

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE**

ARIF HUDDA, derivatively on behalf of
VROOM, INC.,

Plaintiff,

vs.

PAUL J. HENNESSY, DAVID K. JONES,
ROBERT J. MYLOD, JR., SCOTT A.
DAHNKE, MICHAEL FARELLO, LAURA W.
LANG, LAURA G. O'SHAUGHNESSY,
FREDERICK O. TERRELL, and ADAM
VALKIN

Defendants,

and

VROOM, INC.,

Nominal Defendant.

C.A. No.

JURY TRIAL DEMANDED

VERIFIED SHAREHOLDER DERIVATIVE COMPLAINT

INTRODUCTION

Plaintiff Arif Hudda ("Plaintiff"), by Plaintiff's undersigned attorneys, derivatively and on behalf of Nominal Defendant Vroom, Inc. ("Vroom" or the "Company"), files this Verified Shareholder Derivative Complaint against Paul J. Hennessy ("Hennessy"), David K. Jones ("Jones"), Robert J. Mylod, Jr. ("Mylod"), Scott A. Dahnke ("Dahnke"), Michael Farello ("Farello"), Laura W. Lang ("Lang"), Laura G. O'Shaughnessy ("O'Shaughnessy"), Frederick O. Terrell ("Terrell"), and Adam Valkin ("Valkin") (collectively, the "Individual Defendants," and together with Vroom, the "Defendants") for breaches of their fiduciary duties as directors and/or officers of Vroom, unjust enrichment, gross mismanagement, abuse of control, waste of corporate assets, and against Defendants Mylod, Dahnke, Farello, Lang, O'Shaughnessy, Terrell, and Valkin

for contribution under Section 11(f) of the Securities Act of 1933 (the “Securities Act”) and against Defendants Hennessy and Jones for contribution under Section 11(f) of the Securities Act and Sections 10(b) and 21D of the Securities Exchange Act of 1934 (the “Exchange Act”). As for Plaintiff’s complaint against the Individual Defendants, Plaintiff alleges the following based upon personal knowledge as to Plaintiff and Plaintiff’s own acts, and information and belief as to all other matters, based upon, *inter alia*, the investigation conducted by and through Plaintiff’s attorneys, which included, among other things, a review of the Defendants’ public documents, conference calls and announcements made by Defendants, United States Securities and Exchange Commission (“SEC”) filings, wire and press releases published by and regarding Vroom, legal filings, news reports, securities analysts’ reports and advisories about the Company, and information readily obtainable on the Internet. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a shareholder derivative action that seeks to remedy wrongdoing committed by the Individual Defendants from June 9, 2020 through March 3, 2021, both dates inclusive (the “Relevant Period”).

2. Vroom is an online ecommerce platform that allows customers to buy and sell used cars. Initially, the Company was organized into three reportable segments: ecommerce, Texas Direct Auto Inc. (“TDA”)¹, and Wholesale. The ecommerce reportable segment, which was discontinued in January 2024, represented retail sales of used vehicles through the Company’s ecommerce platform and fees earned on sales of value-added products associated with those

¹ Vroom began in 2013 as an entity called “Auto America.” The next year, in 2014, the Company rebranded to Vroom and shifted its business model to a technological platform. In December 2015, Vroom acquired TDA.

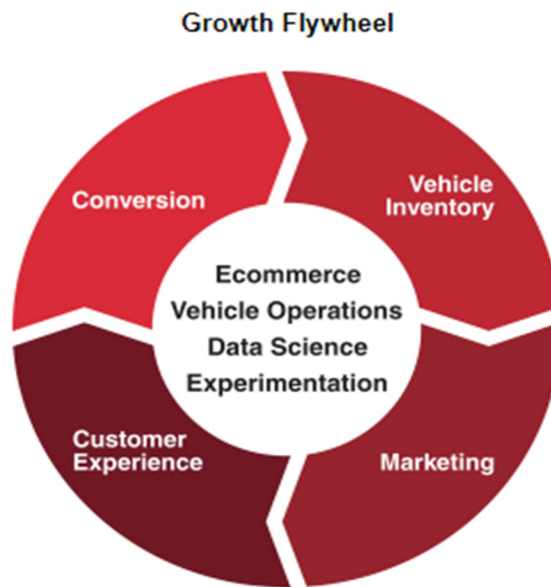
vehicles sales. The TDA reportable segment represents retail sales of used vehicles from TDA and fees earned on sales of value-added products associated with those vehicles sales. The Wholesale reportable segment represents sales of used vehicles through wholesale auctions.

3. Due to the COVID-19 pandemic, demand for Vroom used cars dropped significantly. As a result of this slowdown, Vroom significantly reduced its inventory and furloughed approximately one-third of its workforce. When used car demand rebounded, Vroom repeatedly said to investors that it was well-positioned to take advantage of this exceptionally high demand for online used car purchases.

4. Vroom became a public company through an initial public offering on June 9, 2020 (the “IPO”). On that day, Vroom filed a prospectus in connection the IPO with the SEC on Form 424B4 (the “IPO Prospectus”), which incorporated and formed part of the registration statement for the offering (the “IPO Registration Statement,” and collectively with the IPO Prospectus, the “IPO Offering Materials”). Through the IPO, Vroom sold 24,437,500 shares of common stock for \$22.00 per share, generating net proceeds of approximately \$504 million.

5. Vroom’s IPO Offering Materials stated that the Company was “currently building [its] inventory to take advantage of [its] position and value proposition in the used automotive market” and was positioned to take advantage of “enhanced opportunities arising from greater consumer acceptance of [its] business model as a result of the COVID-19 disruptions.” The IPO Offering Materials further stated that, in April 2020, the Company “began to acquire new inventory from both auctions and consumers, with a primary focus on high-demand models that [it] believe[d] w[ould] convert at target margins” and that the Company “intend[ed] to strategically build [its] inventory levels in the near term to return to and ultimately exceed pre-COVID-19 levels.”

6. The IPO Offering Materials also stated how Vroom’s business had “grown significantly as [it had] scaled [its] operations,” and that this “growth [was] not attributable to a single innovation or breakthrough” but was instead due to “multiple strategies that serve as points” on the Company’s “Growth Flywheel,” shown below:



7. Vroom represented to investors in the IPO Offering Materials that “[s]ales conversion drives revenue growth and is an output of the acceleration of every point on the growth flywheel.”²

8. The Individual Defendants also emphasized certain alleged advantages of Vroom’s business model, including the outsourcing of critical functions of its business, which the Company called a “asset-light” business model. The Company claimed that this strategy reduced both risk and capital investment, disfavoring the need for ownership of assets and instead relied heavily on contracts with third-party service providers. These third-party service providers would assist in facilitating functions that would usually be controlled in-house.

² All emphasis is added unless otherwise noted.

9. To this end, the Company outsourced, *inter alia*, its “Customer Experience” function, the section on the Company’s Growth Flywheel that operated Vroom’s primary call center. The Customer Experience function was integral to Vroom’s operation as it was responsible for nearly all interactions between Vroom and prospective customers. In other words, the Customer Experience function was tasked with turning callers into customers.

10. Nevertheless, Vroom outsourced the Customer Experience function to multi-billionaire Dan Gilbert’s Rock Connections LLC (“Rock Connections”), pursuant to an agreement signed by Defendant Hennessy (the “2020 Customer Experience Agreement”). Dan Gilbert was a high-profile Vroom investor.

11. The 2020 Customer Experience Agreement provided the Individual Defendants with unfettered access to Rock Connections, allowing the Individual Defendants to monitor the customer service being provided by Rock Connections to Vroom’s customers.

12. Specifically, the 2020 Customer Experience Agreement between Vroom and Rock Connections, among other things: (1) required Rock Connections to provide all customer service pursuant to Vroom’s policies and procedures; (2) required Rock Connections to “enter and save all required information” in extreme detail into Vroom’s customer relationship management (“CRM”) system, thereby making it accessible to Vroom’s senior executives and management; (3) allowed the Company to control Rock Connections’ staffing and training of Rock Connections’ staff; and (4) allowed Vroom’s senior executives and management total access to oversee the customer support provided to prospective Vroom customers, including monitoring capabilities for voice and data with or without Rock Connections’ knowledge, allowing Vroom personnel to visit Rock Connections’ facility, providing weekly reports to Vroom management, and requiring weekly meetings between representatives of Rock Connections and Vroom. In other words, the

Explore Litigation Insights

Docket Alarm provides insights to develop a more informed litigation strategy and the peace of mind of knowing you're on top of things.

Real-Time Litigation Alerts



Keep your litigation team up-to-date with **real-time alerts** and advanced team management tools built for the enterprise, all while greatly reducing PACER spend.

Our comprehensive service means we can handle Federal, State, and Administrative courts across the country.

Advanced Docket Research



With over 230 million records, Docket Alarm's cloud-native docket research platform finds what other services can't. Coverage includes Federal, State, plus PTAB, TTAB, ITC and NLRB decisions, all in one place.

Identify arguments that have been successful in the past with full text, pinpoint searching. Link to case law cited within any court document via Fastcase.

Analytics At Your Fingertips



Learn what happened the last time a particular judge, opposing counsel or company faced cases similar to yours.

Advanced out-of-the-box PTAB and TTAB analytics are always at your fingertips.

API

Docket Alarm offers a powerful API (application programming interface) to developers that want to integrate case filings into their apps.

LAW FIRMS

Build custom dashboards for your attorneys and clients with live data direct from the court.

Automate many repetitive legal tasks like conflict checks, document management, and marketing.

FINANCIAL INSTITUTIONS

Litigation and bankruptcy checks for companies and debtors.

E-DISCOVERY AND LEGAL VENDORS

Sync your system to PACER to automate legal marketing.