,589

(1) Represents the principal amount outstanding as of December 31, 2020. Due to the uncertainty of forecasting the timing of expected variable interest rate payments, interest payment amounts are not included in the table. We repaid in full and terminated the AFC Facility in connection with our entry into the Ally Facility.

On March 27, 2020, the U.S. federal government enacted the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, which includes a provision for the Paycheck Protection Program, or PPP, loans administered by the U.S. Small Business Administration. In April 2020, we entered into a promissory note as part of the PPP, the total outstanding amount of which, approximately $1.75 million, was repaid in connection with the consummation of the Merger and the principal and interest payments of which are not included in the above table. The loans bore interest at a 1.0% annual rate.

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 consolidated financial statements.

Internal Control Over Financial Reporting

Prior to the Merger, we were a private company with limited internal accounting personnel and other resources to address our internal control over financial reporting. In connection with the audits of our consolidated financial statements as of December 31, 2019 and 2018 and for the years in the three year period ended December 31, 2019, we and our independent registered public accounting firm identified a material weakness in our internal control over financial reporting, which remained unremediated as of December 31, 2020. As defined in the standards established by the Public Company Accounting Oversight Board, a "material weakness" is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness identified relates to (i) our lack of sufficient accounting and financial reporting resources to address internal control over financial reporting and personnel with requisite knowledge and experience in application of U.S. GAAP and SEC rules, and (ii) general information technology controls in the areas of user access and program change-management over certain information technology systems that support the Company's financial reporting processes.

We are taking steps to remediate this material weakness through the implementation of appropriate segregation of duties, formalization of accounting policies and controls, hiring of Mr. Thomas W. Stoltz as our Chief Financial Officer and additional qualified accounting and finance personnel, including Mr. Robert Imhof, our interim Chief Financial Officer, as Senior Vice President of Finance & Accounting, and engagement of financial consultants to assist management with evaluation of vendors for a financial enterprise resource planning ("ERP") system and to enable the implementation of internal controls over financial reporting. We are also applying a more rigorous review of the monthly financial reporting processes to ensure that the performance of the control is evidenced through appropriate documentation that is consistently maintained and evaluating necessary changes to our formalized process to ensure key controls are identified, the control design is appropriate and the necessary evidentiary documentation is maintained throughout the process. We also plan to implement certain accounting systems to automate manual processes.

Except as disclosed above, there were no changes in our internal control over financial reporting that occurred during the years ended December 31, 2020 or 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Although we have developed and implemented a plan to remediate the material weakness and believe, based on our evaluation to date, that the material weakness will be remediated in a timely fashion, we cannot assure you that this will occur within a specific timeframe. The material weakness will not be remediated until all necessary internal controls have been designed, implemented, tested and determined to be operating effectively. In addition, we may need to take additional measures to address the material weakness or modify the planned remediation steps, and we cannot be certain that the measures we have taken, and expect to take, to improve our internal controls will be sufficient to address the issues identified, to ensure that our internal controls are effective or to ensure that the identified material weakness will not result in a material misstatement of our consolidated financial statements. Moreover, we cannot assure you that we will not identify additional material weaknesses in our internal control over financial reporting in the future. Until we remediate the material weakness, our ability to record, process and report financial information accurately, and to prepare financial statements within the time periods specified by the rules and forms of the SEC, could be adversely affected.

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. See "*Risk Factors — Risks Related to Our Business — If we fail to implement and maintain an effective system of internal control to remediate our material weakness over financial reporting, we may be unable to accurately report our results of operations, meet our reporting obligations as a public company or prevent fraud, and investor confidence and the trading prices of our securities may be materially and adversely affected*" in our Annual Report on Form 10-K.

As a company with less than $1.07 billion in revenue for our last fiscal year that has not issued more than $1 billion in non-convertible debt in the past three years, we qualify as an "emerging growth company" pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002 in the assessment of the emerging growth company's internal control over financial reporting. The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards. We will attempt to elect to take advantage of such exemptions. However, pursuant to Section 404 and the related rules adopted by the SEC, we, as a public company, will be required to maintain adequate internal control over financial reporting and include our management's assessment of the effectiveness of our company's internal control over financial reporting in our annual report.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities in our consolidated financial statements and the related notes and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and related notes and the reported amounts of revenues and expenses during the reporting period. Management evaluates its accounting policies, estimates and judgments on an on-going basis. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

Critical accounting policies are those policies that management believes are very important to the portrayal of our financial position and results of operations, and that require management to make estimates that are difficult, subjective or otherwise complex. Based on these criteria, management has identified the following critical accounting policies:

Revenue

We recognize revenue upon transfer of control of goods or services to customers, in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Control passes to the retail and wholesale vehicle sales customer when the title is delivered to the customer, who then assumes control of the vehicle.

Retail Vehicle Sales

We sell used vehicles to our retail customers through our hubs in various cities. The transaction price for used vehicles is a fixed amount as set forth in the customer contract. Customers frequently trade-in their existing vehicle to apply toward the transaction price of a used vehicle. Trade-in vehicles represent noncash consideration which we measure at estimated fair value of the vehicle received on trade. We satisfy our performance obligation and recognize 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 revenue recognized by CarLotz includes the agreed upon transaction price, including any service fees. Revenue excludes any sales taxes, title and registration fees, and other government fees that are collected from customers.

We receive 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.

Our return policy allows customers to initiate a return during the first three days or 500 miles after delivery, whichever comes first. If the vehicle is returned, the sale and associated revenue recognition is reversed, and the vehicle is treated as a purchase of inventory.

Wholesale Vehicle Revenue

We sell vehicles through wholesalers, primarily at auction. These vehicles sold to wholesalers are primarily acquired from customers who trade-in their existing vehicles as part of a retail vehicle sale as described above or, from consignors, which do not meet our quality standards, or which remain unsold at the end of the consignment period. We satisfy our performance obligation and recognize revenue for wholesale vehicle sales at a point in time when the vehicle is sold at auction or directly to a wholesaler.

Finance and Insurance

We provide retail vehicle buyers with options for financing, insurance and extended warranties. Extended warranties sold beginning January 1, 2019 are serviced by a company owned by a significant shareholder of the Company. All other services are provided by unrelated third-party vendors, and we have agreements with each of these vendors giving us the right to offer such services.

When a buyer selects a service from these providers, we earn a commission based on the actual price paid or financed. We concluded that we are an agent for these transactions because we do not control the products before they are transferred to the customer. Accordingly, we recognize commission revenue at the time of sale.

Lease Income, net

When a retail vehicle customer requests a vehicle lease, we obtain an operating lease from a third party lessor and then enter into a corresponding lease with our customer. The corresponding leases have terms that are identical except for the interest rate. We receive a rate of interest higher from our customer than the rate we pay to the third party lessor. We have determined that we are an agent in the transaction and recognize the difference in interest rate over the course of the lease.

Valuation of Inventory

All inventories, which are comprised of vehicles and parts held, for sale are reported at the lower of cost of net realizable value. Cost of vehicle inventory is determined on a specific identification basis. Vehicles held on consignment are not recorded in our inventory balance, as title on those vehicles, as well as the principal risks of ownership, remain with the consignors until a customer purchases the vehicle and the vehicle is delivered.

Income Taxes

CarLotz is treated as a C corporation under the Internal Revenue Code. Under those provisions, this entity pays federal corporate income taxes on its taxable income. The entity is also liable for state franchise tax under multiple state provisions.

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences related primarily to depreciable assets (use of different depreciation methods and lives for financial statement and income tax purposes), contract expenses and certain accrued expenses. The deferred tax assets and liabilities represent future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Deferred income taxes are recorded using enacted tax rates based upon differences between financial statement and tax bases of assets and liabilities. A valuation allowance has been established for all deferred tax assets because we have incurred cumulative losses in recent years and we have not determined that the net deferred tax assets are more likely than not to be realized. In future periods, if we determine it is more likely than not that the deferred tax assets will be realized, the valuation may be reduced, and an income tax benefit recorded.

We have determined that we do not have any material unrecognized tax benefits or obligations as of December 31, 2020, December 31, 2019 and December 31, 2018.

Equity-Based Compensation

We classify equity-based awards granted in exchange for services as either equity awards or liability awards. The classification of an award as either an equity award or a liability award is generally based upon cash settlement options. Equity awards are measured based on the fair value of the award at the grant date. Liability awards are re-measured to fair value each reporting period. We recognize equity-based compensation on a straight-line basis over the award’s requisite service period, which is generally the vesting period of the award, less actual forfeitures. No compensation expense is recognized for awards for which participants do not render the requisite services. For equity and liability awards earned based on performance or upon occurrence of a contingent event, when and if the awards will be earned is estimated. If an award is not considered probable of being earned, no amount of equity-based compensation is recognized. If the award is deemed probable of being earned, related equity-based compensation is recorded over the estimated service period. To the extent the estimate of awards considered probable of being earned changes, the amount of equity-based compensation recognized will also change.

Recently Issued and Adopted Accounting Pronouncements

See the sections titled “Summary of Significant Accounting Policies — Recently Issued Accounting Pronouncements” in Note 2 in the “*Notes to Consolidated Financial Statements*” in our consolidated financial statements.