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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO**

Commission File Number 001-40638

Xponential Fitness, Inc.
(Exact name of Registrant as specified in its Charter)

Delaware	**84-4395129**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
17877 Von Karman Ave., Suite 100 Irvine, CA	**92614**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (949) 346-3000

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	XPOF	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ☐ NO ☒

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

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

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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

The registrant completed the initial public offering of its Class A Common Stock on July 23, 2021. Accordingly, there was no public market for the registrant's common stock as of June 30, 2021, the last business day of the registrant's most recently completed second fiscal quarter. As of December 31, 2021, the aggregate value of the registrant's Class A Common Stock held by non-affiliates was approximately $488.5 million, based on the number of shares held by non-affiliates as of December 31, 2021 and the closing price of the registrant's common stock on the New York Stock Exchange on that date.

The number of shares of Registrant's Class A Common Stock and Class B Common Stock outstanding as of February 25, 2022 was 23,898,042 and 22,987,868 shares, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement relating to its 2022 annual meeting of stockholders, to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates, are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such forward-looking statements reflect, among other things, our current expectations and anticipated results of operations, all of which are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements, market trends, or industry results to differ materially from those expressed or implied by such forward-looking statements. Therefore, any statements contained herein that are not statements of historical fact may be forward-looking statements and should be evaluated as such. Without limiting the foregoing, the words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "should," "would," "could," "will," "likely" and the negative thereof and similar words and expressions are intended to identify forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in "Item 1A. – Risk Factors," of this report. Unless legally required, we assume no obligation to update any such forward-looking information to reflect actual results or changes in the factors affecting such forward-looking information.

PART I

Item 1. Business.

Overview

Xponential Fitness, Inc. (the “Company” or “XPO Inc”) was formed as a Delaware corporation on January 14, 2020. On July 23, 2021, the Company completed an initial public offering (“IPO”) of 10,000,000 shares of Class A common stock. Pursuant to a reorganization into a holding company structure, the Company is a holding company with its principal asset being a controlling ownership interest in Xponential Fitness LLC (“XPO LLC”) through its ownership interest in Xponential Intermediate Holdings, LLC (“XPO Holdings”). The Company’s Class A common stock trades on the New York Stock Exchange under the symbol “XPOF”.

XPO LLC, the principal operating subsidiary of XPO Inc. is the largest global franchisor of boutique fitness brands. The Company operates a diversified platform of ten brands spanning across verticals including Pilates, indoor cycling, barre, stretching, rowing, dancing, boxing, running, functional training and yoga. XPO LLC franchisees offer energetic, accessible, and personalized workout experiences led by highly qualified instructors in studio locations across 48 U.S. states, the District of Columbia and Canada, and through master franchise agreements or international expansion in ten additional countries. The Company's portfolio of brands includes Club Pilates, the largest Pilates brand in the United States; CycleBar, the largest indoor cycling brand in the United States; StretchLab, a concept offering one-on-one and group stretching services; Row House, a high-energy, low-impact indoor rowing workout; AKT, a dance-based cardio workout combining toning, interval and circuit training; YogaSix, the largest franchised yoga brand; Pure Barre, a total body workout that uses the ballet barre to perform small isometric movements; Stride, a treadmill-based cardio and strength training concept; Rumble, a boxing-inspired full-body workout; and BFT, a functional training and strength-based program.

The foundation of our business is built on strong partnerships with franchisees. We provide franchisees with extensive support to help maximize the performance of their studios and enhance their return on investment. In turn, this partnership accelerates our growth and increases our profitability. We believe our unique combination of a scaled multi-brand offering, resilient franchise model with strong unit economics and integrated platform has enabled us to build our leading market position in the large and growing U.S. boutique fitness industry.

We carefully built the Xponential Fitness brand portfolio through a series of acquisitions, targeting select health and wellness verticals. In curating our portfolio, we identified brands with exceptional programming and a loyal consumer base which we believed would benefit from our operational expertise, franchising experience and scaled platform. With over 250 years of collective industry experience, our management team and brand presidents are the driving force behind our operational excellence. We have established a proven operational model (the “Xponential Playbook”) that helps franchisees generate compelling studio economics. This model has allowed us to provide extensive support to franchisees during the COVID-19 pandemic. The key pillars of our Xponential Playbook include:

- optimizing the studio prototype and investment cost;
- thoroughly vetting franchisee candidates;
- real estate identification, site selection, studio build-out and design assistance;
- comprehensive pre-opening support, including membership sales, marketing support, employee training and programming development;
- detailed studio-level operational framework and best practices;
- intensive instructor and studio-level management training;
- our robust digital platform offerings that allow franchisees to generate incremental revenue;
- data-driven analytical tools to support marketing strategies, member acquisition and retention;

- sophisticated technology systems, including uniform point-of-sale and reporting systems, to drive studio-level performance;
- centralized model capable of providing resources to franchisees in the event of exceptional crises, such as the COVID-19 pandemic; and
- ongoing monitoring and support to promote success.

The Xponential Playbook is designed to help franchisees achieve compelling Average Unit Volumes ("AUVs"), strong operating margins and an attractive return on their invested capital. Studios are generally designed to be between 1,500 and 2,500 square feet in size, depending on the brand. The smaller box format contributed to a relatively low average initial franchisee investment of approximately $350,000 in 2021 and 2020. By utilizing the Xponential Playbook, our model is generally designed to generate, on average, an AUV of approximately $500,000 in year two of operations and studio-level operating margins ranging between 25% and 30%, resulting in an unlevered cash-on-cash return of approximately 40%.

We believe our integrated platform, which supports our ten brands, is a unique competitive advantage in the boutique fitness industry and enables us to accelerate growth and enhance operating margins. Our multi-brand offering results in higher franchisee lead flow and conversion, which lowers franchisee acquisition costs. Existing franchisees also serve as an embedded pipeline for continued expansion across our brands. As a result of our scale, we benefit from greater access to real estate and favorable vendor relationships. Additionally, we leverage shared corporate services across franchise sales, real estate, supply chain, merchandising, information technology, finance, accounting and legal. As an integrated platform, we utilize technology to provide improved functionality, drive efficiency and access compelling data across our brands. Our robust digital platform, with content spanning all of our brands except Rumble and BFT, is an important example of our ability to utilize our integrated platform to enhance our individual brand offerings and member retention. We also benefit from knowledge sharing and best practices across the portfolio. We believe that we are in the early stages of unlocking the power of our platform and driving long-term growth.

As a franchisor, we benefit from multiple highly predictable and recurring revenue streams that enable us to scale our franchised studio base in a capital efficient manner. As of December 31, 2021, franchisees were contractually committed to open an additional 1,806 studios in North America. Converting our current pipeline of licenses sold to open studios in North America would nearly double our existing franchised studio base. Based on our internal and third-party analyses by Buxton Company, we estimate that franchisees could have a total of approximately 6,900 studios in the United States alone, prior to our acquisition of BFT. While no formal analysis has been conducted to assess the incremental studio opportunity attributable to BFT, Buxton expects that the addition of BFT will add approximately 1,000 more independent studio opportunities to our United States whitespace provided that we and BFT continue to operate in a manner consistent with the rest of our brands. In addition, we had 176 studios operating in eight countries internationally and master franchisees were contractually obligated to sell licenses to franchisees to open an additional 956 studios in ten countries, of which master franchisees have sold 184 licenses for studios not yet opened as of December 31, 2021.

As a result of the COVID-19 pandemic, our results of operations and the businesses of our franchisees were adversely affected beginning in March 2020 continuing through the remainder of 2020. The adverse effects of the COVID-19 pandemic began to decline in 2021, although, infection rates continued to fluctuate in various regions and new strains and variants of the virus, including the delta and omicron variants, remain a risk. Beginning in the second quarter of 2021 as vaccination rates in the United States increased substantially and restrictions on indoor fitness classes were reduced or eliminated in most states, franchisees' membership visits have increased. We believe that consumers will return to boutique fitness at increasing levels in 2022 as recreational activity continues to return to more customary levels, and fitness activities continue to break from the solitary home fitness solutions that many consumers adopted during the COVID-19 pandemic.

Our Industry

We operate in the large and growing boutique fitness segment of the broader health and fitness club industry. Boutique fitness encompasses a social, supportive community of coaches and consumers engaging through class-based programming in small studio spaces (typically 1,500-2,500 square feet). A boutique fitness workout typically offers more customized programming and a more intensive experience complemented by increased levels of personal attention and guidance relative to a traditional health and fitness club.

Before the COVID-19 pandemic, the International Health, Racquet & Sportsclub Association ("IHRSA") estimated the size of the global health and fitness club industry at $96.7 billion, with more than 205,000 clubs serving over 184 million members in 2019. Prior to the COVID-19 pandemic, the U.S. health and fitness club industry experienced annual growth for more than 21 consecutive years. IHRSA estimated the U.S. health and fitness club industry at $35.0 billion in 2019. The U.S. boutique fitness market, the segment where we operate, was estimated at $21.1 billion in 2019, according to an independent analysis we had commissioned from Frost & Sullivan. Boutique fitness grew more rapidly than overall fitness, and the target consumer spent more and engaged more frequently than the average health and fitness club member in 2019.

The industry saw unprecedented damage in 2020 and 2021, with 2020 U.S. health and fitness club revenue declining by 58% according to IHRSA. As of January 1, 2022, 30% of boutique fitness studios had closed permanently, according to IHRSA.

As the largest franchisor in the boutique fitness industry, we saw continued strong growth during the COVID-19 pandemic. We opened 555 new studios globally between April 2020 and December 2021, including studios opened by Rumble and BFT. Our member base today is approximately 30% larger than it was before the onset of the COVID-19 pandemic.

Our Competitive Strengths

Diversified portfolio of leading boutique fitness brands.

Our portfolio of ten diversified brands spans a variety of popular fitness and wellness verticals including Pilates, barre, cycling, stretching, rowing, yoga, boxing, dancing, running and functional training. We believe that our diversification represents a significant competitive advantage in a fragmented market comprised primarily of single-brand companies focused on an individual fitness or wellness vertical. The complementary nature of our brands allows our franchised studios to be located in close proximity to one another, providing variety and convenience to both consumers and franchisees. Our brands appeal to a broad range of consumers across ages, fitness levels and demographics and are positioned at an accessible price point. The strength of our brands is highlighted by the numerous accolades they have received, with four brands (Club Pilates, Pure Barre, CycleBar and StretchLab) each being listed among Entrepreneur's 2022 Franchise 500 rankings and BFT being voted the 2020 APAC Franchise of the Year. We believe that our diversified brand offering expands our total addressable market and translates into increased use occasions for consumers, driving increased share of wallet and enhancing consumer lifetime value across our portfolio.

Market leading position with significant nationwide scale.

We are the largest boutique fitness franchisor in the United States with over 1,900 studios operating across ten brands in the United States. Our three largest brands have leading market share positions within their respective verticals. These brands, Club Pilates, Pure Barre and CycleBar, were approximately nine, four and three times larger than their next largest competitors, respectively, as of December 31, 2021. As the leaders in these verticals, and as one of few players of scale, we believe that we occupy an advantageous position in an otherwise highly fragmented boutique fitness market.

We are able to leverage the popularity and reputation of existing Xponential studios to support both new studio sales to franchisees and to support franchisees' ability to attract new customers to their studios. We believe that the continued expansion of the Xponential platform creates a network effect that reinforces our competitive position, making us increasingly attractive to potential franchisees and making studios increasingly popular with boutique fitness consumers. In conjunction with our scale, we have been able to achieve broad geographic diversification across the United States with studios in 48 states and the District of Columbia as of December 31, 2021. Our geographic reach represents a material competitive advantage, as we have demonstrated success across various markets, and we are able to remain competitive nationally when extraordinary events heavily impact specific markets.

Passionate, growing and loyal consumer base.

Our franchised studios provide differentiated and accessible boutique fitness experiences that are fun, energetic and deliver a strong sense of community, engendering loyalty and engagement with consumers. Across our system, over 1.3 million unique consumers completed nearly 30 million in-studio, live stream and virtual workouts in 2021. The loyalty of our consumer base is evidenced by our franchisees' ability to recover to approximately 113% of actively paying members as of December 31, 2021, relative to December 31, 2019 levels and membership visits for the quarter ended December 31, 2021 were at 117% relative to the quarter ended December 31, 2019 levels (excludes Rumble and BFT). For the quarter ended December 31, 2021, run-rate AUVs recovered to approximately 94% relative to the quarter ended December 31, 2019 (includes Rumble and BFT). We believe that we were able to deepen our consumer loyalty during the COVID-19 pandemic through our robust digital platform offering, as well as the personal efforts of exceptional franchisees to strengthen their studio communities. Our digital platform had over 24,000 subscribers and offered over 2,800 digital workouts in our library with multiple class formats within each brand as of December 31, 2021. Approximately 90% of class bookings were done through the Xponential brand app in the 90 days ending December 31, 2021. Our brands serve a broad demographic; our consumer skews female and is typically between the ages of 20 and 60 years old, holds at least a bachelor's degree and reports household income greater than $75,000 per year. In addition, we continually seek ways to further heighten the Xponential consumer experience. As of December 31, 2021, studios had over 440,000 members, of which over 390,000 were actively paying members on recurring membership packages (excludes Rumble and BFT). For example, we launched a partnership with Apple in March 2021 that features Apple Watch integration across all of our popular fitness and wellness verticals, excluding BFT, and is designed to increase consumer engagement and retention across our franchised studios. Our franchised studios foster consumer engagement, personal accountability to achieve fitness goals and a strong sense of community, which drive repeat visits and maximize consumer lifetime value.

Xponential Playbook supports system-wide operational excellence.

We strategically partner with franchisees who have been vetted by a thorough selection process. Through the Xponential Playbook, we provide franchisees with significant support from the outset, focused on delivering a superior experience and maximizing studio-level productivity and profitability. Franchisees also benefit from the significant investments we have made in our corporate platform, through which we leverage integrated systems and shared services. While marketing and fitness programming are specific to each brand, nearly all other franchisee support functions are integrated across brands at the corporate level, and franchisees are guided through the key pillars of successful studio operations.

We believe the relationships we maintain with franchisees drive tangible results for consumers: well-managed boutique fitness studios; access to technology capabilities; retention of highly qualified instructors; and a consistent, community-based experience across brands and geographies. We believe the extensive level of support we provide to franchisees is a key driver of system-wide operational excellence.

Asset-light franchise model and predictable revenue streams.

We believe our asset-light franchise model drives faster system-wide unit growth, compared to a similarly capitalized corporate-owned model. As a franchisor, we have multiple highly predictable revenue streams and low ongoing capital requirements. Upon the granting of access to a license, we receive a one-time, non-refundable upfront payment from franchisees for the right to open a studio in a specific territory. This is followed by a series of contractual payments once a studio is open, many of which are recurring, including royalty fees, technology fees, merchandise sales, marketing fees and instructor and management training revenues. Approximately 77% of our revenue in 2021 and 73% of our revenue in 2020 was considered recurring, and we believe this percentage will increase as franchise royalty fees are expected to account for a greater percentage of our revenue over time.

Highly attractive and predictable studio-level economics.

The Xponential Playbook is designed to help franchisees achieve compelling AUVs, strong operating margins and an attractive return on their invested capital. Studios are generally designed to be between 1,500 and 2,500 square feet in size, depending on the brand, which contributed to a relatively low average initial franchisee investment of approximately $350,000 in 2021 and 2020. Our model is generally designed to generate, on average under normal conditions, an AUV of $500,000 in year two of operations and studio-level operating margins ranging between 25% and 30%, resulting in an unlevered cash-on-cash return of approximately 40%. A studio reaches “base maturity” when it has annualized monthly revenues in the $400,000 to $600,000 AUV range. Using our model, we expect this to typically occur 6-12 months after studio opening. We believe that studios typically have opportunity to continue growing and maturing beyond that point, however.

We believe the continued growth of the franchisee system reflects the attractiveness of our unit economic model. In 2021, 252 new franchisees joined our system in North America, representing a 91% increase year-over-year. In 2020, we were able to attract 132 new franchisees in North America despite the material challenges faced by the overall fitness industry as a result of the COVID-19 pandemic. Additionally, franchisees frequently re-invest into our system, as 33% of new studios in 2021 and 36% of new studios in 2020 were opened by existing franchisees. We believe our strong studio-level economics have contributed to our growth.

Large and expanding franchisee base with visible organic growth.

Our large number of existing licenses sold represents an embedded pipeline to support the continued growth of our business. As of December 31, 2021, on a cumulative basis since inception, we had 4,424 franchise licenses sold globally, compared to 1,508 franchise licenses sold as of December 31, 2017 on an adjusted basis to reflect historical information of the brands we have acquired. Franchisees are contractually obligated to open studios in their territories after purchasing a franchise license. In the event that franchisees are unable to meet their contractual obligations, we have the ability to resell or reassign their territory license(s) to another franchisee in the system or our franchisee pipeline. Based on our experience as a franchisor, we believe that a significant majority of our licenses sold will convert into operating studios. Accordingly, we have the potential to substantially increase our studio base through our existing licenses sold, providing us with highly visible unit growth and further increasing our already significant scale within the boutique fitness industry.

Proven and experienced management team with an entrepreneurial culture.

Our strategic vision and entrepreneurial culture are driven by our highly experienced management team, led by our Chief Executive Officer and founder, Anthony Geisler. Mr. Geisler has direct experience scaling franchised fitness brands, having previously served as the Chief Executive Officer of LA Boxing, and has worked with many members of our leadership team for several years. Our Brand Presidents are key members of our leadership team and act as the driving force behind their respective brands. Collectively, our management team fosters an entrepreneurial culture and mentality that resonate with franchisees. The strength of our management team is illustrated by the growth of the business and the recent honors that we and our brands have received, with four brands (Club Pilates, Pure Barre, CycleBar and StretchLab) each being listed among Entrepreneur’s 2022 Franchise 500 rankings. Our leadership team has significant experience scaling franchised fitness brands and has created a culture designed to enable our future success.

Our Growth Strategies

We believe we are well-positioned to capitalize on multiple opportunities to drive the long-term growth of our business:

Grow our franchised studio base across all brands in North America.

We have the opportunity to meaningfully expand our franchised studio footprint in North America by leveraging our multiple brands and verticals, as well as our proven portability across regions and demographics.

We have grown our franchised studio footprint in North America from 813 open studios across 47 U.S. states, the District of Columbia and Canada as of December 31, 2017 to 1,954 open studios across 48 U.S. states, the District of Columbia and Canada as of December 31, 2021, on an adjusted basis to reflect historical information of the brands we have acquired, representing a CAGR of 25%. As of December 31, 2021, we had 1,556 franchisees and licenses for 1,806 studios contractually obligated to be opened under existing franchise agreements in North America. We sold 787 licenses in 2021 compared to 265 licenses in 2020 and 923 licenses in 2019. While we experienced delays in new studio openings in 2020 and 2021 due to the COVID-19 pandemic, we have continued opening studios throughout the COVID-19 pandemic and franchisees have opened 426 studios in North America from April 2020 through December 2021. Our track-record of successful expansion demonstrates that the experience and value offered by our brands resonate with consumers across geographies, including urban and suburban markets, ages and income levels. Our small box format and multi-brand model have enabled us to scale rapidly, as franchisees have the ability to open studios from multiple brands adjacent or in close proximity to each other, creating cross-selling opportunities and providing consumers with greater optionality. As we scale, we expect to attract multi-studio franchisees to help us accelerate our pace of growth. Based on our internal and third-party analyses by Buxton Company, franchisees could have a total of approximately 6,900 studios in the United States alone, prior to the acquisition of BFT. While no formal analysis has been conducted to assess the incremental studio opportunity attributable to BFT, Buxton expects that the addition of BFT will add approximately 1,000 more independent studio opportunities to our United States whitespace provided that we and BFT continue to operate in a manner consistent with the rest of our brands. This estimate represents the number of potential studio locations in the United States that exists in 2021 based on the criteria we consider for franchise license locations, such as customer profiles, trade area analyses and brand performance. Franchisees provide the capital to open each studio location and we provide ongoing support.

Drive system-wide same store sales and grow AUV.

We believe we can help franchisees grow same store sales and AUVs by acquiring new consumers, increasing membership penetration, driving increased spend from consumers and expanding ancillary revenue streams through our franchised studios.

- *Acquiring new consumers:* We expect to grow our consumer reach through a variety of targeted marketing campaigns at both the brand and franchisee levels to increase brand awareness and drive studio traffic.

- *Increasing membership penetration:* We expect franchisees to convert new and occasional consumers into committed, long-term members by delivering consistent, effective workout experiences across our franchised studios. We intend to continue to utilize insights from our consumer management dashboard to refine our sales strategy and offer a variety of flexible membership options to attract consumers at different engagement levels and price points, including our existing four, eight and unlimited classes per month recurring membership options.

- *Driving increased spend from consumers:* We expect to increase spend from consumers by utilizing dynamic pricing tiers across markets and brands, up-tiering memberships, cross-selling memberships across our brands, driving further digital penetration and enhancing our membership engagement. We work closely with franchisees to optimize membership offerings based on local consumer demand, demographics and other market factors in order to maximize our share of wallet.

- *Utilize XPASS to enhance consumer experience and engagement while more effectively cross-selling across our brands:* We implemented XPASS in 2021, a membership option that offers our consumers access to multiple brands across the Xponential portfolio under a single monthly subscription. We believe that XPASS will enable us to continue to attract and retain consumers that are seeking greater variety in their boutique workouts and that we are able to leverage XPASS to introduce consumers to new brands and verticals within our platform. XPASS currently includes all brands other than BFT.

- *Attract and retain consumers through our digital platform:* We believe there is an opportunity to further capitalize on growing consumer demand for digital and at-home fitness solutions by enhancing system-wide capabilities that complement our in-studio offerings. Our digital platform consists of a library of branded content that we make available to our consumers across our online and mobile platforms for a monthly fee. In addition to increasing engagement and retention with our existing in-studio members, our digital platform programs enable us and franchisees to reach new consumers and generate incremental revenues without increasing overhead costs. This enables our brands to deliver high-quality fitness content and maintain strong levels of member engagement, even when studios are closed. Using the experience, knowledge and data we gathered in 2021 and 2020, we are planning to further enhance our production studio, increase production talent and upgrade our content to more closely resemble the in-studio experience at home, so members can experience our brands at any time. Our digital platform offering currently includes all brands other than Rumble and BFT. Our new Xponential+ digital platform is expected to significantly enhance our member experience and further increase our brands' reach, accessibility and subscriber engagement.

- *Expanding additional revenue streams within our franchised studios:* We believe we have the opportunity to increase consumer spending at our franchised studios by expanding our offering of branded and third-party retail products across apparel and other health and wellness categories. During government-mandated studio closures due to the COVID-19 pandemic, franchisees were able to generate revenue in part through retail sales, including the sale of at-home fitness equipment such as exercise balls and weights. We expect that franchisees will be able to continue to leverage this revenue stream in the future as some consumers may continue to make at-home fitness a complementary component of their health and wellness regimens.

Expand operating margins.

We have built our franchised boutique fitness platform across verticals through a series of acquisitions, investments in our brands, corporate infrastructure and leadership team. We expect to realize improved operating leverage and increase operating margins over time as we continue to expand our franchised studio base and leverage our shared services and platform. Our business model provides us with highly predictable and recurring revenue streams, attractive margins and minimal capital requirements, resulting in the ability to invest in future growth initiatives.

Grow our brands and studio footprint internationally.

We believe there is significant opportunity for further international growth, underscored by our track-record of successful expansion across a diverse array of North American markets and our recent expansion into multiple international markets, including the 2021 acquisition of BFT.

We are focused on expanding into territories with attractive demographics, including household income, level of education and fitness participation. We have developed strong relationships and executed master franchise agreements with master franchisees to propel our international growth. These master franchise agreements obligate master franchisees to arrange the sale of licenses to franchisees in one or more countries outside North America. As of December 31, 2021, we had 176 studios open internationally across Australia, New Zealand, Singapore, Saudi Arabia, Japan, Spain, the Dominican Republic and South Korea. Master franchisees were contractually obligated to sell licenses to franchisees to open an additional 956 studios in ten countries, of which master franchisees have sold 184 licenses for studios not yet opened as of December 31, 2021.

Our Brands

We have curated a portfolio of ten brands that span a variety of popular fitness and wellness verticals, including Pilates, barre, cycling, stretching, rowing, yoga, boxing, dancing, running and functional training. Collectively, our brands offer consumers specialized and personalized workout experiences that appeal to a broad range of ages, fitness levels and demographics. Under our suggested operating model, consumers may purchase recurring monthly memberships, single classes or private one-on-one training services for each brand. We have created a robust digital platform containing over 2,800 recorded workouts that can be easily accessed at-home or on-the-go. All of our brands offer workouts that can be completed both indoors and outdoors. We have also developed the XPASS, which allows consumers to participate in all of our diversified workout options while enjoying a consistent, high-quality studio experience across brands under a single monthly subscription.

Franchisees have the opportunity to purchase merchandise for sale in studios and online. To ensure consistency across the studio base, we require franchisees to order merchandise directly from us or approved vendors. Examples of merchandise include at-home fitness equipment such as light weights, exercise mats, balls and exercise bands, fitness apparel, such as leggings and t-shirts, and accessories, such as water bottles and towels. Merchandise is offered from popular athletic retailers, as well as fitness apparel and accessories featuring our brands' logos and slogans.

Club Pilates

Club Pilates, founded in 2007, is the largest Pilates brand by number of studios and was approximately nine times larger than its next largest competitor as of December 31, 2021. The programming tracks Joseph Pilates' original Reformer-based Contrology method and is modernized with group practice and sophisticated equipment. Club Pilates, our first acquisition in 2017, is fueled by the vision of making Pilates more accessible, approachable and welcoming to everyone. Our Club Pilates franchises offer consistent, high-quality Reformer-based Pilates workouts in an uplifting and supportive atmosphere. As of December 31, 2021, there were 693 operational studios and 1,060 licenses sold globally.

There are nine signature Club Pilates class formats, including introductory, cardio, strength training, stretching and suspension options, among others. Club Pilates offers an extensive training certification. Its 500-hour teacher training program includes instruction on Pilates, barre, Triggerpoint and TRX Suspension Trainers. Our training provides opportunities for technical advancement and increased earnings potential for instructors, which we believe enables the brand to attract and retain high quality instructors.

Under our suggested operating model, customers may purchase recurring monthly memberships for four, eight or unlimited monthly classes. There is also the option to purchase single walk-in classes, as well as one-on-one classes. The typical studio is approximately 1,500 square feet and is designed to allow up to 12 people to work out together. Some studios also offer private one-on-one classes.

Pure Barre

Pure Barre, founded in 2001 and acquired in 2018, is the largest barre brand by number of studios and was approximately four times larger than its next largest competitor as of December 31, 2021. Pure Barre offers a range of effective, low-impact, full-body workouts for a broad range of ages and fitness levels designed to improve strength, muscle tone, agility, flexibility and balance. Pure Barre has cultivated a large and passionate consumer base through the combination of effective programing, an energetic in-studio experience and a supportive and community-oriented culture. As of December 31, 2021, there were 612 operational studios and 734 licenses sold globally.

There are four signature Pure Barre class formats: introductory, classic barre, interval training and resistance training. Pure Barre offers a specialized multi-tiered teacher training program, which includes both classroom and on-the-job training. Our training provides opportunities for technical advancement and increased earnings potential, which we believe enables the brand to attract and retain high quality instructors. The choreography for each class format is refreshed on a quarterly basis. Under our suggested operating model, customers may purchase recurring monthly memberships for four, eight or unlimited monthly classes. There is also the option to purchase single walk-in classes. The typical studio is approximately 1,500 square feet and is designed to allow up to 26 people to work out together.

CycleBar

CycleBar, founded in 2004 and acquired in 2017, is the largest indoor cycling brand by number of studios and was approximately three times the size of its next largest competitor as of December 31, 2021. It provides a variety of low-impact, high-intensity indoor cycling workouts that are inclusive for a broad range of ages and fitness levels. CycleBar offers an immersive, multi-sensory experience in state-of-the-art "CycleTheaters," led by specially trained instructors, enhanced with high-energy "CycleBeats" playlists and tracked using rider-specific "CycleStat" performance metrics. As of December 31, 2021, there were 249 operational studios and 516 licenses sold globally.

There are four signature CycleBar class formats, including metrics-focused classes and “unplugged” classes in which metrics are not tracked. CycleBar offers a specialized training program, which includes both classroom and on-the-job training. Our training provides opportunities for technical advancement and increased earnings potential for instructors, which we believe enables the brand to attract and retain high quality instructors. Under our suggested operating model, customers may purchase monthly memberships for four, eight or unlimited monthly classes. There is also the option to purchase single walk-in classes. The typical studio is approximately 2,000 square feet and is designed to allow up to 50 people to work out together.

StretchLab

StretchLab, founded in 2015 and acquired in 2017, is a leading assisted stretching brand. StretchLab was created to help people improve their health and wellness through customized flexibility services. It appeals to customers across a broad range of ages and fitness levels and is highly complementary to our broader brand portfolio. As of December 31, 2021, there were 151 operational studios and 570 licenses sold globally.

StretchLab offers one-on-one and group assisted stretching sessions. Most of StretchLab’s customers purchase one-on-one sessions. StretchLab offers an extensive training program for “Flexologist” instructors. The teacher training program includes both classroom and on-the-job training. Our training provides opportunities for technical advancement and increased earnings potential for instructors, which we believe enables the brand to attract and retain high quality instructors. Under our suggested operating model, customers may purchase monthly memberships for four, eight and unlimited group sessions per month. There is also the option to purchase single group sessions. One-on-one assisted stretching sessions can be purchased in recurring packages of four or eight classes per month, as well as in single one-on-one sessions. Our studio is designed to be between 1,000 and 1,500 square feet and is equipped with approximately ten stretch benches.

Row House

Row House, founded in 2014 and acquired in 2017, was the largest franchised indoor rowing brand by number of studios as of December 31, 2021. Row House’s class offerings incorporate personalized performance metrics, resistance training, rowing and stretching exercises to build aerobic endurance and muscular strength. The low-impact nature of rowing workouts makes Row House accessible to a broad range of consumers. Row House’s programming fosters a group fitness environment that encourages comradery and a strong sense of community, with all participants rowing in-sync. As of December 31, 2021, there were 91 operational studios and 320 licenses sold globally.

There are six signature Row House class formats: introductory, interval-based, strength training, stretching and two endurance-based. Row House offers a specialized training program for Authorized Rowing Coaches, known as “RH University,” which includes both classroom and on-the-job training. Our training provides opportunities for technical advancement and increased earnings potential for instructors, which we believe enables the brand to attract and retain high quality instructors. Under our suggested operating model, customers may purchase monthly memberships for four, eight or unlimited monthly classes. There is also the option to purchase single classes. The typical studio is approximately 2,000 square feet and designed to allow up to 25 people to work out together.

YogaSix

YogaSix, founded in 2011 and acquired in 2018, was the largest franchised yoga brand by number of studios as of December 31, 2021. Classes at YogaSix eliminate the intimidation factor that many people feel when trying yoga for the first time, offering a fresh perspective on one of the world’s oldest fitness practices. With modern-day yoga instruction, our diverse yoga and fitness programming includes movement and intensity to help customers achieve their fitness goals. As of December 31, 2021, there were 131 operational studios and 529 licenses sold globally.

There are six signature YogaSix class formats: introductory, slow flow, stretching, hot yoga, cardio and strength training. YogaSix offers an extensive accredited teacher training program for Registered Yoga Trainers. The 200-hour program includes both classroom and on-the-job training. Our training provides opportunities for technical advancement and increased earnings potential for instructors, which we believe enables the brand to attract and retain high quality instructors. Under our suggested operating model, customers may purchase recurring monthly memberships in packages of four, eight or unlimited monthly classes. There is also the option to purchase single classes. The typical studio is approximately 2,000 square feet and is designed to allow up to 40 people to work out together.

Rumble

Rumble, founded in 2016 and acquired by us in 2021, is a boxing-based brand offering a high energy cardio workout split between boxing drills and resistance training. The Rumble experience is built around the motto that "how you fight is how you live," pushing consumers to develop their courage, determination, focus and stamina. Rumble studios promote inclusive and positive community vibes, welcoming consumers of all fitness levels to Rumble together. The experience is a 45-minute, 10-round, full-body cardio and strength workout crafted around specially designed water-filled, teardrop-style boxing bags. In 2021, Rumble launched Rumble TV, a live and on-demand workout platform, to bring the Rumble experience home with an extensive collection of boxing, HIIT, strength and running workouts. As of December 31, 2021, there were 14 operational studios and 201 licenses sold globally.

There are two studio formats, signature and boutique, which are balanced between the skills and drills of boxing and the transformative power of resistance training. Under our suggested operating model for the signature format, customers may purchase class packages ranging from 1 to 30 classes or monthly memberships for 12, 16 and 20 classes. There is also the option to purchase single walk-in classes. Under our suggested operating model for the boutique format, customers may purchase monthly memberships for four, eight or unlimited monthly classes. There is also the option to purchase single classes. The studios following the signature format are designed to be around 3,500 to 4,500 square feet to allow about 60 people to work out together, while studios following the boutique format are designed to be around 2,500 square feet to allow about 48 people to work out together.

AKT

AKT, founded in 2013 and acquired in 2018, is a full-body workout that combines cardio dance intervals with strength and toning that are effective and accessible for all fitness levels. Designed by celebrity trainer Anna Kaiser, AKT is fueled by positivity and a belief that movement has a powerful, lasting impact. With a high-energy atmosphere and lively music, workouts are designed to push customers to sweat, dance and burn calories. As of December 31, 2021, there were 28 operational studios and 112 licenses sold globally.

There are four signature AKT class formats: dance-based, cardio and strength circuits, strength training intervals and toning. AKT offers a specialized training program for Authorized AKT Instructors, which includes both classroom and on-the-job training. Our training provides opportunities for technical advancement and increased earnings potential for instructors, which we believe enables the brand to attract and retain high quality instructors. Under our suggested operating model, customers may purchase recurring monthly memberships for four, eight and unlimited monthly classes. There is also the option to purchase single classes. The typical studio is approximately 2,000 square feet and is designed to allow approximately 25 people to work out together.

Stride

Stride, founded in 2017 and acquired in 2018, is a treadmill-based cardio and strength workout established to demonstrate to consumers across a broad range of ages and fitness levels that they can enjoy running. Stride offers engaging programming led by dynamic authorized trainers, with state-of-the-art equipment and energizing music. As of December 31, 2021, there were 10 operational studios and 88 licenses sold globally.

The supportive and inclusive environment at Stride fosters a strong sense of community that continues outside of the studio. Stride customers participate in running groups alongside Stride instructors for organized road races and other athletic events. These events deepen customers' connection and loyalty to the Stride brand.

There are three signature Stride class formats: interval, endurance-based and strength training. Under our suggested operating model, customers may purchase monthly memberships for four, eight and unlimited monthly classes. There is also the option to purchase single walk-in classes. The typical studio is designed to be at least 2,000 square feet and is designed to allow 25 people to work out together.

BFT

BFT, founded in 2017 and acquired by us in 2021, offers community-based 50-minute functional, high-energy strength, cardio and conditioning-based classes across multiple workout programs, each designed to achieve the unique health goals of its members. Training sessions are overseen by highly qualified coaches in a dynamic group environment. As of December 31, 2021, there were two operational studios in North America. As of December 31, 2021, there were 151 operational studios and 294 licenses sold globally.

There are thirteen signature BFT class formats, consisting of cardio, high intensity interval training and strength, that are programmed in specific layouts to progress members through a strength training program. BFT offers a specialized training program for BFT coaches, which includes online training, classroom and on-the-job training. Under our suggested operating model, customers may purchase monthly memberships for four, eight and unlimited monthly classes. There is also the option to purchase single walk-in classes. The typical studio is approximately 2,500 square feet and is designed to allow 36 people to work out together.

Our Franchise Model

Franchising Strategy

We rely on our franchising strategy to grow our brands' global footprint in a capital efficient manner. Our franchise model leverages the local market expertise of highly motivated owners, our proven Xponential Playbook and our corporate platform. The model has enabled us to scale our system-wide studio footprint at a CAGR of 27% from 2017 to 2021.

As of December 31, 2021, we had sold a total of 4,062 franchise licenses on a cumulative basis since inception in North America, with approximately 18% of licenses owned by single-unit franchisees and approximately 82% of licenses owned by multi-unit franchisees. As of December 31, 2021, 56% of franchisees owned more than one studio and about 95% of franchisees owned a single brand of studios. The largest franchisee in North America owned 46 licenses, representing approximately 1.1% of our total franchise licenses sold in North America as of December 31, 2021.

When considering potential franchisees, we evaluate their prior experience in relationship-oriented businesses, level of hands-on involvement in their communities, financial history and available capital and financing.

Franchisee Selection Process

We created a disciplined and highly effective franchisee development program for our portfolio of brands and franchisees. The franchisee network in North America has grown rapidly from 835 franchisees as of December 31, 2017 to 1,556 franchisees as of December 31, 2021, representing a CAGR of 17%.

When evaluating new potential franchisees in North America, we typically look for the following characteristics:

- *financially qualified individuals*;
- *relationship-oriented business background*;
- *motivated leaders who are driven by success*;
- *passion to help people meet their health and fitness goals; and*
- *willingness to implement our model and strategies*.

The potential franchisees must also meet the following eligibility criteria:

- *minimum liquidity of $100,000;*
- *minimum net worth of $350,000 (Club Pilates and StretchLab) or $500,000 (Pure Barre, CycleBar, Row House, YogaSix, AKT, Rumble, BFT and Stride); and*
- *financial means to invest between $175,000 to $550,000 to build out their studio, depending on the brand.*

We divide the franchisee selection process into five distinct stages:

- *Inquiry stage: Potential new franchisees complete and submit a confidential questionnaire form to our franchise development team for consideration.*
- *Preliminary screening stage: Our franchise development team conducts a call with potential franchisees to determine their level of financial, cultural and geographical fit.*
- *Introduction stage: If preliminarily approved, potential franchisees schedule a call with our brand managers to discuss next steps and take part in a number of foundation calls to learn more about the brand.*
- *Approval stage: Following validation calls and potential franchisees' personal due diligence, potential franchisees are invited to a discovery day at our headquarters in Irvine, California to meet with the corporate team as a final step in the approval process.*
- *Contract sold stage: Following the completion of the above steps and once internally approved, potential franchisees sign a franchise agreement.*

Franchise Agreements

For each of our brands' franchised studios, we enter into a franchise agreement covering standard terms and conditions. Under our franchise agreement, we grant franchisees the right to access our brands in an exclusive area or territory after taking into account population density and demographics based on our internal and third-party analyses. The proposed location must be approved by us, and each franchisee is responsible for the selection, acquisition and development of the site from which to build the studio. Our franchise agreement requires that the franchisee operates within its designated market areas.

Our franchise agreements have an initial ten-year term. We can terminate the franchise agreement if a franchisee is in default thereunder, has failed to meet our minimum monthly gross revenue quotas or has failed to select a site for the studio that meets our approval within an indicated time period. From inception to December 31, 2021, of our licenses sold, 302 had been terminated in North America and two had been terminated internationally. We expect franchisees to meet and maintain minimum monthly gross revenue quotas by the first and second anniversary of their studio opening. Failure to meet these quotas for 36 consecutive months at any time during the term of the franchise agreement can result in the institution of a mandatory corrective training program or termination of the franchise agreement. We require franchisees to open their studio for regular, continuous business within a specified timeline. Within six months of the expiration of the initial ten-year term, franchisees have the opportunity to renew for one or two additional five-year terms, subject to the terms and conditions prevailing at the time of renewal.

Our franchise agreements require franchisees to comply with our standard operating methods that govern the provision of services, use of vendors and sale of merchandise. These provisions require that franchisees purchase equipment only from an approved list of vendors, and may generally provide products, classes and services only from us or an approved list of suppliers. We reserve the right to charge a penalty fee for each day that a franchisee offers or sells unauthorized products or services from the studio.

Our franchise agreements require franchisees to pay an initial, nonrefundable franchise fee per studio.

Beginning on the day that a studio starts generating revenue from its business operations, franchisees are required to pay us a monthly royalty fee based on gross sales.

Attractive Franchisee Return Profile

The Xponential Playbook is designed to help franchisees achieve compelling AUVs, strong operating margins and an attractive return on their invested capital. Studios are generally designed to be between 1,500 and 2,500 square feet in size, depending on the brand, which contributed to a relatively low average initial franchisee investment of approximately $350,000 in 2021 and 2020, including all leasehold improvements and required studio furniture, fixtures and equipment. We believe that our scale and vendor relationships enable us to offer equipment and merchandise to franchisees at a significantly lower cost than if they were to acquire it on their own. By utilizing the Xponential Playbook, our model is generally designed to generate, on average, an AUV of approximately $500,000 in year two of operations and studio-level operating margins ranging between 25% and 30%, resulting in an unlevered cash-on-cash return of approximately 40%.

New Studio Development

Our small-box format studios have the flexibility to be located in a variety of retail buildings and shopping centers, and we consider locations in both high- and low-density markets. We seek out locations with (i) our target customer demographics, (ii) high visibility and accessibility and (iii) favorable traffic counts and patterns. We use internal and third-party analytic tools to access demographic data that we use to analyze potential new and existing sites and markets for franchisees. We assess population density, current tenant mix, layout and potential competition, among other factors. As a result of boutique fitness consumers' affinity for trying multiple workout types, we have the ability to place our different brands within close proximity to each other. Our team follows a detailed approval process to review potential sites and seek to ensure that each site aligns with our strategic growth objectives and the Xponential Playbook.

We guide franchisees through the site selection, build-out and design processes during the development of their studios, ensuring that the studios conform to the physical specifications for their respective brands. Prior to opening, we offer franchisees a list of designated territories in which they may open a new studio. Each franchisee is responsible for selecting, acquiring and leasing a site, but they must obtain site approval from Xponential.

Franchise Development Team

We have a dedicated sales team to help promote and coordinate sales and resales of franchises at the corporate level. We have created a scalable and sustainable model through which we identify potential franchisees. In addition, we have a team dedicated to training and supporting franchisees in lead generation, sales conversion and customer retention support.

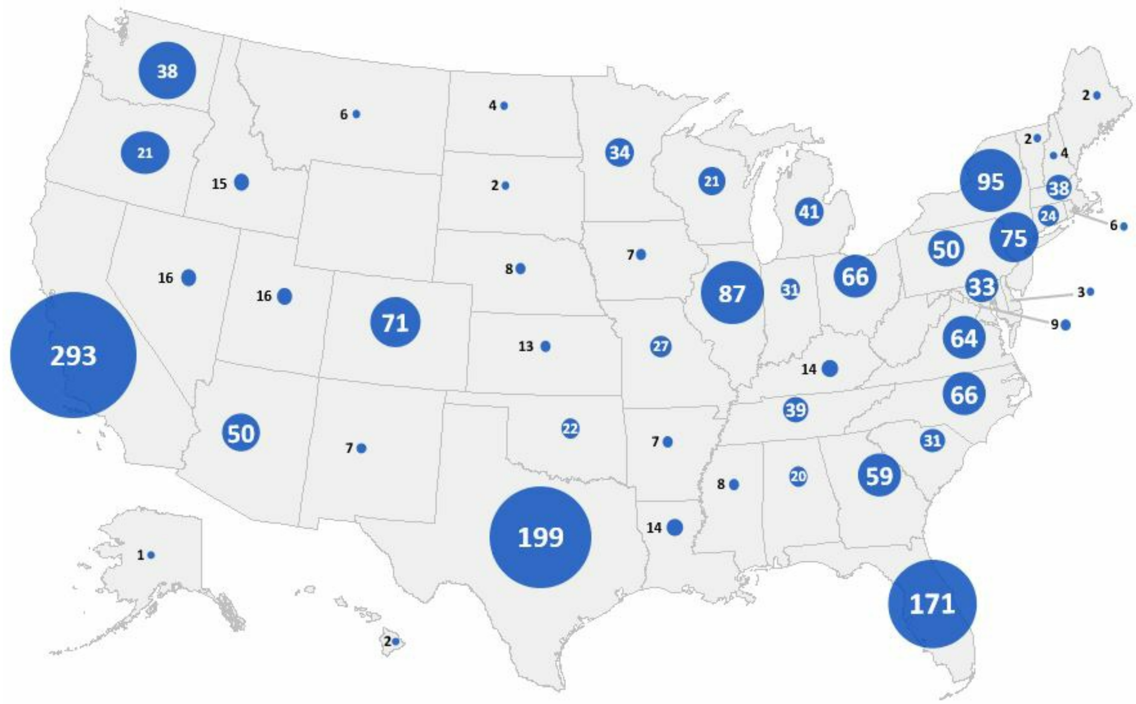
We also work with third-party brokers to generate sales leads for potential new franchisees.

Studios

As of December 31, 2021, franchisees operated 1,932 studios system-wide, across 48 U.S. states and the District of Columbia, as well as 22 studios in Canada, 132 studios in Australia, 13 studios in New Zealand, 13 studios in Singapore, 11 studios in Saudi Arabia, four studios in Japan, one studio in Spain, one studio in the Dominican Republic and one studio in South Korea. In 2021, franchisees opened 240 studios across North America as well as 94 studios internationally on an adjusted basis to reflect historical information of the brands we have acquired. As of December 31, 2020, franchisees operated 1,697 studios system-wide, across 48 U.S. states and the District of Columbia, as well as 17 studios in Canada, 68 studios in Australia, two studios in New Zealand, three studios in Singapore, six studios in Saudi Arabia, two studios in Japan and one studio in South Korea on an adjusted basis to reflect historical information of the brands we have acquired.

Operating company-owned studios is not a component of our business model. Following the significant disruption to the global fitness industry caused by the COVID-19 pandemic, however, we took ownership of a greater number of studios than we would expect to hold in the normal course of our business. While operating studios is not a component of our business model, we currently hold a small number of strategic transition studios as, on occasion, we take ownership of such studios for a limited time while facilitating the transfer of these studios to new or existing franchisees ("company-owned transition studios"). As of December 31, 2021, 2020 and 2019 we had 25, 40 and four company-owned transition studios, representing 1.2%, 2.2% and 0.3% of the global studio base, respectively.

The map below shows open studios by U.S. state as of December 31, 2021:



Note: The 25 company-owned transition studios are included in the count of total franchised studios. As we are in the process of refranchising these studios, we expect that they will be owned and operated by franchisees in the future.

Brand	Club Pilates	Pure Barre	CycleBar	Stretch Lab	Row House	YogaSix	AKT	Stride	Rumble	BFT
Number of U.S. states	43	47	40	31	25	31	14	5	4	2

We continue to drive the international expansion of our studio base. We currently have in place master franchise agreements that grant master franchisees the right to sell licenses to potential franchisees in ten countries that we have targeted for near-term expansion. As of December 31, 2021, there were 176 studios open internationally, and the master franchisees were contractually obligated to sell licenses to franchisees to open an additional 956 studios in ten countries, of which master franchisees have sold 184 licenses for studios not yet open as of December 31, 2021. As of December 31, 2021, franchisees were contractually committed to open an additional 1,806 studios in North America under existing franchise agreements.

Fitness Equipment

Our franchised studios contain state-of-the-art fitness equipment from an array of suppliers. We believe that the quality of the equipment enriches the customers' in-studio experience and thereby enhances their brand loyalty. To ensure consistency across the studio base, we require franchisees to order equipment and supplies directly from us or approved vendors. Franchisees are required to order replacement or upgraded equipment within five to ten years depending on the manufacturers' guidelines. Franchisees also must use our approved vendors for equipment maintenance, who provide warranties on certain equipment purchased from them. As the largest franchisor in the industry, we have significant scale that enables us to negotiate competitive pricing from our suppliers. As a result, we believe that we offer equipment at more attractive pricing than franchisees could otherwise procure on their own, lowering the build-out cost and improving unit economics.

Our Digital Offering

We believe there is an opportunity to capitalize on the growing consumer demand for digital and at-home fitness solutions by providing a digital platform that complements and enhances the attractiveness of our in-studio offerings. In addition to increasing engagement with and retention of our existing in-studio members, our digital platform enables us to reach new consumers in markets without a physical footprint and generate incremental revenue for both us and franchisees with limited incremental cost. As a result, our brands can deliver high-quality fitness content and maintain strong levels of member engagement both in the studio and at home. Our digital offering is available 24 hours a day, 7 days a week and delivers highly engaging live streamed and on-demand fitness classes from all of our brands, except Rumble and BFT. We cover the cost of production for our digital content. Currently, members receive all of our Pure Barre video content at no extra charge when they purchase an unlimited membership at a Pure Barre studio, and in that case, we provide that digital access at no charge to the relevant franchisee. Other members across our brands may purchase a digital subscription from a studio or directly from us. We receive a platform fee from franchisees for each digital subscription that is purchased from a studio.

As of December 31, 2021, our digital platform had over 55,000 users, of which over 24,000 were paid subscribers and the balance received digital subscriptions as part of an unlimited Pure Barre membership. We offer digital subscriptions on an individual brand basis, as well as an all-access package for eight of our brands. Our digital platform encompasses over 2,800 digital workouts with multiple class formats within each brand, and we expect to continue to grow that content. Our digital platform is attractive for franchisees as it allows them to upsell a better value proposition to their members. It also allows us to market local studios to standalone digital members based on their geographic location. We believe that our digital platform builds significant brand awareness and enhances cross-sell opportunities across our brands and between in-studio memberships and digital subscriptions.

Marketing

Marketing Strategy

Our marketing strategy is designed to highlight our leading brand portfolio, the compelling value proposition of our brands and the unique attributes and benefits of boutique fitness workouts. Each brand has a dedicated marketing team that is focused on building brand awareness, generating new customer leads and increasing studio traffic at the national and local level. We leverage our corporate platform and marketing expertise to develop tailored marketing strategies to capitalize on each of our brands' potential.

Marketing Spending

National advertising. We manage a marketing fund for franchisees, with the goal of building national awareness for our brands. We focus our marketing efforts on national advertising and media partnerships, developing and maintaining creative assets to support local sales throughout the year, and building and supporting the Xponential Fitness community via digital and social media for each of our brands. Our franchise agreements require franchisees to contribute 2% of their monthly gross sales to the marketing fund of their respective brand. Our marketing funds have enabled us to spend approximately $13.0 million, $7.1 million and $8.2 million in 2021, 2020 and 2019, respectively, to increase national awareness of our brands. We believe this is a powerful marketing tool as it allows us to increase brand awareness in new and existing markets.

Local marketing. Our franchise agreements require franchisees to spend at least $1,500 per month on approved local marketing to support promotional sale periods throughout the year and continue to build the brand in local markets. All franchised studios are supported by our dedicated franchisee marketing team, which provides guidance, tracking, measurement and advice on best practices. Franchisees spend their marketing dollars in a variety of ways to promote business at their studios on a local level. These methods typically include media vehicles that are effective on a local level, including direct mail, outdoor (including billboards), social media and radio advertisements and local partnerships and sponsorships.

Social media. We have an engaged social media platform for each of our brands, which we believe further raises brand awareness and creates a community among our members. Each brand has a dedicated social media page run by us, and we also maintain a corporate social media page where we seek to engage personally with customers. In addition, franchisees operate social media accounts at the local level. We provide franchisees with social media consulting during the pre-opening phase in order to help them maximize their social impact. We believe that local social media pages are additive to the studio-level community and deepen our brands' connection with consumers.

Digital. We utilize digital advertising at the corporate level to drive awareness for our digital platform offerings. For example, in March 2021, we launched an Apple Watch integration designed to offer an enhanced member experience across all our brands, other than BFT. The integration allows Xponential members and guests who utilize Apple Watch to view upcoming classes, check-in to a class and track real-time workout performance data. Each brand's app will integrate directly with Apple Watch. Members at participating studios also have the option to join our "Earn Your Watch" challenge, earning back the value of their Apple Watch when they purchase their device through an Xponential brand website and complete a set number of workouts per month. We believe that our partnership with Apple Watch will further drive excitement and enthusiasm across the Xponential consumer base, while also helping to increase membership engagement and retention.

Competition

Although we offer boutique fitness experiences, we believe we compete with both fitness and non-fitness consumer discretionary spending alternatives for consumers' time and resources.

Franchisees compete with other health and fitness club industry participants, including:

- other national and regional boutique fitness offerings, some of which are franchised and others of which are owned centrally at a corporate level;
- other health and fitness centers, including gyms and other recreational facilities;
- individually owned and operated boutique fitness studios;
- personal trainers;
- racquet, tennis and other athletic clubs;
- at-home fitness offerings;
- online fitness services and health and wellness apps;
- participants in the home-use fitness equipment industry; and
- businesses offering similar services.

The health and fitness club industry is highly competitive and fragmented, and the number, size and strength of competitors vary by region. Some of our competitors may have greater name recognition nationally or locally or an established presence in local markets and some have corporate relationships that facilitate their acquisition of new consumers. These risks are more significant internationally, where we have a limited number of studios and brand recognition. Please also see "Business-Our Competitive Strengths."

We also compete to sell franchises to potential franchisees who may choose to purchase franchises from other boutique fitness operators, but who may also consider purchasing franchises in other industries such as restaurants and personal care. We compete with other franchisors on the basis of the expected return on investment of franchisees and the value propositions that we offer for franchisees.

Our competition continues to increase as we expand into new markets and add studios in existing markets. See "Risk Factors—Risks Related to our Business and Industry—We operate in a highly competitive market and we may be unable to compete successfully against existing and future competitors."

Suppliers

We require franchisees to make most purchases related to the build out and operation of their studios from us or our approved vendors. This helps us ensure the timelines of build outs and the maintenance of consistent studio quality within each brand. We sell equipment purchased from third-party equipment manufacturers to franchised studios in North America. Franchisees outside North America must purchase equipment from third-party equipment manufacturers approved by us. We also have various approved suppliers of fitness accessories and apparel.

Vendors arrange for delivery of products and services either directly to our warehouse or to franchisee studios. We continually re-evaluate our supplier relationships to ensure we and franchisees obtain competitive pricing and high-quality equipment, merchandise and other items.

Employees

As of December 31, 2021, we had approximately 322 employees at our corporate headquarters, of which approximately 104 were part-time employees. We also had approximately 300 employees at our company-owned transition studios as of December 31, 2021, of which approximately 286 were part-time employees. None of our employees are represented by labor unions, and we believe we have a good relationship with our employees.

Xponential franchises are independently owned and operated businesses. As such, employees of franchisees are not employees of Xponential Fitness.

Information Technology and Systems

We recognize the value of enhancing and extending the uses of information technology ("IT") in virtually every area of our business. Our IT strategy is aligned to support our business strategy and operating plans. We maintain an ongoing program to monitor, replace or upgrade key IT services and infrastructure.

The studios use a uniform third-party hosted studio management system for enrolling members and managing member database information including personally identifiable information and payment processing. In addition, this management system tracks and analyzes key operating metrics such as membership statistics, cancellations, cross-studio utilization, member tenure and demographics profiles.

We continue to create a more customizable and efficient experience for members through updated digital tools, including enhanced websites and mobile applications. These digital tools enable consumers to search studio locations, browse class schedules and sign up for classes. We continue to enhance the accessibility of our digital tools to increase our online presence and member engagement.

Through our third-party hosted studio management system, we provide franchisees access to an informational management system to receive informational notices, operational resources and updates, training materials and other franchisee communications.

Our back-office computer systems are comprised of a variety of technologies designed to assist the operation of our business. These include a third-party hosted accounting and financial system, a SaaS solutions system to manage franchisees' leases and franchisee agreements, a third-party hosted payroll system, an inventory and online store management system and a customer relationship management system.

Intellectual Property

At December 31, 2021, we own approximately 71 registered trademarks and service marks in the United States and approximately 321 registered trademarks and service marks in other countries, including “Xponential,” “Pure Barre,” “StretchLab,” “Row House,” “YogaSix,” “Club Pilates,” “CycleBar,” “Rumble,” “AKT,” “Stride” and “BFT.” We believe the Xponential name, and the marks associated with our ten brands are of value and are important to our business. Accordingly, as a general policy, we pursue registration of our marks in the United States and select international jurisdictions, monitor the use of our marks in the United States and internationally and oppose any unauthorized use of our marks.

We license the use of our marks to franchisees and third-party vendors through our franchise agreements and vendor agreements. These agreements restrict third parties’ activities with respect to use of our marks. Our franchise agreements impose brand standards requirements and require franchisees to inform us of any potential infringement of our marks.

We register some of our copyrighted material and otherwise rely on common law protection of our copyrighted works. Such registered copyrighted materials are not material to our business.

We also license some intellectual property from third parties for use in our franchised studios. Such licenses, including our music licenses, are not material to our business. Franchisees also license certain intellectual property for use in their studios, including music in some cases.

Government Regulation

We and franchisees are subject to various federal, state, provincial and local laws and regulations affecting our business.

We are subject to a trade regulation rule on franchising, known as the FTC Franchise Rule, promulgated by the U.S. Federal Trade Commission (the “FTC”), that regulates the offer and sale of franchises in the United States and requires us to provide to all prospective franchisees certain mandatory disclosure in a Franchise Disclosure Document (“FDD”). In addition, we are subject to state franchise sales laws in approximately 19 U.S. states that regulate the offer and sale of franchises by requiring us to make a business opportunity exemption or franchise filing or obtain franchise registration prior to making any offer or sale of a franchise in those states and to provide a FDD to prospective franchisees.

We are subject to franchise sales laws in six provinces in Canada that regulate the offer and sale of franchises by requiring us to provide a FDD in a prescribed format to prospective franchisees and that further regulate certain aspects of the franchise relationship. We are also subject to franchise relationship laws in at least 22 U.S. states that regulate many aspects of the franchise relationship, including renewals and terminations of franchise agreements, franchise transfers, the applicable law and venue in which franchise disputes must be resolved, discrimination and franchisees’ right to associate, among others. In addition, we and franchisees may also be subject to laws in other foreign countries where we or they do business.

We and franchisees are also subject to the U.S. Fair Labor Standards Act of 1938, as amended, similar state laws in certain jurisdictions, and various other laws in the United States and Canada governing such matters as minimum-wage requirements, overtime and other working conditions. A significant number of our and franchisees’ employees are paid at rates related to the U.S. federal or state minimum wage, and past increases in such minimum wages have increased labor costs, as would future increases.

Our and franchisees’ operations and properties are subject to extensive U.S. and Canadian federal, state, provincial and local laws and regulations, including those relating to environmental, building and zoning requirements. Our and franchisees’ development of properties depends to a significant extent on the selection and acquisition of suitable sites, which are subject to zoning, land use, environmental, traffic and other regulations and requirements.

We and franchisees are responsible at the studios we operate for compliance with state laws that regulate the relationship between health clubs and their members. Nearly all states have consumer protection regulations that limit the collection of monthly membership dues prior to a studio opening, require certain disclosure of pricing information, mandate the maximum length of contracts and “cooling off” periods for members (after the purchase of a membership), set escrow and bond requirements, govern member rights in the event of a member relocation or disability, provide specific member rights when a health club closes or relocates, or preclude automatic membership renewals.

We and franchisees primarily accept payments for our memberships through electronic fund transfers from members' bank accounts and, therefore, are subject to both federal and state legislation and certification requirements, including the Electronic Funds Transfer Act. Some states, such as New York, Massachusetts and Tennessee, have passed or considered legislation requiring gyms and health clubs to offer a prepaid membership option at all times and/or limit the duration for which such memberships can auto-renew through electronic fund transfers, if at all. Our business relies heavily on the fact that our memberships continue on a month-to-month basis after the completion of any initial term requirements, and compliance with these laws, regulations, and similar requirements may be onerous and expensive, and variances and inconsistencies from jurisdiction to jurisdiction may further increase the cost of compliance and doing business. States that have such health club statutes provide harsh penalties for violations, including membership contracts being void or voidable.

Additionally, the collection, maintenance, use, disclosure and disposal of individually identifiable data by us, or franchisees are regulated at the federal, state and provincial levels as well as by certain financial industry groups, such as the Payment Card Industry, Security Standards Council, the National Automated Clearing House Association and the Canadian Payments Association. Federal, state and financial industry groups may also consider from time to time new privacy and security requirements that may apply to us or franchisees and may impose further restrictions on our or their collection, disclosure and use of individually identifiable information that are housed in one or more of our or their databases.

Available information

Our website address is www.xponential.com, and our investor relations website is located at http://investor.xponential.com. Information on our website is not incorporated by reference herein. Copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and our Proxy Statements for our annual meetings of stockholders, and any amendments to those reports, as well as Section 16 reports filed by our insiders, are available free of charge on our website as soon as reasonably practicable after we file the reports with, or furnish the reports to, the Securities and Exchange Commission (the "SEC"). The SEC maintains an Internet site (http://www.sec.gov) containing reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A. Risk Factors.

Our business is subject to a number of risks, some of which are discussed below. The risk factors discussed in this section should be considered together with all of the other information contained in this Annual Report on Form 10-K, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. If any of the following risks actually occurs, our business, prospects, results of operations, cash flows and financial condition could suffer materially, the trading price of our Class A common stock could decline and you could lose all or part of your investment. This Annual Report on Form 10-K also contains forward-looking statements and estimates that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of specific factors, including the risks and uncertainties described in this section. The principal risk factors are:

Risk Factor Summary

- Our business and results of operations were impacted by the ongoing COVID-19 pandemic.
- Shifts in consumer behavior may materially adversely impact our business.
- We have a limited operating history.
- Our financial results are affected by financial results of master franchisees and franchisees.
- We may not be able to successfully implement our growth strategy.
- The number of new studios that actually open in the future may differ materially from the number of studio licenses sold to potential, existing and new franchisees.
- Our success depends substantially on our ability to maintain the value and reputation of our brands.
- Our expansion into new markets may present increased risks due to our unfamiliarity with those markets.
- Our expansion into international markets exposes us to a number of risks.
- We have incurred operating losses in the past and may not achieve or maintain profitability in the future.
- If we or master franchisees fail to identify, recruit and contract with a sufficient number of qualified franchisees, our ability to open new studios could be materially adversely affected.
- Franchisees may incur rising costs related to the construction of new studios.
- Franchisees may not be able to identify and secure suitable sites for new studios.
- Opening new studios in close proximity to existing studios may negatively impact existing studios' revenue and profitability.
- New brands or services that we launch in the future may not be as successful as we anticipate.
- Franchisees could take actions that harm our business.
- Franchisees may not successfully execute our suggested best practices, which could harm our business.
- Our investments in underperforming studios may be unsuccessful.
- Disruptions in the availability of financing for current or prospective franchisees could adversely affect our business, results of operations, cash flows and financial condition.
- Franchisees may be unable to attract and retain customers.
- We may not be able to anticipate and satisfy consumer preferences and shifting views of health and fitness.
- Our planned growth could place strains on our management, employees, information systems and internal controls, which may adversely impact our business.
- Our business is subject to various laws and regulations and changes in such laws and regulations.
- We currently are, and may in the future be, subject to legal proceedings, regulatory disputes and governmental inquiries.
- We, master franchisees and franchisees could be subject to claims related to health and safety risks to customers that arise while at our and franchisees' studios.
- We rely heavily on information systems provided by a single provider.
- If we, master franchisees, franchisees or ClubReady fail to properly maintain the confidentiality and integrity of our customer personal data, we can be subject to costly litigation and damaged reputation.

•Failure by us, master franchisees, franchisees or third-party service providers to comply with existing or future data privacy laws and regulations could have a material adverse effect on our business.
•Changes in legislation or requirements related to electronic funds transfer may adversely impact our business operations.
•We and franchisees are subject to risks related to Automated Clearing House (“ACH”), credit card, debit card and gift card payments we accept.
•We depend on a limited number of suppliers for certain equipment, services and products.
•Our intellectual property rights, including trademarks and trade names, may be infringed, misappropriated or challenged by others.
•We may not be able to secure music licenses or to comply with the terms and conditions of such licenses, which may lead to third-party claims or lawsuits against us and/or franchisees.
•Our quarterly results of operations and other operating metrics may fluctuate from quarter to quarter.
•Use of social media may adversely impact our reputation or subject us to fines or other penalties.
•We may require additional capital to support business growth and objectives.
•We may engage in merger and acquisition activities, which could require significant management attention, disrupt our business, dilute stockholder value and adversely affect our results of operations.
•Our retail products may be unacceptable to us or franchisees’ customers.
•Failure to comply with anti-corruption and anti-money laundering laws or similar laws and regulations could subject us to penalties and other adverse consequences.
•If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our results of operations could be adversely affected.
•Goodwill and indefinite-lived intangible assets are a material component of our balance sheet and impairments of these assets could have a significant impact on our results.
•Franchisees may be unable to obtain forgiveness of Paycheck Protection Plan loans under the CARES Act.
•Our substantial indebtedness could adversely affect our financial condition and limit our ability to pursue our growth strategy.
•Our failure to satisfy the covenants in our credit agreement may result in events of default.
•Restrictions imposed by our outstanding indebtedness and any future indebtedness may limit our ability to operate our business and to finance our future operations.
•We may not be able to maintain required regulatory licenses and permits.
•Unanticipated changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our results of operations and financial condition.
•The terms of our convertible preferred stock have provisions that could result in a change of control of our Board in the case of an event of default by us.
•Our convertible preferred stock impacts our ability to pay dividends on our Class A common stock and imposes certain negative covenants on us.
•Our convertible preferred stock ranks senior to our Class A common stock.
•We are a holding company, and depend upon distributions from our subsidiary, XPO Holdings, to pay dividends, if any, and taxes, make payments under the TRA and pay other expenses.
•In certain circumstances, XPO Holdings will be required to make substantial distributions to us and the other holders of limited liability company units (the “LLC Units”).
•We are controlled by the pre-IPO members of XPO Holdings who continue to retain their ownership of LLC Units following the IPO (the “Continuing Pre-IPO LLC Members”).
•We will be required to pay the TRA parties for certain tax benefits we may receive, and the amounts we may pay could be significant.
•We are a “controlled company” within the meaning of the New York Stock Exchange (the “NYSE”) listing standards and therefore not required to comply with certain corporate governance requirements.
•Our major stockholders may pursue corporate opportunities that could present conflicts with our and our minority stockholders’ interests.

- We are an “emerging growth company” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our Class A common stock less attractive to investors.
- Failure to maintain effective internal control over financial reporting may have an adverse effect on our financial condition and stock price.
- Your percentage ownership in us may be diluted by future issuances of capital stock, which could reduce your influence over matters on which stockholders vote.
- A sale of a significant portion of our total outstanding shares could cause the market price of our Class A common stock to drop significantly.

Risks Related to Our Business and Industry

Our business and results of operations were and are expected to continue to be materially adversely impacted by the ongoing COVID-19 pandemic.

The COVID-19 pandemic continues to impact global economic activities and poses the risk that we or our employees, franchisees, suppliers and other partners may be prevented from conducting business activities for an indefinite period of time, due to shutdowns, travel restrictions, social distancing requirements, stay-at-home orders and advisories and other restrictions suggested or mandated by governmental authorities. The COVID-19 pandemic may also have the effect of heightening many of the other risks described elsewhere in this report, such as those relating to our growth strategy, international operations, franchisees’ ability to attract and retain members, supply chain disruptions, health and safety risks to members, loss of key employees and unforeseen labor shortages and changes in consumer preferences.

The extent of the impact of the COVID-19 pandemic remains highly uncertain and difficult to predict. However, the continued spread of the virus and the measures taken in response to it have disrupted our operations and adversely impacted our business, financial condition and results of operations. For example, in response to the COVID-19 pandemic, franchisees temporarily closed almost all studios system-wide in mid-March 2020, although our franchised studios have resumed operations as of December 31, 2021. We and franchisees took other actions, such as temporary rent deferrals and reduced marketing activities, as additional measures to preserve cash and liquidity during closure periods. As the COVID-19 pandemic continues to impact areas in which our studios operate, certain of our studios have had to re-close or significantly reduce capacity, and additional studios may have to re-close or further reduce capacity, pursuant to local guidelines. As a result of COVID-19, franchisees have also experienced to date, and may continue to experience, a decrease in net membership base. In addition, governments in certain jurisdictions in which we operate have imposed regulatory restrictions to mitigate further spread of COVID-19 disease, such as mask and vaccine mandates for employees and customers, and such restrictions may increase the cost of operations of our franchisees. The COVID-19 pandemic and these responses have adversely affected and will continue to adversely affect our and franchisees’ sales.

The COVID-19 pandemic has significantly impacted our ability to generate revenue. A substantial portion of our revenue is derived from royalty fees and other fees and commissions generated from activities associated with franchisees and equipment sales to franchisees. These revenue streams were affected by the decline in system-wide sales as almost all studios were temporarily closed intermittently beginning in mid-March and throughout 2020 and early 2021, and new studio openings were delayed. We are rely significantly on the performance of franchisees in successfully operating their studios and paying royalties to us on a timely basis. Disruptions in franchisees’ operations for a significant amount of time due to studio closures or the COVID-19 pandemic-related social distancing, or other movement restricting policies put in place in an effort to slow the spread of COVID-19, have adversely impacted and will likely continue to adversely impact royalty payments from franchisees, or result in our providing payment relief or other forms of support to franchisees, and may materially adversely affect our business, results of operations, cash flows and financial condition.

The COVID-19 pandemic has also adversely affected franchisees’ ability to open new studios. Social distancing and stay-at-home or shelter-in-place orders and mandates as well as construction restrictions related to the COVID-19 pandemic have caused a slowdown in planned openings and in construction related processes such as onsite inspections, permitting, construction completion and installation of equipment in some jurisdictions. These changes may adversely affect our ability to grow our business.

If the business interruptions caused by the COVID-19 pandemic continue for a substantial period of time, we or franchisees may need to seek other sources of liquidity. The COVID-19 pandemic is adversely affecting the availability of liquidity generally in the credit markets, and there can be no guarantee that additional liquidity, whether through the credit markets or government programs, will be readily available or available on favorable terms, especially the longer the COVID-19 pandemic persists.

Moreover, even after social distancing, stay-at-home and other governmental orders and advisories are lifted or relaxed, consumer demand may remain weak and consumer behavior may shift, including as a result of consumers' hesitancy to return to in-person studios. A recession, depression or other adverse economic impact resulting from the COVID-19 pandemic could dampen consumer spending generally and demand for fitness classes or boutique fitness specifically. In addition, consumers may be reluctant to participate in in-person fitness classes even after governmental orders and advisories are lifted and may be particularly reluctant to participate in our brands' offerings given the small indoor spaces in which our studios operate. If a COVID-19 outbreak were to occur in any of the in-person studios, our brand's reputation may be harmed and consumer demand for indoor classes may decrease further. Decreased consumer demand for any of these reasons would have an adverse impact on our and franchisees' business, financial condition and results of operations, and we cannot predict when or if our brands will return to the pre-COVID-19 pandemic active membership and demand levels.

The full extent of the future impact of the COVID-19 pandemic on our operational and financial performance is uncertain and will depend on many factors outside of our control, including, without limitation, the timing, extent, trajectory and duration of the pandemic; the availability, distribution and effectiveness of vaccines; the spread of new variants of COVID-19, such as the Omicron variant; the continued and renewed imposition of protective public safety measures; the disruption to global supply chain; rising inflation rates, the impact of the pandemic on the fitness industry and responses from our franchisees to the pandemic. Although we have implemented measures to mitigate the impact of the COVID-19 pandemic on our business, we expect the pandemic to continue to adversely affect franchisees, as well as our overall business, results of operations, cash flows and financial condition.

The COVID-19 pandemic may also have the effect of heightening many of the other risks described in this "Risk Factors" section, such as those relating to our growth strategy, international operations, our and franchisees' ability to attract and retain members, our supply chain, health and safety risks to our members, loss of key employees and changes in consumer preferences, as well as risks related to our significant indebtedness, including our ability to generate sufficient cash and comply with the terms of and restrictions under the agreements governing such indebtedness.

Shifts in consumer behavior may materially adversely impact our business.

As a result of the COVID-19 pandemic, consumers may be reluctant to participate in in-person fitness classes even after governmental orders and advisories are lifted and may be particularly reluctant to participate in our brands' offerings given the small indoor spaces in which our studios operate. Moreover, consumers have been adopting in-home fitness solutions, a trend which accelerated during the COVID-19 pandemic. This trend may reduce the number of times consumers participate in in-person fitness classes in studios. Decreased consumer demand due to a general shift in consumer behavior would have an adverse impact on our and franchisees' business, financial condition and results of operations, and if future variants continue to emerge and governments continue to impose restrictions on economic activities, we may not be able to maintain our current active membership and demand levels.

We have a limited operating history and our past financial results may not be indicative of our future performance.

Anthony Geisler, our Chief Executive Officer and founder, acquired Club Pilates in March 2015. We were founded in August 2017 and acquired Club Pilates, our first brand, in September 2017. Our historical revenue growth should not be considered indicative of our future performance. Estimates of future revenue growth are subject to many risks and uncertainties and our future revenue may differ materially from our projections. We have encountered, and will continue to encounter, risks and difficulties frequently experienced by growing companies in rapidly changing industries, including market acceptance of our and franchisees' services and products, the need to increase sales at existing studios, opening new studios, increasing competition and increasing expenses as we expand our business. We cannot be sure that we will be successful in addressing these and other challenges we may face in the future, and our business may be adversely affected if we do not manage these risks.

Our financial results are affected by the operating and financial results of, and our relationships with, master franchisees and franchisees.

A substantial portion of our revenue comes from royalties generated by franchised studios and studios franchised through master franchisees, other fees and commissions generated from activities associated with franchisees and equipment sales and leases to franchisees. As a result, our financial results are largely dependent upon the operational and financial results of franchisees. As of December 31, 2020, we had 1,038 franchisees operating 1,714 open studios in North America and five master franchisees with 82 studios operating internationally on an adjusted basis (which includes historical studio counts for Rumble and BFT, which we acquired in March 2021 and October 2021, respectively). As of December 31, 2021, we had 1,556 franchisees operating 1,954 open studios in North America and nine master franchisees with 176 studios operating internationally. Negative economic conditions, including inflation, increased unemployment levels and the effect of decreased consumer confidence or changes in consumer behavior, or any continued disruptions in franchisees' operations for a significant amount of time due to the COVID-19 pandemic-related social distancing, or other movement restricting policies put in place in an effort to slow the spread of COVID-19, could materially harm franchisees' financial condition, which would cause our royalty and other revenues to decline and, as a result, materially and adversely affect our business, results of operations, cash flows and financial condition. For example, our revenue was negatively affected by the decline in system-wide sales as a majority of our and franchisees' studios were closed during mid-March and throughout 2020, and new studio openings were delayed, as a result of the COVID-19 pandemic. In addition, if franchisees fail to renew their franchise agreements with us, or otherwise cease operating, our royalty and other revenues may decrease, which in turn could materially and adversely affect our business, results of operations, cash flows and financial condition.

Franchisees are an integral part of our business. We would be unable to successfully implement our growth strategy without the participation of franchisees. The failure of franchisees to focus on the fundamentals of studio operations, such as quality, service and studio appearance, would adversely affect our business, results of operations, cash flows and financial condition.

If we fail to successfully implement our growth strategy, which includes opening new studios by existing and new franchisees in existing and new markets, our ability to increase our revenue and results of operations could be adversely affected.

Our growth strategy relies in large part upon new studio development by existing and new franchisees. Franchisees face many challenges in opening new studios, including:

- availability and cost of financing;
- selection and availability of suitable studio locations;
- competition for studio sites;
- negotiation of acceptable lease and financing terms;
- impact of and responses to the COVID-19 pandemic;
- construction and development cost management;

- selection and availability of suitable general contractors;
- punctual commencement and progress of construction and development;
- equipment delivery or installation delays;
- health, fitness and wellness trends in new geographic regions and acceptance of our and franchisees' services and products;
- employment, training and retention of qualified personnel; and
- competition for consumers and qualified instructors.

Our growth strategy also relies on our and master franchisees' ability to identify, recruit and enter into agreements with a sufficient number of qualified franchisees. In addition, our and franchisees' ability to successfully open and operate studios in new markets may be adversely affected by a lack of awareness or acceptance of our brands and a lack of existing marketing efforts and operational execution in these new markets. To the extent that we and franchisees are unable to implement effective marketing and promotional programs and foster recognition and affinity for our brands in new markets, franchisees' studios in these new markets may not perform as expected and our growth may be significantly delayed or impaired. In addition, franchisees of new studios may have difficulty securing adequate financing, particularly in new markets, where there may be a lack of adequate operating history and brand familiarity. New studios may not be successful or same store sales may not increase at historical rates, which could materially and adversely affect our business, results of operations, cash flows and financial condition.

In addition, new studios build their sales volume and customer base over time and, as a result, generally yield lower amounts of revenue for us than more mature studios. New studios may not achieve sustained results consistent with more mature studios on a timely basis, or at all, which could have an adverse effect on our financial condition, operating results and growth rate.

The majority of new franchisees' studio development is funded by franchisee investment and, therefore, our growth strategy is dependent on the ability of franchisees or prospective franchisees to access funds to finance such development. If franchisees (or prospective franchisees) are unable to obtain financing at commercially reasonable rates, or at all, they may be unwilling or unable to invest in the development of new studios, and our future growth could be adversely affected. We recently implemented a new lending program pursuant to which we may offer short term financing to franchisees from time to time up to an aggregate amount of $5.0 million. However, such lending program may not provide sufficient funding for some of the franchisees to obtain the necessary capital to develop a studio. In addition, if we offer financing and franchisees are unable to repay the amounts borrowed, our business, results of operations, cash flows and financial condition could be adversely affected.

To the extent franchisees are unable to open new studios on the timeline we anticipate, we will not realize the revenue growth that we expect. Franchisees' failure to add a significant number of new studios would adversely affect our ability to increase our revenue and operating income and could materially and adversely affect our business, results of operations, cash flows and financial condition.

The number of new studios that actually open in the future may differ materially from the number of studio licenses sold to potential, existing and new franchisees.

The number of new studios that actually open in the future may differ materially from the number of U.S. licenses sold and international licenses to be sold via master franchise agreements. As of December 31, 2021, we had 1,806 studios in North America contractually obligated to be opened under existing franchise agreements and 956 licenses to be sold internationally via master franchise agreements in respect of studios that had not yet opened, on an adjusted basis to reflect historical information of brands we have acquired. Historically, a portion of our licenses sold have not ultimately resulted in new studios. From inception to December 31, 2021, 302 licenses had been terminated in North America and two had been terminated internationally. We expect that this percentage may increase over time. Of the franchisees that opened their first studio in 2019 on average it took approximately 12.2 months from signing the franchise agreement to open a studio. The length of time increased during 2020 and 2021 due to COVID-related opening restrictions. However, the historic conversion rate of signed studio commitments to new studio locations may not be indicative of the conversion rate we will experience in the future, and the total number of new studios that actually open in the future may differ materially from the number of licenses sold that we have at any point in time. In addition, the timing of new studio openings is sometimes delayed for a variety of reasons, and delayed openings would adversely affect our business, results of operations, cash flows and financial condition.

Our success depends substantially on our ability to maintain the value and reputation of our brands.

Our success is dependent in large part upon our ability to maintain and enhance the value of our brands and the connection of franchisees’ customers to our brands. Maintaining, protecting and enhancing our brands depends largely on the success of our marketing efforts, ability to provide consistent, high-quality services and our ability to successfully secure, maintain and defend our rights to use trademarks important to our brands. We believe that the importance of our brands will increase as competition within our markets further intensifies and brand promotion activities may require substantial expenditures. Our brands could be harmed if we fail to achieve these objectives or if our public image were to be tarnished by negative publicity. In particular, studios offer services that involve physical interaction, and any claims of inappropriate touching or behavior by franchisees’ employees or independent contractors, even if unsubstantiated, could harm our and our brands’ reputations. Unfavorable publicity about us, including our brands, services, products, customer service, personnel, technology and suppliers, could diminish confidence in, and the use of, our services and products. Such negative publicity also could have an adverse effect on the size, engagement and loyalty of franchisees’ customers and result in decreased revenue, which could have an adverse effect on our business, results of operations, cash flows and financial condition.

Our expansion into new markets may present increased risks due to our unfamiliarity with those markets.

Certain new franchised studios and studios franchised through master franchisees are planned for markets where there may be limited or no market recognition of our brands. Those new markets may have competitive conditions, consumer preferences and discretionary spending patterns that are different from those in our existing markets. As a result, studios in these new markets may be less successful than studios in existing markets. Franchisees may need to build brand awareness in those new markets through greater investments in advertising and promotional activity than franchisees originally planned. Franchisees may find it more difficult in new markets to hire, motivate and retain qualified employees who can project our vision, passion and culture. Studios opened in new markets may also have lower average sales than studios opened in existing markets. Sales at studios opened in new markets may take longer to ramp up and reach expected sales and profit levels, and may never do so, thereby adversely affecting our business, results of operations, cash flows and financial condition.

Our expansion into international markets exposes us to a number of risks that may differ in each country where we have licensed franchisees.

We currently have franchised studios in Canada, signed master franchise agreements governing the development of franchised studios in Australia, New Zealand, Singapore, Saudi Arabia, Japan, Spain, the Dominican Republic and South Korea, entered into international expansion agreements in Austria and Germany and plan to continue to grow internationally. However, our international operations are in early stages. Expansion into international markets will be affected by local economic and market conditions. Therefore, as we expand internationally, franchisees may not experience the operating margins we expect, and our results of operations and growth may be materially and adversely affected. With the recent acquisition of BFT, we have achieved a greater international presence, which may also increase our risks related to international operations. Our financial condition and results of operations may also be adversely affected if the global markets in which our franchised studios compete are affected by changes in political, economic or other factors. These factors, over which neither we nor franchisees have control, may include:

- impact of the COVID-19 pandemic, including social distancing and other regulatory restrictions imposed due to the COVID-19 pandemic;
- recessionary or expansive trends in international markets;
- increases in the taxes we or franchisees pay and other changes in applicable tax laws;
- legal and regulatory changes, and the burdens and costs of our and franchisees' compliance with a variety of foreign laws;
- changes in inflation rates;
- changes in exchange rates and the imposition of restrictions on currency conversion or the transfer of funds;
- difficulty in protecting our brands, reputation and intellectual property;
- difficulty in collecting royalties;
- difficulties and interruptions in communications and coordination with international franchisees;
- global supply chain disruption and constraints;
- political and economic instability; and
- other external factors, including actual or perceived threats to public health.

We have incurred operating losses in the past, may incur operating losses in the future and may not achieve or maintain profitability in the future.

We have incurred operating losses each year since our formation in 2017, including a net loss of $51.4 million, $13.6 million and $37.1 million for the years ended December 31, 2021, 2020 and 2019, respectively, and may continue to incur net losses for the foreseeable future. As a result, we had a total accumulated deficit of $643.8 million, including adjustments related to non-controlling interests, and $107.5 million as of December 31, 2021 and December 31, 2020, respectively. We expect our operating expenses to increase in the future as we increase our sales and marketing efforts, expand our operating infrastructure and expand into new geographies. Our revenue growth may slow or our revenue may decline for a number of other reasons, including reduced demand for new franchises, reduced demand for the services and products offered by franchisees, increased competition, reduction in openings of new studios, a decrease in the growth or reduction in the size of our overall market or if we cannot capitalize on growth opportunities. If our revenue does not grow at a greater rate than our operating expenses, we will not be able to achieve profitability.

If we or master franchisees fail to identify, recruit and contract with a sufficient number of qualified franchisees, our ability to open new studios and increase our revenue could be materially adversely affected.

The opening of new studios depends, in part, upon the availability of prospective franchisees who meet our criteria. We or master franchisees may not be able to identify, recruit or contract with qualified franchisees in our target markets on a timely basis or at all. In addition, franchisees may not ultimately be able to access the financial or management resources that they need to open the studios contemplated by their agreements with us, or they may elect to cease studio development for other reasons. If we or master franchisees are unable to recruit qualified franchisees or if franchisees are unable or unwilling to open new studios as planned, our growth may be slower than anticipated, which could materially adversely affect our ability to increase our revenue and materially adversely affect our business, results of operations, cash flows and financial condition.

Franchisees may incur rising costs related to the construction of new studios and maintenance of existing studios, which could adversely affect the attractiveness of our franchise model.

Franchisees' studios require significant upfront and ongoing investment, including periodic remodeling and equipment replacement. Further, studio operating costs have increased in connection with franchisees' responses to the COVID-19 pandemic, including implementing required and recommended measures designed to mitigate the spread of COVID-19, supply chain disruptions and rising inflation rates. If franchisees' costs are greater than expected, franchisees may need to outperform their operational plans to achieve their targeted returns. In addition, increased costs may result in lower profits to franchisees, which may cause them to cease operations or make it harder for us to attract new franchisees, which in turn could materially and adversely affect our business, results of operations, cash flows and financial condition.

In addition, if a franchisee is unwilling or unable to acquire the necessary financing to invest in the maintenance and upkeep of its studios, including periodic remodeling and equipment replacement, the quality of its studios could deteriorate, which may have a negative impact on the image of our brands and franchisees' ability to attract and retain customers, which in turn may have a negative impact on our business, results of operations, cash flows and financial condition.

If franchisees are unable to identify and secure suitable sites for new studios, our ability to open new studios and increase our revenue could be materially adversely affected.

To successfully expand our business, franchisees must identify and secure sites for new studios that meet our established criteria. Franchisees face significant competition for such sites and, as a result, franchisees may lose or be forced to pay significantly higher prices for such sites. If franchisees are unable to identify and secure sites for new studios that meet our established criteria, our revenue growth rate and results of operations may be negatively impacted. Additionally, if our or franchisees' analysis of the suitability of a new studio site is incorrect, franchisees may not be able to recover their capital investment in developing and building the new studio.

As we increase our number of franchised studios, franchisees may also open studios in higher-cost markets, which could entail, among other expenses, greater lease payments and construction costs. The higher level of invested capital at these studios may require higher operating margins and higher net income per studio to produce the level of return we, franchisees and our potential franchisees expect. Failure to provide this level of return could adversely affect our business, results of operations, cash flows and financial condition.

Opening new studios in close proximity to existing studios may negatively impact existing studios' revenue and profitability.

Franchisees currently operate studios in 48 U.S. states and the District of Columbia, Canada, Australia, New Zealand, Singapore, Saudi Arabia, Japan, Spain, the Dominican Republic and South Korea, and we plan to continue to seek franchisees to open new studios in the future, some of which will be in existing markets. We intend to continue opening new franchised studios in existing markets as part of our growth strategy, some of which may be located in close proximity to studios already in those markets. Opening new studios in close proximity to existing studios may attract some customers away from those existing studios, which may lead to diminished revenue and profitability for us and franchisees rather than increased market share. In addition, as a result of opening new studios in existing markets, and because older studios will represent an increasing proportion of our studio base over time, same store sales may be lower in future periods than they have been historically.

New brands or services that we launch in the future may not be as successful as we anticipate, which could have a material adverse effect on our business, results of operations, cash flows and financial condition.

We acquired StretchLab in November 2017, Row House in December 2017, AKT in March 2018, YogaSix in July 2018, Stride in December 2018, Rumble in March 2021 and BFT in October 2021. We launched our digital platform offerings in 2019 and XPASS in 2021. We may launch additional brands, services or products in the future. We cannot assure you that any new brands, services or products we launch will be accepted by consumers, that we will be able to recover the costs incurred in developing new brands, services or products, or that new brands, services or products will be successful. If new brands, services or products are not as successful as we anticipate, it could have a material adverse effect on our business, results of operations, cash flows and financial condition.

Franchisees could take actions that harm our business.

Franchisees are contractually obligated to operate their studios in accordance with the operational, safety and health standards set forth in our agreements with them. Franchisees are independent third parties and their actions are outside of our control. In addition, we cannot be certain that franchisees will have the business acumen or financial resources necessary to operate successful franchises, and certain state franchise laws may limit our ability to terminate or modify our franchise agreements with them. Franchisees own, operate and oversee the daily operations of their studios, and their employees and independent contractors are not our employees or independent contractors. As a result, the ultimate success and quality of any studio rests with the franchisee. If franchisees do not operate their studios in a manner consistent with required standards and comply with local laws and regulations, franchise fees and royalties paid to us may be adversely affected and the image of our brands and our reputation could be harmed, which in turn could adversely affect our business, results of operations, cash flows and financial condition. Furthermore, we may have disputes with franchisees that could damage the image of our brands, our reputation and our relationships with franchisees.

Franchisees may not successfully execute our suggested best practices, which could harm our business.

Franchisees may not successfully execute our suggested best practices, which include our recommended plan for operating and managing a studio. We believe our suggested best practices provide key principles designed to help franchisees manage and operate a studio efficiently. If a franchisee is unable to manage or operate their studio efficiently, the performance and quality of service of the studio could be adversely affected, which could reduce customer engagement and negatively affect our royalty revenues and brand image. Further, we expect franchisees to follow our suggested best practices, and if a franchisee does not adopt the principles outlined by us, franchisees may not generate the revenue we expect and our forecasts and projections may be inaccurate, which in turn could adversely affect our business, results of operations, cash flows and financial condition.

We are subject to a variety of additional risks associated with franchisees.

Our franchise model subjects us to a number of risks, any one of which may impact our royalty revenues collected from franchisees, harm the goodwill associated with our brands, and materially and adversely impact our business, results of operations, cash flows and financial condition.

Franchisee bankruptcies. A franchisee bankruptcy could have a substantial negative impact on our ability to collect payments due under our agreements with such franchisee. In the event of a franchisee bankruptcy, the bankruptcy trustee may reject its franchise agreement or agreements, area development agreement or any other agreements pursuant to Section 365 of the U.S. Bankruptcy Code, in which case there would be no further royalty payments or any other payments from such franchisee, and we may not ultimately recover those payments in a bankruptcy proceeding of such franchisee in connection with a damage claim resulting from such rejection.

Franchisee changes in control. Franchisees are independent business owners. Although we have the right to approve franchisees, including any transferee franchisees, it can be difficult to predict in advance whether a particular franchisee will be successful. If an individual franchisee is unable to successfully establish, manage and operate its studio, the performance and quality of service of the studio could be adversely affected, which could reduce sales and negatively affect our royalty revenues, the image of our brands and our reputation. In the event of the death or disability of a franchisee (if a natural person) or a principal of a franchisee entity, the executors and representatives of the franchisee are required to transfer the relevant franchise agreements with us to the franchisee's heirs, trust, personal representative or conservator, as applicable. In any transfer situation, the transferee may not be able to perform the former franchisee's obligations under such franchise agreements and successfully operate the studio. In such a case, the performance and quality of service of the studio could be adversely affected, which could also reduce sales and negatively affect our royalty revenues, the image of our brands and our reputation.

Franchisee insurance. Franchise agreements require each franchisee to maintain certain insurance types at specified levels. Losses arising from certain extraordinary hazards, however, may not be covered, and insurance may not be available (or may be available only at prohibitively expensive rates) with respect to many other risks. Moreover, any loss incurred could exceed policy limits and policy payments made to franchisees may not be made on a timely basis. Any such loss or delay in payment could have a material adverse effect on a franchisee's ability to satisfy its obligations under its franchise agreement with us or other contractual obligations, which could negatively affect our operating and financial results.

Franchisees that are operating entities. Franchisees may be natural persons or legal entities. Franchisees that are operating companies (as opposed to limited purpose entities) are subject to business, credit, financial and other risks, which may be unrelated to the operation of their studios. These unrelated risks could materially and adversely affect a franchisee that is an operating company and its ability to service its customers and maintain studio operations while making royalty payments, which in turn may materially and adversely affect our business, results of operations, cash flows and financial condition.

Franchise agreement termination and nonrenewal. Each of our franchise agreements is subject to termination by us as the franchisor in the event of a default. The default provisions under our franchise agreements are drafted broadly and include, among other things, any failure to meet performance standards.

In addition, each of our franchise agreements has an expiration date. Upon the expiration of a franchise agreement, we or the franchisee may, or may not, elect to renew the franchise agreement. The franchise agreement renewal is contingent on, among other requirements, the franchisee's execution of the then-current form of franchise agreement (which may include increased royalty rates, advertising fees and other fees and costs), the satisfaction of certain conditions (including studio renovation and modernization and other requirements) and the payment of a renewal fee. If a franchisee is unable or unwilling to satisfy any of these requirements, the expiring franchise agreement will terminate upon the expiration of its term.

Franchisee litigation and effects of regulatory efforts. We and franchisees are subject to a variety of litigation risks, including, but not limited to, customer claims, personal injury claims, harassment claims, vicarious liability claims, litigation with or involving our relationship with franchisees, litigation alleging that the franchisees are our employees or that we are the co-employer of franchisees' employees, landlord/tenant disputes, intellectual property claims, gift card claims, employee allegations of improper termination and discrimination, claims related to violations of the Americans with Disabilities Act of 1990, the Fair Labor Standards Act, the Occupational Safety and Health Act and other employment-related laws. Each of these claims may increase costs, reduce the execution of new franchise agreements and affect the scope and terms of insurance or indemnifications we and franchisees may have. Litigation against a franchisee or its affiliates by third parties or regulatory agencies, whether in the ordinary course of business or otherwise, may also include claims against us by virtue of our relationship with the defendant-franchisee, whether under vicarious liability, joint employer or other theories. In addition to such claims decreasing the ability of a defendant-franchisee to make royalty payments and diverting our management and financial resources, adverse publicity resulting from such allegations may materially and adversely affect us, the image of our brands and our reputation, regardless of whether the allegations are valid or we are liable. Our international operations may be subject to additional risks related to litigation, including difficulties in enforcement of contractual obligations governed by foreign law due to differing interpretations of rights and obligations, compliance with multiple and potentially conflicting laws, new and potentially untested laws and judicial systems, and reduced or diminished protection of intellectual property. A substantial judgment against us or one of our subsidiaries could materially and adversely affect our business, results of operations, cash flows and financial condition.

In addition, we, master franchisees, and franchisees are subject to various regulatory efforts, such as efforts to enforce employment laws, which include efforts to categorize franchisors as the co-employers of their franchisees' employees, legislation to categorize independent contractors as employees, legislation to categorize individual franchised businesses as large employers for the purposes of various employment benefits, and other legislation or regulations that may have a disproportionate impact on franchisors and/or franchised businesses. These efforts may impose greater costs and regulatory burdens on us and franchisees, and negatively affect our ability to attract and retain franchisees.

We could also become subject to class action or other lawsuits related to the above-described or different matters in the future. In the ordinary course of business, we are also the subject of regulatory actions regarding the enforceability of the non-compete clauses included in our franchise agreements. In particular, certain states have public policies that may call into question the enforceability of non-compete clauses. Regardless, however, of whether any claim brought against us in the future is valid or we are liable, such a claim would be expensive to defend and may divert time, money and other valuable resources away from our operations and, thereby, hurt our business.

Insurance may not be available at all or in sufficient amounts to cover any liabilities with respect to these or other matters. A judgment or other liability in excess of our insurance coverage for any claims, or any adverse publicity resulting from such claims, could adversely affect our business, results of operations, cash flows and financial condition.

Franchise agreements and franchisee relationships. Franchisees develop and operate their studios under terms set forth in our area development and franchise agreements, respectively. These agreements give rise to long-term relationships that involve a complex set of obligations and cooperation. We have a standard set of agreements that we typically use with franchisees. However, we reserve the right to negotiate terms of our franchise agreements with individual franchisees or groups of franchisees (*e.g.*, a franchisee association). We and franchisees may not always maintain a positive relationship or interpret our agreements in the same way. Our failure to have positive relationships with franchisees could individually or in the aggregate cause us to change or modify our business practices, which may make our franchise model less attractive to franchisees or their customers.

While our franchisee revenues are not concentrated among one or a small number of parties, the success of our business does depend in large part on our ability to maintain contractual relationships with franchisees in profitable studios. A typical franchise agreement has a ten-year term. No franchisee accounted for more than 5% of our total revenue. If we fail to maintain or renew our contractual relationships with these significant franchisees on acceptable terms, or if one or more of these significant franchisees were to become unable or otherwise unwilling to pay amounts due to us, our business, results of operations, cash flows and financial condition could be materially adversely affected.

Macroeconomic conditions or an economic downturn or uncertainty in our key markets could adversely affect discretionary spending and reduce demand for our and franchisees' services and products, which could adversely affect our and franchisees' ability to increase sales at existing studios or to open new studios.

Recessionary economic cycles, low consumer confidence, inflation, higher interest rates, higher levels of unemployment, higher consumer debt levels, higher tax rates and other changes in tax laws or other economic factors that may negatively affect our ability to attract franchisees and a decrease in discretionary consumer spending could reduce demand for health, fitness and wellness services and products, which could adversely affect our revenue and operating margins and make opening new studios more difficult. In recent years, the United States and other significant economic markets have experienced cyclical downturns and worldwide economic conditions remain uncertain. As global economic conditions continue to be volatile or economic uncertainty remains, trends in consumer discretionary spending also remain unpredictable and subject to reductions. Unfavorable economic conditions may decrease demand for our franchises. In addition, unfavorable economic conditions may lead consumers to have lower disposable income and reduce the frequency with which they purchase our and franchisees' services and products. In addition, disasters or outbreaks, such as the COVID-19 pandemic, as well as any resulting recession, depression or other long-term economic impact, could negatively impact consumer spending in the impacted regions or depending upon the severity, globally, which could adversely impact our or franchisees' operating results. This could result in fewer transactions or limitations on the prices we and franchisees can charge for services and products, either of which could reduce our sales and operating margins. All of these factors could have a material adverse impact on our results of operations and growth strategy.

Our future success depends on the continuing efforts of our key employees and franchisees' ability to attract and retain highly skilled personnel.

Our future success depends, in part, on the services of our senior management team and other key employees at our corporate headquarters, as well as on our and franchisees' ability to recruit, retain and motivate key employees. Competition for such employees can be intense, and the inability to identify, attract, develop, integrate and retain the additional qualified employees required to expand our and franchisees' activities, or the loss of current key employees, could adversely affect our and franchisees' operating efficiency and financial condition. In particular, we are highly dependent on the services of Anthony Geisler, our Chief Executive Officer and founder, who is critical to the development of our business, vision and strategic direction. We also heavily rely on the continued service and performance of our senior management team, including each of our brand presidents, who provide leadership, contribute to the core areas of our business and help us to efficiently execute our business. If our senior management team, including any new hires that we make in the future, fails to work together effectively and to execute our plans and strategies on a timely basis, our business and future growth prospects could be harmed.

Additionally, the loss of any key personnel could make it more difficult to manage our operations, reduce our employee retention and revenue and impair our ability to compete. Although we have entered into employment offer letters with certain of our key personnel, including Mr. Geisler, these letters have no specific duration and constitute at-will employment. We do not maintain key person life insurance policies on any of our employees.

Competition for highly skilled personnel is often intense. We and franchisees may not be successful in attracting, integrating or retaining qualified personnel to fulfill our or their needs. We have from time to time experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications.

Our investments in underperforming studios may be unsuccessful, which could adversely affect our business, results of operations, cash flows and financial condition.

From time to time, we take ownership of underperforming studios with a view to improving the operating results of the studio and ultimately re-licensing it to a different franchisee. As a result of the COVID-19 pandemic, we took ownership of a larger number of studios in 2020 than we have taken in previous years. As of December 31, 2021, we had ownership of 25 such studios, compared to 40 studios and four studios as of December 31, 2020 and December 31, 2019, respectively. There is no guarantee that we will be successful in improving the operating results of such a studio or refranchising it. If the costs of operating the studio are greater than expected, the studio is otherwise unattractive due to its location or otherwise or we are required to operate the studio for an extended period of time, our business, results of operations, cash flows and financial condition may be adversely affected. As operating company-owned studios is not a component of our business model, we are actively seeking to refranchise our company-owned studios. There can be no assurance that our refranchising efforts will be successful, and failure to do so may increase our cost of operation. In addition, our operation of studios may also have the effect of heightening many of the other risks for us described in this “Risk Factors” section that are related to the franchisee’s operation of its studios, such as those relating to our ability to attract and retain members, health and safety risks to our members, loss of key employees and changes in consumer preferences.

From time to time, we also make cash support payments to franchisees of underperforming studios. The support payments are intended to help franchisees improve their studios. The support payments may not be sufficient to help franchisees improve their results, and we may never realize a return on the support payments, which could materially and adversely affect our business, results of operations, cash flows and financial condition.

Disruptions in the availability of financing for current or prospective franchisees could adversely affect our business, results of operations, cash flows and financial condition.

Any decline in the capital markets or limits on credit availability may negatively affect the ability of current or prospective franchisees to access the financial or management resources that they need to open or continue operating the studios contemplated by their agreements with us. Franchisees generally depend upon financing from banks or other financial institutions in order to construct and open new studios and to provide working capital. If there is a decline in the credit environment, financing may become difficult to obtain for some or all of our current and prospective franchisees. If current or prospective franchisees face difficulty obtaining financing, the number of our franchised studios may decrease, franchise fee revenues and royalty revenues could decline and our planned growth may slow, which would negatively impact our business, results of operations, cash flows and financial condition.

We operate in a highly competitive market and we may be unable to compete successfully against existing and future competitors.

Our services are offered in a highly competitive market. We face significant competition in every aspect of our business, including other fitness studios, personal trainers, health and fitness clubs, at-home fitness equipment, online fitness services and health and wellness apps. We also compete to sell franchises to potential franchisees who may choose to purchase franchises in boutique fitness from other operators, or franchises in other industries. Moreover, we expect the competition in our market to intensify in the future as new and existing competitors introduce new or enhanced services and products that compete with ours and as the industry continues to shift towards more online offerings. Franchisees compete with other fitness industry participants, including:

- other national and regional boutique fitness offerings, some of which are franchised and others of which are owned centrally at a corporate level;
- other fitness centers, including gyms and other recreational facilities;
- individually owned and operated boutique fitness studios;
- personal trainers;
- racquet, tennis and other athletic clubs;
- online fitness services and health and wellness apps;

- the home-use fitness equipment industry; and
- businesses offering similar services.

Our competitors may develop, or have already developed, services, products, features or technologies that are similar to ours or that achieve greater consumer acceptance, may undertake more successful service and product development efforts, create more compelling employment opportunities, franchise opportunities or marketing campaigns, or may adopt more aggressive pricing policies. Our competitors may develop or acquire, or have already developed or acquired, intellectual property rights that significantly limit or prevent our ability to compete effectively in the public marketplace. In addition, our competitors may have significantly greater resources than us, allowing them to identify and capitalize more efficiently upon opportunities in new markets and consumer preferences and trends, more quickly transition and adapt their services and products, devote greater resources to marketing and advertising, or be better positioned to withstand substantial price competition. If we are unable to compete effectively against our competitors, they may acquire and engage customers or generate revenue at the expense of our efforts, which could have an adverse effect on our business, results of operations, cash flows and financial condition.

Franchisees may be unable to attract and retain customers, which would materially and adversely affect our business, results of operations, cash flows and financial condition.

The success of our business depends on franchisees' ability to attract and retain customers. Our and franchisees' marketing efforts may not be successful in attracting customers to studios, and customer engagement may materially decline over time, especially at studios in operation for an extended period of time. Customers may cancel their memberships at any time after giving proper advance notice, subject to an initial minimum term applicable to certain memberships. Franchisees may also cancel or suspend memberships if a customer fails to provide payment. In addition, franchised studios experience attrition and must continually engage existing customers and attract new customers in order to maintain membership levels. Some of the factors that could lead to a decline in customer engagement include changing desires and behaviors of consumers or their perception of our brands, changes in discretionary spending trends and general economic conditions, effects of outbreaks, such as the current COVID-19 pandemic, including social distancing requirements, stay-at-home orders and advisories, mask and vaccine mandates, other restrictions suggested or mandated by governmental authorities, market maturity or saturation, a decline in our ability to deliver quality service at a competitive price, a decrease in monthly membership dues as a result of direct and indirect competition in our industry, a decline in the public's interest in health, fitness and wellness, or a decline in the public's interest in attending in-person fitness classes, among other factors. In order to increase membership levels, we may from time to time allow franchisees to offer promotions or lower monthly dues or annual fees. If we and franchisees are not successful in optimizing price or in increasing membership levels in new and existing studios, growth in monthly membership dues or annual fees may suffer. Any decrease in our average dues or fees or higher membership costs may adversely impact our business, results of operations, cash flows and financial condition.

If we are unable to anticipate and satisfy consumer preferences and shifting views of health, fitness and wellness, our business may be adversely affected.

Our success depends on our ability to identify and originate trends, as well as to anticipate and react to changing consumer preferences and demands relating to health, fitness and wellness, in a timely manner. Our business is subject to changing consumer preferences and trends that cannot be predicted with certainty. Developments or shifts in research or public opinion on the types of health, fitness and wellness services our brands provide could negatively impact consumers' preferences for such services and negatively impact our business. If we are unable to introduce new or enhanced offerings in a timely manner, or if our new or enhanced offerings are not accepted by consumers, our competitors may introduce similar offerings faster than us, which could negatively affect our rate of growth. Moreover, our new offerings may not receive consumer acceptance as preferences could shift rapidly to different types of health, fitness and wellness offerings or away from these types of offerings altogether, and our future success depends in part on our ability to anticipate and respond to these shifts. Failure to anticipate and respond in a timely manner to changing consumer preferences and demands could lead to, among other things, lower revenue at our franchised studios and, therefore, lower revenue from royalties. Even if we are successful in anticipating consumer preferences and demands, our ability to adequately react to and address them will partially depend upon our continued ability to develop and introduce innovative, high-quality offerings. Development of new or enhanced offerings may require significant time and financial investment, which could result in increased costs and a reduction in our operating margins. For example, we have historically incurred higher levels of sales and marketing expenses accompanying the introduction of each brand and service.

Our planned growth could place strains on our management, employees, information systems and internal controls, which may adversely impact our business.

Since our founding in 2017, we have experienced significant growth in our business activities and operations. This expansion has placed, and our planned future expansion may place, significant demands on our administrative, operational, financial and other resources. Any failure to manage growth effectively could seriously harm our business. To be successful, we will need to continue to implement management information systems and improve our operating, administrative, financial and accounting systems and controls. We will also need to train new employees and maintain close coordination among our executive, accounting, finance, legal, human resources, risk management, marketing, technology, sales and operations functions. These processes are time-consuming and expensive, increase management responsibilities and divert management attention, and we may not realize a return on our investment in these processes. In addition, we believe the culture we and franchisees foster at studios is an important contributor to our success. However, as we expand we may have difficulty maintaining our culture or adapting it sufficiently to meet the needs of our operations. These risks may be heightened as our growth accelerates. Our failure to successfully execute on our planned expansion of studios could materially and adversely affect our business, results of operations, cash flows and financial condition.

Our business is subject to various laws and regulations and changes in such laws and regulations, our or franchisees' failure to comply with existing or future laws and regulations, could adversely affect our business, results of operations, cash flows and financial condition.

We are subject to a trade regulation rule on franchising, known as the FTC Franchise Rule, promulgated by the FTC, which regulates the offer and sale of franchises in the United States and its territories and requires us to provide to all prospective franchisees certain mandatory disclosure in a franchise disclosure document ("FDD"). In addition, we are subject to state franchise sales laws in approximately 19 U.S. states that regulate the offer and sale of franchises by requiring us to make a business opportunity exemption or franchise filing or obtain franchise registration prior to making any offer or sale of a franchise in those states and to provide a FDD to prospective franchisees. We are subject to franchise sales laws in six provinces in Canada that regulate the offer and sale of franchises by requiring us to provide a FDD in a prescribed format to prospective franchisees and that further regulate certain aspects of the franchise relationship. Our failure to comply with such franchise sales laws may result in a franchisee's right to rescind its franchise agreement and damages and may result in investigations or actions from federal or state franchise authorities, civil fines or penalties, and stop orders, among other remedies. We are also subject to franchise relationship laws in at least 22 U.S. states that regulate many aspects of the franchise relationship, including renewals and terminations of franchise agreements, franchise transfers, the applicable law and venue in which franchise disputes must be resolved, discrimination and franchisees' right to associate, among others. Our failure to comply with such franchise relationship laws may result in fines, damages and our inability to enforce franchise agreements where we have violated such laws. In addition, in certain states under certain circumstances, such as allegations of fraud, we may be temporarily prevented from offering or selling franchises until either our annual FDD filing, or any amendment to our FDD filing, is accepted by the relevant regulatory agency. Our non-compliance with franchise sales laws or franchise relationship laws could result in our liability to franchisees and regulatory authorities as described above, our inability to enforce our franchise agreements, inability to sell licenses and a reduction in our anticipated royalty or franchise revenue, which in turn may materially and adversely affect our business, results of operations, cash flows and financial condition.

We and franchisees are also subject to the Fair Labor Standards Act of 1938, as amended, and various other laws in the United States and Canada governing such matters as minimum-wage requirements, overtime and other working conditions. A significant number of our and franchisees' employees are paid at rates related to the U.S. federal minimum wage. Increases in the U.S. federal minimum wage would increase our and franchisees' labor costs, which might result in our and franchisees' inadequately staffing studios. Such increases in labor costs and other changes in labor laws could affect studio performance and quality of service, decrease royalty revenues and adversely affect our brands.

Our and franchisees' operations and properties are subject to extensive U.S. and Canadian federal, state, provincial and local laws and regulations, as well laws and regulations in other countries in which we and franchisees have begun operating, or in the future may operate, including those relating to environmental, building and zoning requirements. Our and franchisees' development of properties depends to a significant extent on the selection and acquisition of suitable sites, which are subject to zoning, land use, environmental, traffic and other regulations and requirements. Failure to comply with these legal requirements could result in, among other things, revocation of required licenses, administrative enforcement actions, fines and civil and criminal liability, which could adversely affect our business, results of operations, cash flows and financial condition.

We and franchisees are responsible at the studios we operate for compliance with state and provincial laws that regulate the relationship between studios and their customers. Many states and provinces have consumer protection regulations that may limit the collection of dues or fees prior to a studio opening, require disclosure of certain pricing information, mandate the maximum length of membership contracts and "cooling off" periods for customers after the purchase of a membership, set escrow and bond requirements for studios, govern customer rights in the event of a customer relocation or disability, provide for specific customer rights when a studio closes or relocates or preclude automatic membership renewals. Our or franchisees' failure to comply fully with these rules or requirements may subject us or franchisees to fines, penalties, damages and civil liability, or result in membership contracts being void or voidable. In addition, states may modify these laws and regulations in the future. Any additional costs which may arise in the future as a result of changes to the legislation and regulations or in their interpretation could individually or in the aggregate cause us to change or limit our business practices, which may make our business model less attractive to franchisees or their customers.

We currently are, and may in the future be, subject to legal proceedings, regulatory disputes and governmental inquiries that could cause us to incur significant expenses, divert our management's attention, and materially harm our business, results of operations, cash flows and financial condition.

From time to time, we may be subject to claims, lawsuits, government investigations and other proceedings involving competition and antitrust, intellectual property, privacy, consumer protection, securities, tax, labor and employment, gift cards, commercial disputes and other matters that could adversely affect our business, results of operations, cash flows and financial condition. In the ordinary course of business, we are the subject of complaints or litigation, including litigation related to acquisitions, classification of independent contractors, trademark disputes, claims related to misrepresentations in our franchise disclosure documents and claims related to our franchise agreements or employment agreements. For example, suits have been brought against us by founders of brands we have acquired, alleging, among other complaints, breach of contract. If any of these lawsuits are decided adversely against us, it may adversely affect our business, results of operations, cash flows and financial condition. Litigation related to laws or regulations, or changes in laws or regulations, governing instructor certifications may also adversely affect our or franchisees' businesses. If any of these lawsuits are decided adversely against franchisees, or laws or regulations regarding instructor certifications change, franchisees may face increased labor costs, which could adversely affect the franchisee's business and results of operations, which may adversely affect our business, results of operations, cash flows and financial condition.

Litigation and regulatory proceedings may be protracted and expensive, and the results are difficult to predict. Additionally, our litigation costs could be significant. Adverse outcomes with respect to litigation or any of these legal proceedings may result in significant settlement costs or judgments, penalties and fines, or require us to modify, make temporarily unavailable or stop offering or selling certain services or products, all of which could negatively affect our sales and revenue growth. In particular, any allegations of fraud could temporarily prevent us from offering or selling franchises in certain states for a period of time.

The results of litigation, investigations, claims and regulatory proceedings cannot be predicted with certainty, and determining reserves for pending litigation and other legal and regulatory matters requires significant judgment. There can be no assurance that our expectations will prove correct, and even if these matters are resolved in our favor or without significant cash settlements, these matters, and the time and resources necessary to litigate or resolve them, could harm our business, results of operations, cash flows and financial condition.

We, master franchisees and franchisees could be subject to claims related to health and safety risks to customers that arise while at our and franchisees' studios.

The use of our and franchisees' studios poses some potential health and safety risks to customers through, among other things, physical exertion and the physical nature of the services offered. Claims might be asserted against us and franchisees for a customer's death or injury sustained while exercising and using the facilities at a studio, for harassment in connection with services offered at a studio, or product liability claims arising from use of equipment in the studio, and we may be named in such a suit even if the products claim relates to the operations or facilities of a franchisee. We may not be able to successfully defend such claims. We also may not be able to maintain our general liability insurance on acceptable terms in the future or maintain a level of insurance that would provide adequate coverage against potential claims. In addition, adverse publicity resulting from such allegations may materially and adversely affect us, the image of our brands and our reputation, regardless of whether such allegations are valid or we are liable. Depending upon the outcome, these matters may have a material adverse effect on our business, results of operations, cash flows and financial condition.

We, master franchisees and franchisees rely heavily on information systems provided by a single provider, and any material failure, interruption, weakness or termination with such supplier may prevent us from effectively operating our business and damage our reputation.

We and franchisees in North America increasingly rely on information systems provided by ClubReady, LLC ("ClubReady"), including the point-of-sale processing systems in our franchised studios and other information systems managed by ClubReady, to interact with franchisees and customers and to collect and maintain customer information or other personally identifiable information, including for the operation of studios, collection of cash, management of our equipment supply chain, accounting, staffing, payment of obligations, ACH transactions, credit and debit card transactions and other processes and procedures. Our and franchisees' ability to efficiently and effectively manage studios depends significantly on the reliability and capacity of these systems, and any potential failure of ClubReady to provide quality uninterrupted service is beyond our and their control.

We previously notified ClubReady of a breach of contract related to our position that ClubReady had failed to meet its contractual performance obligations and initiated mediation proceedings. The initial mediation proceedings were unsuccessful and on December 2, 2021 we filed a breach of contract and related claims in California Superior Court, Orange County. On December 9, 2021, ClubReady filed a demand for arbitration with the American Arbitration Associations alleging breach of contract for unpaid application programming interface fees. If we ultimately terminate our relationship with ClubReady, we may incur substantial delays and expense in finding and integrating an alternative studio management and payment service provider into our operating systems. We believe there are alternate studio management and payment service providers that are capable of supporting our platform and franchisees, however the integration of the new system could temporarily disrupt our and franchisees' business and the quality and reliability of such alternative service provider may not be comparable to that of ClubReady.

Franchisees outside of North America also rely on information systems, and any disruption in such information systems could negatively impact such franchisees' operations, which could adversely affect our business, results of operations or financial condition.

Our and franchisees' operations depend upon our and their ability, as well as the ability of third-party service providers such as ClubReady, to protect our and their computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses, denial-of-service attacks and other disruptive problems. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new platforms, expanding our systems as we grow, a breach in security of these systems or other unanticipated problems could result in interruptions to or delays in our business and customer service and reduce efficiency in our operations. In addition, the implementation of technology changes and upgrades to maintain current and integrate new systems, as well as transitions from one service provider to another, may cause service interruptions, operational delays due to the learning curve associated with using a new system, transaction processing errors and system conversion delays and may cause us to fail to comply with applicable laws. If our, franchisees' or our third-party service providers' information systems fail and the back-up or disaster recovery plans are not adequate to address such failures, our revenue could be reduced and the image of our brands and our reputation could be materially adversely affected. If we need to move to a different third-party system, our operations could be interrupted. In addition, remediation of such problems could result in significant, unplanned operating or capital expenditures.

If we, master franchisees, franchisees or ClubReady fail to properly maintain the confidentiality and integrity of our data, including customer credit, debit card and bank account information and other personally identifiable information, we could incur significant liability or become subject to costly litigation and our reputation and business could be materially and adversely affected.

In the ordinary course of business, we, master franchisees, and franchisees collect, use, transmit, store and otherwise process customer and employee data, including credit and debit card numbers, bank account information, driver's license numbers, dates of birth and other highly sensitive personally identifiable information, in information systems that we, master franchisees, franchisees or our third-party service providers, including ClubReady, maintain. Some of this data is sensitive and could be an attractive target of criminal attack by malicious third parties with a wide range of motives and expertise, including organized criminal groups, hackers, "hactivists," disgruntled current or former employees, and others. The integrity and protection of that customer and employee data is critical to us.

Despite the security measures we have in place to comply with applicable laws and rules, our, master franchisees', franchisees' and our third-party service providers' facilities and systems may be vulnerable to both external and internal threats, including security breaches, acts of cyber terrorism or sabotage, vandalism or theft, misuse, unauthorized access, computer viruses, ransomware, denial-of-service attacks, misplaced, corrupted or lost data, programming or human errors or other similar events. Certain of our third-party service providers lack sufficient design and implementation of general information technology controls and we lack sufficient controls over information provided by certain third-party service providers, which could expose us to any of the foregoing risks. A number of retailers and other companies have recently experienced serious cyber security breaches of their information technology systems. Furthermore, the size and complexity of our, master franchisees', franchisees' and our third-party service providers' information systems make such systems potentially vulnerable to security breaches from inadvertent or intentional actions by our employees, franchisees or vendors, or from attacks by malicious third parties. Because such attacks are increasing in sophistication and change frequently in nature, we, franchisees, master franchisees and our third-party service providers may be unable to anticipate these attacks or implement adequate preventative measures, and any compromise of our or their systems may not be discovered promptly.

Under certain laws, regulations and contractual obligations, a cybersecurity breach could also require us to notify customers, employees or other groups of the incident. For example, laws in all 50 U.S. states require businesses to provide notice to clients whose personal information has been disclosed as a result of a data breach. These laws are not consistent, and compliance in the event of a widespread data breach is difficult and may be costly. Moreover, states have been frequently amending existing laws, requiring attention to changing regulatory requirements. The forgoing could result in adverse publicity, loss of sales and revenue, or an increase in fees payable to third parties. It could also result in significant fines, penalties orders, sanctions and proceedings or actions against us by governmental bodies and other regulatory authorities, clients or third parties or remediation and other costs that could adversely affect our business, results of operations, cash flows and financial condition. Any such proceeding or action could damage our reputation, force us to incur significant expenses in defense of these proceedings, distract our management, increase our costs of doing business or result in the imposition of financial liability.

Furthermore, we may be required to disclose personal data pursuant to demands from individuals, privacy advocates, regulators, and government and law enforcement agencies in various jurisdictions with conflicting privacy and security laws. This disclosure or the refusal to disclose personal data may result in a breach of privacy and data protection policies, notices, laws, rules, court orders and regulations and could result in proceedings or actions against us in the same or other jurisdictions, damage to the image of our brands and our reputation, and our inability to provide our services and products to consumers in certain jurisdictions.

A security breach involving the misappropriation, loss or other unauthorized disclosure of personal, sensitive or confidential information, whether by us, franchisees or our third-party service providers, could have material adverse effects on our and franchisees' business, operations, brands, reputation and financial condition, including decreased revenue, material fines and penalties, litigation, increased financial processing fees, compensatory, statutory, punitive or other damages, adverse actions against our licenses to do business and injunctive relief by court or consent order. We maintain cyber risk insurance, but do not require franchisees to do so. In the event of a significant data security breach, our insurance may not cover all our losses that we would be likely to suffer and in addition, franchisees may not have any or adequate coverage.

Failure by us, master franchisees, franchisees or third-party service providers to comply with existing or future data privacy laws and regulations could have a material adverse effect on our business.

The collection, maintenance, use, disclosure and disposal of personally identifiable information by us, master franchisees and franchisees is regulated by federal, state and provincial governments and by certain industry groups, including the Payment Card Industry organization and the National Automated Clearing House Association. Federal, state, provincial governments and industry groups may also consider and implement from time to time new privacy and security requirements that apply to us and franchisees. Compliance with evolving privacy and security laws, requirements and regulations may result in cost increases due to necessary systems changes, new limitations or constraints on our business models and the development of new administrative processes. They also may impose further restrictions on our collection, disclosure and use of personally identifiable information that is stored in one or more of our, master franchisees', franchisees' or our third-party service providers' databases.

The U.S. federal government and various state and governmental agencies have adopted or are considering adopting various laws, regulations and standards regarding the collection, use, retention, security, disclosure, transfer and other processing of sensitive and personal information. Certain state laws may be more stringent or broader in scope, or offer greater individual rights, with respect to sensitive and personal information than federal, international or other state laws, and such laws may differ from each other, which may complicate compliance efforts. For example, the California Consumer Privacy Act (the "CCPA"), which increases privacy rights for California residents and imposes obligations on companies that process their personal information, came into effect on January 1, 2020. Among other things, the CCPA requires covered companies to provide new disclosures to California consumers and provide such consumers new data protection and privacy rights, including the ability to opt-out of certain sales of personal information. The CCPA provides for civil penalties for violations, as well as a private right of action for certain data breaches that result in the loss of personal information. This private right of action may increase the likelihood of, and risks associated with, data breach litigation. The CCPA was amended in September 2018 and November 2019, and it is possible that further amendments will be enacted, but even in its current format, it remains unclear how various provisions of the CCPA will be interpreted and enforced. Additionally, California voters approved a new privacy law, the California Privacy Rights Act (the "CPRA"), in the November 2020 election. Effective starting on January 1, 2023, the CPRA will significantly modify the CCPA, including by expanding consumers' rights with respect to certain sensitive personal information. The CPRA also creates a new state agency that will be vested with authority to implement and enforce the CCPA and the CPRA. There are many other state-based data privacy and security laws and regulations that may impact our business, including two laws that will become effective in 2023; the Colorado Privacy Act and the Virginia Consumer Data Protection Act. All of these evolving compliance and operational requirements impose significant costs that are likely to increase over time, may require us to modify our data processing practices and policies, divert resources from other initiatives and projects and could restrict the way services involving data are offered, all of which may adversely affect our business, results of operations, cash flows and financial condition. State laws are changing rapidly and there is discussion in Congress of a new federal data protection and privacy law to which we may be subject.

As we expand internationally, we may become subject to additional data privacy laws and regulations, including the European Union's General Data Protection Regulation (the "GDPR"), which went into effect in May 2018 and which imposes additional obligations on companies with respect to the processing of personal data and the cross-border transfer of such data. The GDPR imposes onerous accountability obligations requiring data controllers and processors to maintain a record of their data processing and policies. If our, master franchisees', franchisees' or service providers' privacy or data security measures fail to comply with the GDPR requirements, we may be subject to litigation, regulatory investigations, enforcement notices requiring us to change the way we use personal data and/or fines of up to 20 million Euros or up to 4% of the total worldwide annual turnover of the preceding financial year, whichever is higher, as well as compensation claims by affected individuals, negative publicity, reputational harm and a potential loss of business and goodwill. While we continue to address the implications of the recent changes to European Union data privacy regulations, data privacy remains an evolving landscape at both the domestic and international level, with new regulations coming into effect and continued legal challenges, and our efforts to comply with the evolving data protection rules may be unsuccessful. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our practices. Accordingly, we may be required to devote significant resources to understanding and complying with this changing landscape.

Noncompliance with privacy laws, industry group requirements or a security breach involving the misappropriation, loss or other unauthorized disclosure of personal, sensitive or confidential information, whether by us, franchisees or our third-party service providers, could have material adverse effects on our and franchisees' business, operations, brands, reputation and financial condition, including decreased revenue, material fines and penalties, litigation, increased financial processing fees, compensatory, statutory, punitive or other damages, adverse actions against our licenses to do business and injunctive relief by court or consent order.

Changes in legislation or requirements related to electronic funds transfer, or our or franchisees' failure to comply with existing or future regulations, may adversely impact our business, results of operations, cash flows and financial condition.

We and franchisees accept payments for our services through electronic funds transfers ("EFTs") from customers' bank accounts and, therefore, we are subject to federal, state and provincial legislation and certification requirements governing EFTs, including the Electronic Funds Transfer Act. Some states, such as New York and Tennessee, have passed or considered legislation requiring health and fitness clubs to offer a prepaid membership option at all times and/or limit the duration for which memberships can auto-renew through EFTs, if at all. Our business relies heavily on the fact that franchisees' customers continue on a month-to-month basis after the completion of any initial term requirements, and compliance with these laws and regulations and similar requirements may be onerous and expensive. In addition, variances and inconsistencies from jurisdiction to jurisdiction may further increase the cost of compliance and doing business. States that have such health and fitness club statutes provide harsh penalties for violations, including membership contracts being void or voidable. Our failure to comply fully with these rules or requirements may subject us to fines, higher transaction fees, penalties, damages and civil liability and may result in the loss of our and franchisees' ability to accept EFTs, which would have a material adverse effect on our and franchisees' businesses, results of operations, cash flows and financial condition. In addition, any such costs that may arise in the future as a result of changes to such legislation and regulations or in their interpretation, could individually or in the aggregate cause us to change or limit our business practice, which may make our business model less attractive to franchisees and our and their members.

We and franchisees are subject to a number of risks related to ACH, credit card, debit card and gift card payments we accept.

We and franchisees accept payments through ACH, credit card, debit card and gift card transactions. Acceptance of these payment options subjects us and franchisees to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. For ACH, credit card and debit card payments, we and franchisees pay interchange and other fees, which may increase over time. An increase in those fees would require us to either increase the prices we or franchisees charge for our services and products, which could cause us to lose franchisees or franchisees to lose customers or suffer an increase in operating expenses, either of which could harm our business, results of operations and financial condition.

If we or any of our processing vendors have problems with our billing software, or the billing software malfunctions, it could have an adverse effect on customer satisfaction and could cause one or more of the major credit card companies to disallow continued use of their payment products. In addition, if our billing software fails to work properly and, as a result, customers' credit cards, debit cards or bank accounts are not properly charged on a timely basis or at all, we could lose revenue, which would harm our results of operations. In addition, if we or any of our processing vendors experience a cybersecurity breach affecting data related to services provided to us, we could experience reputational damage or incur liability. Further, we and any of our processing vendors must comply with the standards set by the payment card industry ("PCI"). If we or any of our vendors fail to comply with PCI protocols, we could be subject to fines.

If we fail to adequately control fraudulent ACH, credit card and debit card transactions, we may face civil liability, diminished public perception of our security measures and significantly higher ACH, credit card and debit card related costs, each of which could adversely affect our business, results of operations, cash flows and financial condition. The termination of our ability to accept payments through ACH, credit or debit card transactions would significantly impair our and franchisees' ability to operate our businesses.

In addition, we and franchisees offer gift cards for classes at our and franchisees' studios. Certain states include gift cards under their abandoned and unclaimed property laws and require companies to remit to the state cash in an amount equal to all or a designated portion of the unredeemed balance on the gift cards based on certain card attributes and the length of time that the cards are inactive. To date we have not remitted any amounts relating to unredeemed gift cards to states based upon our assessment of applicable laws. The analysis of the potential application of the abandoned and unclaimed property laws to our gift cards is complex, involving an analysis of constitutional, statutory provisions and factual issues. In the event that one or more states change their existing abandoned and unclaimed property laws or successfully challenge our or franchisees' positions on the application of its abandoned and unclaimed property laws to gift cards, our or franchisees' liabilities with respect to unredeemed gift cards may be material and may negatively affect our and franchisees' business, results of operations, cash flows and financial condition.

Our dependence on a limited number of suppliers for certain equipment, services and products could result in disruptions to our business and could adversely affect our revenue and results of operation.

Certain equipment, services and products used in franchisees' studios, including exercise equipment and point-of-sale software and hardware, are sourced from third-party suppliers. The ability of these third-party suppliers to successfully provide reliable and high-quality equipment, services and products is subject to technical and operational uncertainties that are beyond our or franchisees' control. Any disruption to our third-party suppliers' operations could impact our supply chain and our ability to service existing studios and open new studios on time or at all and thereby generate revenue. If we lose these third-party suppliers or such suppliers encounter financial hardships unrelated to our or franchisees' demand for their equipment, services or products, we may be unable to identify or enter into agreements with alternative suppliers on a timely basis on acceptable terms, if at all. Transitioning to new suppliers would be time consuming and expensive and may result in interruptions in our and franchisees' operations. If we should encounter delays or difficulties in securing the quantity of equipment, services and products that we or franchisees require to service existing studios and open new studios, our third-party suppliers encounter difficulties meeting our and franchisees' demands for equipment, services or products, our or franchisees' websites experience delays or become impaired due to errors in the third-party technology or there is a deficiency, lack or poor quality of equipment, services or products provided, our ability to serve franchisees and their customers, as well as to grow our brands, would be interrupted. If any of these events occur, it could have a material adverse effect on our business, results of operations, cash flows and financial condition.

Our intellectual property rights, including trademarks and trade names, may be infringed, misappropriated or challenged by others.

Our brands and related intellectual property are important to our continued success. If we were to fail to successfully protect our intellectual property rights for any reason, or if any third party misappropriates, dilutes or infringes our intellectual property, the value of our brands may be harmed, which could have an adverse effect on our business, results of operations, cash flows and financial condition. Any damage to the image of our brands or our reputation could cause sales to decline or make it more difficult to attract new franchisees and customers.

We have been and may in the future be required to initiate litigation to enforce our trademarks, service marks and other intellectual property. Third parties have and may in the future assert that we have infringed, misappropriated or otherwise violated their intellectual property rights, which could lead to litigation against us. Litigation is inherently uncertain and could divert the attention of management, result in substantial costs and diversion of resources and could negatively affect our sales and results of operations regardless of whether we are able to successfully enforce or defend our rights.

We and franchisees are dependent on certain music licenses to permit franchisees to use music in their studios and to supplement workouts. Any failure to secure such licenses or to comply with the terms and conditions of such licenses may lead to third-party claims or lawsuits against us and/or franchisees and could have an adverse effect on our business.

We obtain, and require franchisees to obtain, certain music licenses in connection with our digital platform, for use during classes and for ambiance in our and our franchisees' studios. In some cases, we require franchisees to license rights to music included on specific playlists that we provide. If we or franchisees fail to comply with any of the obligations under such license agreements, we or franchisees may be required to pay damages and the licensor may have the right to terminate the license. Termination by the licensor would cause us and franchisees to lose valuable rights, and could negatively affect our operations. Our business would suffer if any current or future licenses expire or if we or franchisees are unable to enter into necessary licenses on acceptable terms. In addition, the royalties and other fees payable by us and franchisees under these agreements could increase in the future, which could negatively affect our business.

Our quarterly results of operations and other operating metrics may fluctuate from quarter to quarter, which makes these results and metrics difficult to predict.

Our quarterly results of operations and other operating metrics have fluctuated in the past and may continue to fluctuate from quarter to quarter. Additionally, our limited operating history makes it difficult to forecast our future results. As a result, you should not rely on our past quarterly results of operations as indicators of future performance. You should take into account the risks and uncertainties frequently encountered by companies in rapidly evolving markets. Our financial condition and results of operations in any given quarter can be influenced by numerous factors, many of which we are unable to predict or are outside of our control, including:

- franchisees' ability to maintain and attract new customers and increase their usage of their studios;
- delays in opening new studios;
- the continued market acceptance of, and the growth of the boutique fitness market;
- our ability to maintain and attract new franchisees;
- our development and improvement of the quality of the studio experience, including enhancing existing and creating new services and products;
- announcement of major corporate transaction, strategic actions or mergers and acquisitions by us or competitors;
- additions or departures of our senior management or other key personnel;
- sales, or anticipated sales, of large blocks of our stock;
- guidance, if any, that we provide to the public, as well as any changes in this guidance or our failure to meet this guidance;
- results of operations that vary from expectations of securities analysis and investors;
- issuance of new or changed securities analysts' reports or recommendations;
- system failures or breaches of security or privacy;
- seasonality;

- constraints on the availability of franchisee financing;
- our ability to maintain operating margins;
- the diversification and growth of our revenue sources;
- our successful expansion into international markets;
- increases in marketing, sales and other operating expenses that we may incur to grow and expand our operations and to remain competitive;
- pricing pressure as a result of competition or otherwise;
- the timing and success of new product, service, feature and content introductions by us or our competitors or any other change in the competitive landscape of our market;
- the expansion of our digital platform;
- announcement by us, our competitors or vendors of significant contracts or acquisitions;
- public response to press releases or other public announcements by us or third parties, including our filings with the SEC;
- adverse litigation judgments, settlements or other litigation-related costs, including content costs for past use;
- delays by regulators in accepting our annual FDD filing or amendments to our FDD filing;
- changes in the legislative or regulatory environment, including with respect to privacy and advertising, or enforcement by government regulators, including fines, orders or consent decrees;
- fluctuations in currency exchange rates and changes in the proportion of our revenue and expenses denominated in foreign currencies;
- changes in our effective tax rate;
- changes in accounting standards, policies, guidance, interpretations or principles, including changes in fair value measurements or impairment charges;
- global pandemics, such as the current COVID-19 pandemic; and
- changes in business or macroeconomic conditions, including lower consumer confidence, recessionary conditions, increased unemployment rates, or stagnant or declining wages.

Any one of the factors above or the cumulative effect of some of the factors above may result in significant fluctuations in our results of operations.

The variability and unpredictability of our quarterly results of operations or other operating metrics could result in our failure to meet our expectations or those of analysts that cover us or investors with respect to revenue or other results of operations for a particular period.

You should not rely on past increases in same store sales as an indication of our future results of operations because they may fluctuate significantly.

The level of same store sales is a significant factor affecting our ability to generate revenue. Same store sales reflect the change in period-over-period sales for North America same store base. We define the same store base to include only sales from studios in North America that have been open for at least 13 calendar months.

A number of factors have historically affected, and will continue to affect, our same store sales, including, among other factors:

- competition;

- overall economic trends, particularly those related to consumer spending;
- franchisees’ ability to operate studios effectively and efficiently to meet consumer expectations;
- changes in the prices franchisees charge for memberships or classes;
- studio closures due to the COVID-19 pandemic and responses to the COVID-19 pandemic; and
- marketing and promotional efforts.

Therefore, the increases in historical same store sales growth should not be considered indicative of our future performance. In particular, a number of our brands have a limited number of studios operating, and the limited operating data makes it difficult to forecast results, and as a result, same store sales may differ materially from our projections.

Use of social media may adversely impact our reputation or subject us to fines or other penalties.

There has been a substantial increase in the use of social media platforms, including blogs, social media websites and other forms of internet-based communication, which allow individuals access to a broad audience of consumers and other interested persons. Negative commentary about us and our brands may be posted on social media platforms or similar media at any time and may harm the image of our brands and our or franchisees’ reputations or businesses. Consumers value readily available information about fitness studios and often act on such information without further investigation or regard to its accuracy. The harm may be immediate without affording us an opportunity for redress or correction.

We also use social media platforms as marketing tools. For example, we maintain Facebook and Twitter accounts for us and each of our brands. As laws and regulations rapidly evolve to govern the use of these platforms and media, the failure by us, our employees, franchisees or third parties acting at our direction to abide by applicable laws and regulations in media could adversely impact our and franchisees’ business, results of operations, cash flows and financial condition or subject us to fines or other penalties.

We may require additional capital to support business growth and objectives, and this capital might not be available to us on attractive terms, if at all, and may result in stockholder dilution.

We expect that our existing cash and cash equivalents will be sufficient to meet our anticipated cash needs for at least the next twelve months. In addition, we intend to continue to make investments to support our business growth and may require additional capital to fund our business and to respond to competitive challenges, including the need to promote our services and products, develop new services and products, enhance our existing services, products and operating infrastructure and, potentially, to acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. There can be no assurance that such additional funding will be available on terms attractive to us, or at all. Our inability to obtain additional funding when needed could have an adverse effect on our business, results of operations, cash flows and financial condition. If additional funds are raised through the issuance of equity or convertible debt securities, holders of our Class A common stock could suffer significant dilution, and any new shares we issue could have rights, preferences and privileges superior to those of our Class A common stock. Our outstanding credit facility includes a number of covenants that limit our and our subsidiaries’ ability to, among other things, incur additional indebtedness or create liens, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. Any debt financing secured by us in the future could include similar or more restrictive covenants, which may likewise limit our ability to obtain additional capital and pursue business opportunities.

We may engage in merger and acquisition activities, which could require significant management attention, disrupt our business, dilute stockholder value and adversely affect our results of operations.

As part of our business strategy, we acquired our first company in 2017, and most recently closed the BFT acquisition in October 2021, and we have made and may in the future make investments in other companies. We may be unable to find suitable acquisition candidates and to complete acquisitions on favorable terms, if at all, in the future. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals and any acquisitions we complete could be viewed negatively by customers or investors. For example, we may not be able to realize the financial and operational benefits we anticipated with respect to the BFT acquisition that was recently completed. Moreover, an acquisition, investment or business relationship may result in unforeseen operating difficulties and expenditures, including disrupting our ongoing operations, diverting management from their primary responsibilities, subjecting us to additional liabilities, increasing our expenses and adversely impacting our business, results of operations, cash flows and financial condition. In addition, we may be exposed to additional known or unknown liabilities, including legal disputes and litigation that we assumed in connection with an acquisition, and the anticipated benefits of any acquisition, investment or business relationship may not be realized, if, for example, we fail to successfully integrate such acquisitions, or the technologies associated with such acquisitions, into our company.

To pay for any such acquisitions, we would have to use cash, incur debt or issue equity securities, each of which may affect our financial condition or the value of our capital stock, as well as result in dilution to holders of our Class A common stock. If we incur more debt, it would result in increased fixed obligations and could subject us to covenants or other restrictions that would impede our ability to manage our operations. We may also create future obligations in connection with any such acquisition. For example, in connection with our acquisition of Row House in 2017, we agreed to pay to the sellers 20% of the fair market value of Row House Franchise, LLC upon a change of control. We may not be able to predict or control the timing or size of a change of control payment, which could adversely impact our results of operations, cash flows and financial condition.

If any of our retail products are unacceptable to us or franchisees' customers, our business could be harmed.

We have occasionally received, and may in the future continue to receive, shipments of retail products that fail to comply with our technical specifications or that fail to conform to our quality control standards. We have also received, and may in the future continue to receive, products that either meet our technical specifications but that are nonetheless unacceptable to us, or products that are otherwise unacceptable to franchisees' customers. Under these circumstances, unless we are able to obtain replacement products in a timely manner, we risk the loss of revenue resulting from the inability to sell those products and related increased administrative and shipping costs. Additionally, if the unacceptability of our products is not discovered until after such products are purchased by franchisees' customers, these customers could lose confidence in the quality of our retail products, which could have an adverse effect on the image of our brands, our reputation and our results of operations.

We may face exposure to foreign currency exchange rate fluctuations.

While we have historically transacted in U.S. dollars, we have transacted in some foreign currencies, such as the Canadian and Australian Dollar, and may transact in more foreign currencies in the future. Accordingly, changes in the value of foreign currencies relative to the U.S. dollar can affect our revenue and results of operations. As a result of such foreign currency exchange rate fluctuations, it could be more difficult to detect underlying trends in our business and results of operations. In addition, to the extent that fluctuations in currency exchange rates cause our results of operations to differ from our expectations or the expectations of our investors, the trading price of our Class A common stock could be lowered. We do not currently maintain a program to hedge transactional exposures in foreign currencies. However, in the future, we may use derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place and may introduce additional risks if we are unable to structure effective hedges with such instruments.

Failure to comply with anti-corruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act and similar laws associated with our activities outside of the United States, could subject us to penalties and other adverse consequences.

We currently have franchised studios in Canada, signed master franchise agreements governing the development of franchised studios in Australia, New Zealand, Singapore, Saudi Arabia, Japan, Spain, the Dominican Republic and South Korea, entered into international expansion agreements in Austria and Germany and plan to continue to grow internationally. As we operate and expand globally, we may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities. We are subject to the U.S. Foreign Corrupt Practices Act (the "FCPA"), the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act, and other applicable anti-bribery and anti-money laundering laws in countries in which we conduct activities. These laws prohibit companies and their employees and third-party intermediaries from corruptly promising, authorizing, offering, or providing, directly or indirectly, improper payments or anything of value to foreign government officials, political parties and private-sector recipients for the purpose of obtaining or retaining business, directing business to any person, or securing any advantage. In addition, U.S. public companies are required to maintain records that accurately and fairly represent their transactions and have an adequate system of internal accounting controls. In many foreign countries, including countries in which we may conduct business, it may be a local custom that businesses engage in practices that are prohibited by the FCPA or other applicable laws and regulations. We face significant risks if we or any of our directors, officers, employees, franchisees, agents or other partners or representatives fail to comply with these laws and governmental authorities in the United States and elsewhere could seek to impose substantial civil and/or criminal fines and penalties which could have a material adverse effect on our business, reputation, results of operations, cash flows and financial condition.

Our employees, contractors, franchisees and agents may take actions in violation of our policies or applicable law. Any such violation could have an adverse effect on our reputation, business, results of operations and prospects.

Any violation of the FCPA, other applicable anti-corruption laws, or anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions and, in the case of the FCPA, suspension or debarment from U.S. government contracts, any of which could have a materially adverse effect on our reputation, business, results of operations, cash flows and financial condition. In addition, responding to any enforcement action may result in a significant diversion of management's attention and resources and significant defense costs and other professional fees.

Our management team has limited experience managing a public company.

Most members of our management team have limited experience managing a publicly traded company, interacting with public company investors and complying with the increasingly complex laws pertaining to public companies. Our management team may not successfully or efficiently manage our transition to being a public company subject to significant regulatory oversight and reporting obligations under the federal securities laws and the continuous scrutiny of securities analysts and investors. These new obligations and constituents will require significant attention from our senior management and could divert their attention away from the day-to-day management of our business, which could adversely affect our business, results of operations, cash flows and financial condition.

If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our results of operations could be adversely affected.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations." The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, merchandise and equipment revenue, other service revenue, contract costs, business combinations, acquisition-related contingent consideration, impairment of long-lived assets, including goodwill and intangible assets and equity-based compensation. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors.

Goodwill and indefinite-lived intangible assets are a material component of our balance sheet and impairments of these assets could have a significant impact on our results.

We have recorded a significant amount of goodwill and indefinite-lived intangible assets, representing our trademarks, on our balance sheet. We test the carrying values of goodwill and indefinite-lived intangible assets for impairment at least annually and whenever events or circumstances indicate the carrying value may not be recoverable. The estimates and assumptions about future results of operations and cash flows made in connection with impairment testing could differ from future actual results of operations and cash flows. While we have concluded that our goodwill and indefinite-lived intangible assets are not impaired, future events could cause us to conclude that the goodwill associated with a given segment, or one of our indefinite- lived intangible assets, may have become impaired. Any resulting impairment charge, although non-cash, could have a material adverse effect on our business, results of operations, cash flows and financial condition.

Our and franchisees' businesses are subject to the risk of earthquakes, fire, power outages, floods and other catastrophic events, and to interruption by manmade problems such as terrorism.

Our and franchisees' businesses are vulnerable to damage or interruption from earthquakes, fires, floods, power losses, terrorist attacks, acts of war, break-ins and similar events. The third-party systems and operations and suppliers we rely on are subject to similar risks. For example, a significant natural disaster, such as an earthquake, fire or flood, could have an adverse effect on our and franchisees' business, results of operations, cash flows and financial condition, and our and franchisees' insurance coverage may be insufficient to compensate us and franchisees for losses that may occur. Acts of terrorism, which may be targeted at metropolitan areas that have higher population density than rural areas, could also cause disruptions in our, franchisees' or our suppliers' businesses or the economy as a whole.

Franchisees may be unable to obtain forgiveness of Paycheck Protection Plan loans, in whole or in part, in accordance with the provisions of the CARES Act, which could adversely affect our business, results of operations and financial condition.

In June 2021, we were notified by the SBA that the PPP Loan had been forgiven in full. However, certain aspects of the Paycheck Protection Program have resulted in significant media coverage and controversy. Despite our good-faith belief that we satisfied all eligibility requirements for the PPP Loan, and the SBA's decision to forgive the PPP Loan in full, the SBA retains the option to conduct additional reviews of the Paycheck Protection Program and loans made thereunder, and we and other companies who received loans pursuant to the Paycheck Protection Program may nonetheless be subject to adverse publicity and/or damage to our reputation, which could in turn adversely affect our reputation, business, results of operations, cash flows and financial condition.

In addition, we believe many franchisees have also secured loans under the Paycheck Protection Program. If any franchisees are unsuccessful in obtaining forgiveness of all or part of the principal amounts of their Paycheck Protection Program loans, such franchisees will be required to repay such unforgiven principal amounts, together with accrued and unpaid interest, in accordance with the terms of those loans. Such repayment obligations could materially restrict franchisees' operating and financial flexibility and financial condition, which could in turn adversely affect our business, results of operations, cash flows and financial condition.

We have incurred substantial indebtedness which could adversely affect our financial condition and limit our ability to pursue our growth strategy.

We have a substantial amount of debt, which requires significant interest payments. As of December 31, 2021, we had total indebtedness of $134.2 million.

Our substantial level of indebtedness could adversely affect our financial condition and increase the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness. Our substantial indebtedness, combined with our other existing and any future financial obligations and contractual commitments, could have important consequences. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations under our outstanding credit facility, including restrictive covenants, could result in an event of default under such facility if such obligations are not waived or amended;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing funds available for working capital, capital expenditures, acquisitions, selling and marketing efforts, research and development and other purposes;
- increase our vulnerability to adverse economic and industry conditions, which could place us at a competitive disadvantage compared to our competitors that have proportionately less indebtedness;
- increase our cost of borrowing and cause us to incur substantial fees from time to time in connection with debt amendments or refinancings;
- increase our exposure to rising interest rates because a portion of our borrowings is at variable interest rates;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate; and
- limit our ability to borrow additional funds, or to dispose of assets to raise funds, if needed, for working capital, capital expenditures, acquisitions, selling and marketing efforts, research and development and other corporate purposes.

By the nature of their relationship to our enterprise, debt holders may have different points of view on the use of company resources as compared to our management. The financial and contractual obligations related to our debt also represent a natural constraint on any intended use of company resources.

Out failure to satisfy the covenants in our credit agreement may result in events of default.

In the event that we breach one or more covenants in our credit agreement, or any future credit agreement and such breach is not waived or amended, our lenders may choose to declare an event of default and require that we immediately repay all amounts borrowed, together with accrued interest and other fees, and could also foreclose on the collateral granted to them to secure our indebtedness. In such an event, we could lose access to working capital and be unable to operate our business, which would have a material adverse effect on our business, financial condition and results of operations. In mid-March 2020, franchisees temporarily closed almost all studios system-wide as a result of the COVID-19 pandemic, and many studios remained closed throughout 2020. Due to the decreased revenue resulting from the studio closures, we exceeded the maximum total leverage ratio covenant in our prior credit agreement. In order to avoid breaching the maximum total leverage ratio covenant, we entered into an amendment to that credit agreement to increase the maximum total leverage ratio. We cannot predict future business interruptions that may occur, the nature or scope of any such interruptions or the degree to which, or the period over which, franchisees may need to close or re-close studios in the future, and there can be no assurance that in the future we will be able to satisfy the covenants under our credit agreement as a result of a business interruption or otherwise, or obtain any required waiver or amendment.

Restrictions imposed by our outstanding indebtedness and any future indebtedness may limit our ability to operate our business and to finance our future operations or capital needs or to engage in other business activities.

The terms of our outstanding indebtedness restrict us from engaging in specified types of transactions. These covenants restrict our ability, among other things, to:

- create, incur or assume additional indebtedness;
- encumber or permit additional liens on our assets;
- change the nature of the business conducted by XPO Holdings and certain of its subsidiaries;
- make payments or distributions to our affiliates or equity holders; and
- enter into certain transactions with our affiliates.

The covenants in our credit facility impose requirements and restrictions on our ability to take certain actions and, in the event that we breach one or more covenants and such breach is not waived, the lenders may choose to declare an event of default and require that we immediately repay all of our borrowings under the credit facility, plus certain prepayment fees, penalties and interest, and foreclose on the collateral granted to them to secure such indebtedness. Such repayment would have a material adverse effect on our business, financial condition and results of operations.

We will require a significant amount of cash to service our indebtedness. The ability to generate cash or refinance our indebtedness as it becomes due depends on many factors, some of which are beyond our control.

We are a holding company and, as such, have no independent operations or material assets other than our ownership of equity interests in our subsidiaries and our subsidiaries' contractual arrangements with franchisees, and we will depend on our subsidiaries to distribute funds to us so that we may pay our obligations and expenses. Our ability to make scheduled payments on, or to refinance our respective obligations under, our indebtedness and to fund planned capital expenditures and other corporate expenses will depend on the ability of our subsidiaries to make distributions, dividends or advances to us, which in turn will depend on their future operating performance and on economic, financial, competitive, legislative, regulatory and other factors and any legal and regulatory restrictions on the payment of distributions and dividends to which they may be subject. Many of these factors are beyond our control. We can provide no assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to satisfy our respective obligations under our indebtedness or to fund our other needs. In order for us to satisfy our obligations under our indebtedness and fund planned capital expenditures, we must continue to execute our business strategy. If we are unable to do so, we may need to reduce or delay our planned capital expenditures or refinance all or a portion of our indebtedness on or before maturity. Significant delays in our planned capital expenditures may materially and adversely affect our future revenue prospects. In addition, we can provide no assurance that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

Changes in the method for determining, and the potential replacement of, the London Interbank Offer Rate may affect our cost of borrowing.

As a result of concerns about the accuracy of the calculation of the London Interbank Offer Rate ("LIBOR"), a number of British Bankers' Association ("BBA") member banks entered into settlements with certain regulators and law enforcement agencies with respect to the alleged manipulation of LIBOR. Actions by the BBA, regulators or law enforcement agencies as a result of these or future events may result in changes to the manner in which LIBOR is determined or its discontinuation. On July 27, 2017, the Financial Conduct Authority ("FCA"), the authority that regulates LIBOR, announced that it would phaseout LIBOR by the end of 2021. In March 2021, the FCA announced an extension of certain panels of LIBOR to continue until the end of June 2023. However, in November 2021, the FCA confirmed that it will prohibit the use of LIBOR in new contracts written after December 31, 2021. In the United States, the Alternative Reference Rates Committee has proposed the Secured Overnight Financing Rate ("SOFR") as an alternative to LIBOR. It is not presently known whether SOFR or any other alternative reference rates that have been proposed will attain market acceptance as replacements of LIBOR.

The interest rate payable on our borrowings under our outstanding credit facility is determined by reference to LIBOR. Potential changes or uncertainty related to such potential changes or discontinuation may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have a significant impact on the interest we are required to pay. Furthermore, although the terms of our credit facility contemplate the replacement of LIBOR with another reference rate in the event LIBOR comes into disuse, uncertainty related to such discontinuation and potential substitutes could make it difficult for us and our lenders to reach agreement on a reference rate, and any substitute reference rate could increase our cost of borrowing, any of which results could have an adverse impact on our business, financial condition, cash flows and results of operations.

Failure to obtain and maintain required licenses and permits or to comply with health and fitness regulations could lead to delays in opening studios, interruptions in services or the closure of studios, thereby harming our business.

The health and fitness market is subject to various federal, state and local government regulations, including those relating to required domestic or foreign governmental permits and approvals. Such regulations are subject to change from time to time. Our or franchisees' failure to obtain and maintain any required licenses permits or approvals could adversely affect our or franchisees' operating results. Difficulties or failure to maintain or obtain the required licenses, permits and approvals could adversely affect existing franchisees and delay or cancel the opening of new studios, which would adversely affect our results of operations.

Unanticipated changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our business, results of operations, cash flows and financial condition.

We are subject to income taxes in the United States and Canada, and our domestic and foreign tax liabilities will be subject to the allocation of expenses in differing jurisdictions. Our future effective tax rates could be subject to volatility or adversely affected by a number of factors, including:

- changes in the valuation of our deferred tax assets and liabilities;
- expected timing and amount of the release of any tax valuation allowances;
- tax effects of stock-based compensation;
- costs related to intercompany restructurings;
- changes in tax laws, regulations or interpretations thereof;
- lower than anticipated future earnings in jurisdictions where we have lower statutory tax rates; or
- higher than anticipated future earnings in jurisdictions where we have higher statutory tax rates.

In addition, we may be subject to audits of our income, sales and other transaction taxes by U.S. federal and state and foreign authorities. Outcomes from these audits could have an adverse effect on our financial condition and results of operations.

Risks Related to our Convertible Preferred

The terms of our convertible preferred stock have provisions that could result in a change of control of our Board in the case of an event of default by us, including our failure to pay amounts due upon redemption of the convertible preferred stock.

The terms of our Series A Convertible preferred stock and our 6.5% Series A-1 Convertible Preferred Stock (the “Series A-1 Convertible preferred stock” and, together with our Series A Convertible preferred stock, the “Convertible Preferred”) include certain negative covenants related to our ability to incur indebtedness and engage in sales of assets under circumstances, as well as requirements to pay quarterly dividends in cash or in kind and to redeem the Convertible Preferred at the option of the holder thereof beginning eight years following their issuance or upon a person or group acquiring more than 50% of our voting power. Failure by us to satisfy any of the foregoing will result in an event of default with respect to the Convertible Preferred that would entitle the holders of the Convertible Preferred to require us to mandatorily redeem the Convertible Preferred at the mandatory redemption price, plus an applicable premium. If the Company fails to complete a required mandatory redemption within 30 days of the underlying requirement or demand for such redemption and so long as such event of default with respect to such mandatory redemption is continuing, the holders of the Convertible Preferred shall have the right: (i) to immediately appoint one additional individual to our board of directors, (ii) to, after such event of default has continued for six months, appoint an additional number of individuals to our board of directors such that the holders of the Convertible Preferred have the right to appoint not less than 25% of the directors to our board of directors and (iii) after such event of default has been continuing for a year, appoint an additional number of individuals to our board of directors such that the holders of the Convertible preferred have the right to appoint not less than a majority of the directors to our board of directors. This right exists so long as the Preferred Investors continue to hold at least 50% of the Convertible Preferred.” This right exists only in respect of shares of our Convertible Preferred and so long as any of the Preferred Investors hold any shares of our Convertible Preferred but generally does not travel to transferees of the Convertible Preferred. In the event that Preferred Investors had this right they could exercise it in a manner that is not consistent with the interests of holders of our Class A common stock and may have us engage in transactions which may not necessarily be consistent with the views of our other directors or our Class A stockholders. If they assumed control of our Board of Directors, it would also likely result in the acceleration of other indebtedness of ours, and we may not have the ability to repay that indebtedness at that time.

The Convertible Preferred impacts our ability to pay dividends on our Class A common stock and imposes certain negative covenants on us.

The terms of the Convertible Preferred require that we pay a quarterly cash dividend of 6.5% on the outstanding Convertible Preferred or increase the liquidation preference (the "PIK Coupon") thereof at a rate of 7.5% in lieu of cash dividends. We may not pay dividends to holders of our Class A common stock unless we have made all of the requisite dividend payments in cash to holders of our Convertible Preferred or adjust the liquidation preference through the PIK Coupon. Even if we have made such dividend payments or adjustments, dividend payments to holders of our common stock will result in anti-dilution adjustments to the conversion price of the Convertible Preferred, and should we make cash dividend payments in excess of 6.5% in any twelve-month period to holders of our common stock, the holders of the Convertible Preferred would participate ratably in that dividend. Our Credit Agreement provides that we may not pay cash dividends. However, we received a waiver from our lenders to make cash dividend payments on the Convertible Preferred, which became effective at the closing of the IPO. If we elect or are otherwise required by a subsequent lender to pay dividends on the Convertible Preferred in the form of additional shares of Convertible Preferred, the liquidation preference of the Convertible Preferred would increase over time and the holders of the Convertible Preferred would have an increasing voting and economic interest in us, thereby diluting holders of our Class A common stock. The Convertible Preferred also contains provisions that limit our ability to sell assets, incur debt and repurchase our common stock.

The Convertible Preferred ranks senior to the Class A common stock.

The Convertible Preferred ranks senior to the Class A common Stock. Accordingly, in the event of our liquidation or dissolution in bankruptcy or otherwise, the holders of the Convertible Preferred would receive their liquidation preference (initially $200 million and increasing over time with respect to accrued and unpaid dividends, if any) prior to any distribution being available to holders of our Class A common stock.

Risks Related to Our Organizational Structure

We are a holding company and our principal asset is our 62% ownership interest in XPO Holdings, and we are accordingly dependent upon distributions from XPO Holdings to pay dividends, if any, and taxes, make payments under the TRA and pay other expenses.

We are a holding company and our principal asset is our direct and indirect ownership of 62% of the outstanding LLC Units. We have no independent means of generating revenue. XPO Holdings is treated as a partnership for U.S. federal income tax purposes and, as such, generally will not be subject to U.S. federal income tax. Instead, the taxable income of XPO Holdings will be allocated to holders of Preferred Units and LLC Units, including us. Accordingly, we will incur income taxes on our allocable share of any net taxable income of XPO Holdings. We will also incur expenses related to our operations and will have obligations to make payments under the TRA. As the managing member of XPO Holdings, we intend to cause XPO Holdings to make distributions to the holders of LLC Units and us, or, in the case of certain expenses and distributions in respect of the Preferred Units, payments to us, in amounts sufficient to (i) permit us to pay all applicable taxes payable by us and the holders of LLC Units, (ii) allow us to make any payments required under the TRA we entered into as part of a series of transactions to implement an internal reorganization, (the "Reorganization Transactions") in connection with the IPO, (iii) fund dividends to our stockholders, including in respect of the Convertible Preferred, in accordance with our dividend policy, to the extent that our board of directors declares such dividends and (iv) pay our expenses.

Deterioration in the financial conditions, earnings or cash flow of XPO Holdings and its subsidiaries for any reason could limit or impair their ability to pay such distributions. Additionally, to the extent that we need funds and XPO Holdings is restricted from making such distributions to us under applicable law or regulation, as a result of covenants in its debt agreements or otherwise, we may not be able to obtain such funds on terms acceptable to us, or at all, and, as a result, could suffer a material adverse effect on our liquidity and financial condition.

In certain circumstances, XPO Holdings will be required to make distributions to us and the other holders of LLC Units, and the distributions that XPO Holdings will be required to make may be substantial.

Under the Limited Liability Company Agreement of XPO Holdings, XPO Holdings will generally be required from time to time to make pro rata distributions in cash to us and the other holders of LLC Units at certain assumed tax rates in amounts that are intended to be sufficient to cover the taxes on our and the other LLC Unit holders' respective allocable shares of the taxable income of XPO Holdings. We will also receive tax distributions equal to our anticipated tax liability in respect of distributions on our Preferred Units. As a result of (i) potential differences in the amount of net taxable income allocable to us and the other LLC Unit holders, (ii) the lower tax rate applicable to corporations than individuals and (iii) the use of an assumed tax rate, based on the tax rate applicable to individuals, in calculating XPO Holdings' distribution obligations, we may receive distributions significantly in excess of our tax liabilities and obligations to make payments under the TRA. Our board of directors will determine the appropriate uses for any excess cash so accumulated, which may include, among other uses, dividends, repurchases of our Class A common stock, the payment of obligations under the TRA and the payment of other expenses. We will have no obligation to distribute such cash (or other available cash other than any declared dividend) to our stockholders. No adjustments to the redemption or exchange ratio of LLC Units for shares of Class A common stock will be made as a result of either (i) any cash distribution by us or (ii) any cash that we retain and do not distribute to our stockholders. To the extent that we do not distribute such excess cash as dividends on our Class A common stock and instead, for example, hold such cash balances or lend them to XPO Holdings, holders of LLC Units would benefit from any value attributable to such cash balances as a result of their ownership of Class A common stock following a redemption or exchange of their LLC Units.

We are controlled by the Continuing Pre-IPO LLC Members whose interests in our business may be different than yours.

Our Continuing Pre-IPO LLC Members control approximately 59% of the combined voting power of our Class A and Class B common stock.

Because the Continuing Pre-IPO LLC Members hold a majority of their economic interests in our business through XPO Holdings rather than through XPO Inc., they may have conflicting interests with holders of shares of our Class A common stock. For example, the Continuing Pre-IPO LLC Members may have a different tax position from us, which could influence their decisions regarding whether and when we should dispose of assets or incur new or refinance existing indebtedness, especially in light of the existence of the TRA that we entered into in connection with the IPO, and whether and when we should undergo certain changes of control for purposes of the TRA or terminate the TRA. In addition, the structuring of future transactions may take into consideration these tax or other considerations even where no similar benefit would accrue to us. Pursuant to the Bipartisan Budget Act of 2015, for tax years beginning after December 31, 2017, if the Internal Revenue Service, or IRS, makes audit adjustments to XPO Holdings' federal income tax returns, it may assess and collect any taxes (including any applicable penalties and interest) resulting from such audit adjustment directly from XPO Holdings. If, as a result of any such audit adjustment, XPO Holdings is required to make payments of taxes, penalties and interest, XPO Holdings' cash available for distributions to us may be substantially reduced. These rules are not applicable to XPO Holdings for tax years beginning on or prior to December 31, 2017. In addition, the Continuing Pre-IPO LLC Members' significant ownership in us and resulting ability to effectively control us may discourage someone from making a significant equity investment in us, or could discourage transactions involving a change in control, including transactions in which you as a holder of shares of our Class A common stock might otherwise receive a premium for your shares over the then-current market price.

In addition, in connection with the Reorganization Transactions, we purchased all of the shares of LCAT Franchise Fitness Holdings, Inc. ("LCAT") from LCAT shareholders. We did not receive an indemnity in respect of taxes or other unanticipated liabilities that may have been assumed by us in respect of such acquisition and as a result we may become responsible for tax or other liabilities in respect of matters that do not relate to our business or operations.

We will be required to pay the TRA parties for certain tax benefits we may receive, and the amounts we may pay could be significant.

In connection with the Reorganization Transactions and IPO, we acquired certain favorable tax attributes from Rumble Holdings LLC and H&W Investco Blocker II, LP (the "Blocker Companies") in the mergers of the Blocker Companies with and into XPO Inc. (the "Mergers"), and in connection with the contribution of LLC Units by certain equity holders of XPO Holdings to XPO Inc. in exchange for shares of Class A common stock (the "IPO Contribution"), the redemption of Class A-5 Units of XPO Holdings in connection with the IPO (the "Class A-5 Unit Redemption"), and acquisitions by XPO Fitness, Inc. of LLC Units from certain Continuing Pre-IPO LLC Members in connection with the IPO. In addition, future taxable redemptions or exchanges by Continuing Pre-IPO LLC Members of LLC Units for shares of our Class A common stock or cash, and other transactions described herein are expected to result in favorable tax attributes for us. These tax attributes would not be available to us in the absence of those transactions and are expected to reduce the amount of tax that we would otherwise be required to pay in the future.

Upon the completion of the IPO, we entered into a tax receivable agreement (the "TRA"), pursuant to which we are generally required to pay to the Continuing Pre-IPO LLC Members, the owners of the Blocker Companies and any future party to the TRA (the "TRA parties") in the aggregate 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that we actually realize as a result of (i) certain favorable tax attributes we acquired from the Blocker Companies in the Mergers (including net operating losses and the Blocker Companies' allocable share of existing tax basis), (ii) increases in our allocable share of existing tax basis and tax basis adjustments that resulted or may result from (x) the IPO Contribution, the Class A-5 Unit Redemption, and the purchase of LLC Units from Continuing Pre-IPO LLC Members in the IPO, (y) future taxable redemptions and exchanges of LLC Units by Continuing Pre-IPO LLC Members, and (z) certain payments made under the TRA, and (iii) deductions in respect of interest under the TRA. These payment obligations are obligations of XPO Fitness, Inc. and not of XPO Holdings.

The payments we will be required to make in respect of the past and possible future transactions described above under the TRA may be substantial. The actual tax basis adjustments that may result from future taxable redemptions or exchanges of LLC Units, as well as the amount and timing of the payments we are required to make under the TRA will depend on a number of factors, including the market value of our Class A common stock at the time of any such future redemptions or exchanges, the prevailing federal tax rates applicable to us over the life of the TRA (plus the assumed combined state and local tax rate) and the amount and timing of the taxable income that we generate in the future.

Payments under the TRA will be based on the tax reporting positions we determine, and the IRS or another tax authority may challenge all or a part of the existing tax basis, tax basis increases, NOLs or other tax attributes subject to the TRA, and a court could sustain such challenge. The TRA parties will not reimburse us for any payments previously made if such tax basis, NOLs or other tax benefits are subsequently challenged by a tax authority and are ultimately disallowed, except that any excess payments made to a TRA party will be netted against future payments otherwise to be made to such TRA party under the TRA, if any, after our determination of such excess. In addition, the actual state or local tax savings we may realize may be different than the amount of such tax savings we are deemed to realize under the TRA, which will be based on an assumed combined state and local tax rate applied to our reduction in taxable income as determined for U.S. federal income tax purposes as a result of the tax attributes subject to the TRA. In both such circumstances, we could make payments under the TRA that are greater than our actual cash tax savings and we may not be able to recoup those payments, which could negatively impact our liquidity. The TRA provides that (1) in the event that we breach any of our material obligations under the TRA or (2) if, at any time, we elect an early termination of the TRA, our obligations under the TRA (with respect to all LLC Units, whether or not LLC Units have been exchanged or acquired before or after such transaction) would accelerate and become payable in a lump sum amount equal to the present value of the anticipated future tax benefits calculated based on certain assumptions, including that we would have sufficient taxable income to fully utilize the deductions arising from the tax deductions, tax basis and other tax attributes subject to the TRA. The TRA also provides that, upon certain mergers, asset sales or other forms of business combination, or certain other changes of control, our or our successor's obligations with respect to tax benefits would be based on certain assumptions, including that we or our successor would have sufficient taxable income to fully utilize the increased tax deductions and tax basis and other benefits covered by the TRA. As a result, upon a change of control, we could be required to make payments under the TRA that are greater than the specified percentage of our actual cash tax savings, which could negatively impact our liquidity.

The change of control provisions in the TRA may result in situations where the Pre-IPO LLC Members have interests that differ from or are in addition to those of our other stockholders.

Finally, because we are a holding company with no operations of our own, our ability to make payments under the TRA depends on the ability of XPO Holdings to make distributions to us. To the extent that we are unable to make payments under the TRA for any reason, such payments will be deferred and will accrue interest until paid, which could negatively impact our results of operations and could also affect our liquidity in periods in which such payments are made.

Risks Related to Our Class A Common Stock

Some provisions of Delaware law and our amended and restated certificate of incorporation and amended and restated bylaws may deter third parties from acquiring us and diminish the value of our Class A common stock.

Our amended and restated certificate of incorporation and our amended and restated bylaws provide for, among other things:

•a classified board of directors with staggered three-year terms;

•the ability of our board of directors to issue one or more series of preferred stock with voting or other rights or preferences that could have the effect of impeding the success of an attempt to acquire us or otherwise effect a change in control;

•advance notice for nominations of directors by stockholders and for stockholders to include matters to be considered at stockholder meetings;

•certain limitations on convening special stockholder meetings; and

•certain provisions of our amended and restated certificate of incorporation and our amended and restated bylaws that may be amended only by the affirmative vote of the holders of at least two-thirds in voting power of all outstanding shares of our stock entitled to vote thereon, voting together as a single class.

In addition, while we have opted out of Section 203 of the Delaware General Corporation Law (the "DGCL"), our amended and restated certificate of incorporation contains similar provisions providing that we may not engage in certain "business combinations" with any "interested stockholder" for a three-year period following the time that the stockholder became an interested stockholder, unless:

- prior to such time, our board of directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the votes of our voting stock outstanding at the time the transaction commenced, excluding certain shares; or
- at or subsequent to that time, the business combination is approved by our board of directors and by the affirmative vote of holders of at least two-thirds of the votes of our outstanding voting stock that is not owned by the interested stockholder.

Generally, a "business combination" includes a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an "interested stockholder" is a person who, together with that person's affiliates and associates, owns, or within the previous three years owned, 15% or more of the votes of our outstanding voting stock. For purposes of this provision, "voting stock" means any class or series of stock entitled to vote generally in the election of directors. Our amended and restated certificate of incorporation provides that H&W Franchise Holdings, LLC, their respective affiliates and any of their respective direct or indirect designated transferees (other than in certain market transfers and gifts) and any group of which such persons are a party do not constitute "interested stockholders" for purposes of this provision.

Under certain circumstances, this provision will make it more difficult for a person who would be an "interested stockholder" to effect various business combinations with our company for a three-year period. This provision may encourage companies interested in acquiring us to negotiate in advance with our board of directors because the stockholder approval requirement would be avoided if our board of directors approves either the business combination or the transaction that results in the stockholder becoming an interested stockholder. These provisions also may have the effect of preventing changes in our board of directors and may make it more difficult to accomplish transactions that stockholders may otherwise deem to be in their best interests.

These provisions in our amended and restated certificate of incorporation and our amended and restated bylaws may discourage, delay or prevent a transaction involving a change in control of our company that is in the best interest of our minority stockholders. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our Class A common stock if they are viewed as discouraging future takeover attempts. These provisions could also make it more difficult for stockholders to nominate directors for election to our board of directors and take other corporate actions.

Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware and, to the extent enforceable, the federal district courts of the United States as the sole and exclusive forums for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or agents.

Our amended and restated certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware is, to the fullest extent permitted by applicable law, the sole and exclusive forum for the following types of actions or proceedings under Delaware statutory or common law: (i) any derivative action or proceeding brought on our behalf; (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, employees, agents or trustees to us or our stockholders; (iii) any action asserting a claim against us or any director or officer or other employee of ours arising pursuant to any provision of the DGCL, our amended and restated certificate of incorporation or our amended and restated bylaws; or (iv) any action asserting a claim against us or any director or officer or other employee of ours that is governed by the internal affairs doctrine, in each such case subject to such Court of Chancery having personal jurisdiction over the indispensable parties named as defendants therein. The foregoing provision will not apply to claims arising under the Securities Act of 1933, as amended, the Exchange Act or other federal securities laws for which there is exclusive federal or concurrent federal and state jurisdiction.

These exclusive-forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, employees or agents, which may discourage such lawsuits against us and such persons. If any court of competent jurisdiction were to find either exclusive-forum provision in our amended and restated certificate of incorporation to be inapplicable or unenforceable, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, results of operations, cash flows and financial condition.

We are a "controlled company" within the meaning of the NYSE listing standards and, as a result, qualify for, and rely on, exemptions from certain corporate governance requirements. We are controlled by the Continuing Pre-IPO LLC Members whose interests in our business may be different than yours, and certain statutory provisions typically afforded to stockholders are not applicable to us.

The Continuing Pre-IPO LLC Members continue to control a majority of the combined voting power of our Class A and Class B common stock and Convertible Preferred. As a result, we are a "controlled company" within the meaning of the NYSE listing standards. Under these rules, a company of which more than 50% of the voting power is held by an individual, a group or another company is a "controlled company" and may elect not to comply with certain corporate governance requirements of the NYSE, including (i) the requirement that a majority of the board of directors consist of independent directors, (ii) the requirement that we have a Nominating and Corporate Governance Committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities and (iii) the requirement that we have a Human Capital Management Committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities. We currently rely on some or all of these exemptions. As a result, we do not currently have a majority of independent directors and our Human Capital Management and Nominating and Corporate Governance Committee do not consist entirely of independent directors. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the NYSE.

Further, this concentration of ownership and voting power allows the Continuing Pre-IPO LLC Members to be able to control our decisions, including matters requiring approval by our stockholders (such as the election of directors and the approval of mergers or other extraordinary transactions), regardless of whether or not other stockholders believe that the transaction is in their own best interests. Such concentration of voting power could also have the effect of delaying, deterring or preventing a change of control or other business combination that might otherwise be beneficial to our stockholders, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

The Continuing Pre-IPO LLC Members' interests may not be fully aligned with yours, which could lead to actions that are not in your best interests. Because the Continuing Pre-IPO LLC Members hold a majority of their economic interests in our business through XPO Holdings rather than through XPO Inc., they may have conflicting interests with holders of shares of our Class A common stock. For example, the Continuing Pre-IPO LLC Members may have a different tax position from us, which could influence their decisions regarding whether and when we should dispose of assets or incur new or refinance existing indebtedness, especially in light of the existence of the TRA that we entered into in connection with the IPO, and whether and when we should undergo certain changes of control within the meaning of the TRA or terminate the TRA. In addition, the structuring of future transactions may take into consideration these tax or other considerations even where no similar benefit would accrue to us. In addition, the Continuing Pre-IPO LLC Members' significant ownership in us and resulting ability to effectively control us may discourage someone from making a significant equity investment in us, or could discourage transactions involving a change in control, including transactions in which you as a holder of shares of our Class A common stock might otherwise receive a premium for your shares over the then-current market price.

Directors, officers, stockholders and affiliates of the Preferred Investors and Snapdragon Capital Partners may pursue corporate opportunities independent of us that could present conflicts with our and our stockholders' interests.

Directors, officers, stockholders and affiliates of the Preferred Investors and Snapdragon Capital Partners, an affiliate of Mr. Grabowski, a member of our board of directors, may hold (and may from time to time in the future acquire) interests in or provide advice to businesses that may directly or indirectly compete with our business. They may also pursue acquisitions that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us.

Our amended and restated certificate of incorporation provides that, to the fullest extent permitted by law, the doctrine of "corporate opportunity" will not apply to directors, officers, stockholders and affiliates of the Preferred Investors and Snapdragon Capital Partners.

We are an "emerging growth company" and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our Class A common stock less attractive to investors.

We are an "emerging growth company" as defined in the JOBS Act, and we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. We cannot predict whether our reliance on these exemptions will result in investors finding our Class A common stock less attractive. If some investors find our Class A common stock less attractive as a result, there may be a less active trading market for our Class A common stock and our Class A common stock price may be more volatile.

The requirements of being a public company may strain our resources and distract our management, which could make it difficult to manage our business, particularly after we are no longer an "emerging growth company."

As a publicly-traded company, we are required to comply with various regulatory and reporting requirements, including those required by the SEC. Complying with these reporting and other regulatory requirements is time-consuming and causes us to incur increased costs and could have a negative effect on our results of operations, financial condition or business.

As a public company, we are subject to the reporting requirements of the Exchange Act, the requirements of the Sarbanes-Oxley Act and the rules of the NYSE. Compliance with these requirements places a strain on our systems and resources. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires that we implement and maintain effective disclosure controls and procedures and internal controls over financial reporting. To implement, maintain and improve the effectiveness of our disclosure controls and procedures, we have committed significant resources, hired additional staff and provided additional management oversight. We have implemented additional procedures and processes for the purpose of addressing the standards and requirements applicable to public companies. Sustaining our growth also requires us to commit additional management, operational and financial resources to identify new professionals to join our firm and to maintain appropriate operational and financial systems to adequately support expansion. These activities may divert management's attention from other business concerns, which could have a material adverse effect on our results of operations, financial condition or business.

As an "emerging growth company" as defined in the JOBS Act, we take advantage of certain temporary exemptions from various reporting requirements including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. We may also delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies, as permitted by the JOBS Act.

Our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting until the later of our second annual report or the first annual report required to be filed with the Commission following the date we are no longer an "emerging growth company" as defined in the JOBS Act.

When these exemptions cease to apply, we expect to incur additional expenses and devote increased management effort toward ensuring compliance with them. We cannot predict or estimate the amount of additional costs we may incur as a result of becoming a public company or the timing of such costs.

Our failure to establish and maintain effective internal controls over financial reporting could have a material adverse effect on our business and stock price.

As a public company, we are subject to the rules and regulations established from time to time by the SEC and the NYSE. These rules and regulations require, among other things, that we establish and periodically evaluate procedures with respect to our internal controls over financial reporting. In addition, as a public company, we will be required to document and test our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act so that our management can certify as to the effectiveness of our internal controls over financial reporting. Section 404(a) of the Sarbanes-Oxley Act ("Section 404(a)") requires that beginning with our second annual report following our IPO, management assess and report annually on the effectiveness of our internal controls over financial reporting and identify any material weaknesses in our internal controls over financial reporting. Although Section 404(b) of the Sarbanes-Oxley Act ("Section 404(b)") requires our independent registered public accounting firm to issue an annual report that addresses the effectiveness of our internal controls over financial reporting, we have opted to rely on the exemptions provided in the JOBS Act, and consequently will not be required to comply with SEC rules that implement Section 404(b) until such time as we are no longer an "emerging growth company." In order to comply with these rules, we expect to incur additional expenses and devote increased management effort.

In connection with the audit of our consolidated financial statements, we identified certain material weaknesses in our internal control over financial reporting for the years ended December 31, 2020 and 2019. The material weaknesses that we identified related to inadequate or missing (i) anti-fraud programs and controls, (ii) controls for the review of financial information and related disclosures in our annual reports, (iii) competent accounting resources and formalized policies to timely identify and correct misstatements related to improper application of GAAP, (iv) controls over data provided by finance and operations personnel, (v) controls over account reconciliation processes that resulted in certain restatements of prior period results, (vi) account analysis and transaction level controls and (vii) general information technology controls and controls over information provided by third-party service providers. Such material weaknesses have since been remediated as of December 31, 2021. However, there can be no assurance that material weaknesses or significant deficiencies will not occur in the future and that we will be able to remediate such weaknesses or deficiencies in a timely manner. If we fail to remediate any future material weaknesses in our internal controls over financial reporting, if we are unable to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner, if we are unable to conclude that our internal controls over financial reporting are effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal controls over financial reporting when we are no longer an emerging growth company, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected. As a result of such failures, we could also become subject to investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, and become subject to litigation from investors and stockholders, which could harm our reputation and financial condition or divert financial and management resources from our regular business activities.

Your percentage ownership in us may be diluted by future issuances of capital stock, which could reduce your influence over matters on which stockholders vote.

Pursuant to our amended and restated certificate of incorporation and amended and restated bylaws, our board of directors has the authority, without action or vote of our stockholders, to issue all or any part of our authorized but unissued shares of common stock, including shares issuable upon the exercise of options, or shares of our authorized but unissued preferred stock. Issuances of Class A common stock, Class B common stock or voting preferred stock would reduce your influence over matters on which our stockholders vote and, in the case of issuances of preferred stock, would likely result in your interest in us being subject to the prior rights of holders of that preferred stock.

A significant portion of our total outstanding shares are restricted from immediate resale but may be sold into the market in the near future. This could cause the market price of our Class A common stock to drop significantly, even if our business is doing well.

Sales of a substantial number of shares of our Class A common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our Class A common stock. In addition, the Continuing Pre-IPO LLC Members will have certain demand registration rights that could require us in the future to file registration statements in connection with sales of our stock by them. Such sales could be significant. Once we register these shares, they can be freely sold in the public market upon issuance, subject to the lock-up agreements described above. As restrictions on resale end, the market price of our Class A common stock could decline if the holders of currently restricted shares sell them or are perceived by the market as intending to sell them.

If securities or industry analysts do not publish research or reports about our business, or if they change their recommendations regarding our Class A common stock adversely, our stock price and trading volume could decline.

The trading market for our Class A common stock is and will be influenced by the research and reports that industry or securities analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our Class A common stock or describe us or our business in a negative manner, the price of our Class A common stock would likely decline. If one or more of these analysts cease coverage of our company or fails to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the price or trading volume of our Class A common stock to decline. In addition, if we fail to meet the expectations and forecasts for our business provided by securities analysts, the price of our Class A common stock could decline.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

Our corporate headquarters are located in Irvine, California, where we lease approximately 35,000 square feet of office space pursuant to a lease agreement which expires in 2032. We lease approximately 6,800 square feet for our digital platform production studio from Von Karman Production LLC, which is owned by Mr. Geisler, our Chief Executive Officer and founder, under a lease that expires in 2024. We also lease two Club Pilates training locations, one in Atlanta, Georgia and one in Irvine, California. These leases expire in October 2024 and November 2023, respectively. In addition, we also lease approximately 14,900 square feet of warehouse space in Costa Mesa, CA, which lease expires in 2025. We believe that our existing facilities are adequate to meet our business requirements for the near-term and that additional space will be available on commercially reasonable terms, if required.

We operated 25 company-owned transition studios as of December 31, 2021. While operating studios is not a component of our business model, we currently hold a small number of strategic transition studios as, on occasion, we take ownership of such studios for a limited time while facilitating the transfer of these studios to new or existing franchisees. All of the company-owned transition studios are located in leased properties with no lease term expiring within the next 12 months.

Item 3. Legal Proceedings.

The information set forth in Note 16 "Contingencies and Litigation" in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K is incorporated herein by reference.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information for Class A Common Stock

Shares of our Class A common stock trade on the NYSE under the symbol "XPOF."

Holders of Record

As of February 25, 2022, there were three holders of record of our Class A common stock. A substantially greater number of holders of our Class A common stock are held in "street name" and held of record by banks, brokers and other financial institutions. As of February 25, 2022, there were 25 holders of record of our Class B common stock. All shares of Class B common stock are owned by current or former directors and management of the Company or former owners of businesses we acquired, and there is no public market for these shares.

Dividend Policy

We do not currently pay cash dividends on our Class A common stock. The declaration, amount and payment of any future dividends on shares of our Class A common stock will be at the sole discretion of our board of directors, which may take into account general economic conditions, our financial condition and results of operations, our available cash and current and anticipated cash needs, capital requirements, contractual, legal, tax and regulatory restrictions, the implications of the payment of dividends by us to our stockholders or by our subsidiaries to us, and any other factors that our board of directors may deem relevant.

Item 6. [Reserved]

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes thereto and the other financial information included elsewhere in this Annual Report on Form 10-K. In addition to historical consolidated financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and timing may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in the section titled “Risk Factors.”

Xponential Fitness LLC (“XPO LLC”), the principal operating subsidiary of Xponential Fitness, Inc. (the "Company" or “XPO Inc.”), is the largest global franchisor of boutique fitness brands. On July 23, 2021, the Company completed an initial public offering (“IPO”) of 10,000,000 shares of Class A common stock at an initial public offering price of $12.00 per share. Pursuant to a reorganization into a holding company structure, the Company is a holding company with its principal asset being a controlling ownership interest in XPO LLC through its ownership interest in Xponential Intermediate Holdings, LLC (“XPO Holdings”). Information for any period prior to July 23, 2021 relates to XPO LLC.

The Company operates a diversified platform of ten brands spanning across verticals including Pilates, indoor cycling, barre, stretching, rowing, dancing, boxing, running, functional training and yoga. XPO LLC franchisees offer energetic, accessible, and personalized workout experiences led by highly qualified instructors in studio locations across 48 U.S. states, the District of Columbia and Canada and through master franchise agreements or international expansion in ten additional countries. The Company's portfolio of brands includes Club Pilates, the largest Pilates brand in the United States; CycleBar, the largest indoor cycling brand in the United States; StretchLab, a concept offering one-on-one and group stretching services; Row House, a high-energy, low-impact indoor rowing workout; AKT, a dance-based cardio workout combining toning, interval and circuit training; YogaSix, the largest franchised yoga brand; Pure Barre, a total body workout that uses the ballet barre to perform small isometric movements; Stride, a treadmill-based cardio and strength training concept; Rumble, a boxing-inspired full-body workout; and BFT, a functional training and strength-based program.

As of December 31, 2021, 1,954 studios were open, and franchisees were contractually committed to open an additional 1,806 studios in North America under existing franchise agreements. In addition, as of December 31, 2021, we had 176 studios open internationally, and our master franchisees were contractually obligated to sell licenses to franchisees to open an additional 956 new studios in ten countries, of which master franchisees have sold 184 licenses for studios not yet opened as of December 31, 2021. In the years ended December 31, 2021 and 2020, revenue outside of the United States comprised approximately 1.7% and 1.1% of total revenue, respectively. No franchisee accounted for more than 5% of our revenue. We operate in one segment for financial reporting purposes.

Highlights of our platform’s recent financial results and growth include:

- increased the number of global open studios from 818 as of December 31, 2017 to 2,130 as of December 31, 2021, representing a compound annual growth rate (“CAGR”) of 27% and increased the number of global open studios from 1,796 as of December 31, 2020 to 2,130 as of December 31, 2021;
- increased cumulative global franchise licenses sold from 1,508 as of December 31, 2017 to 4,424 as of December 31, 2021, representing a CAGR of 31%, and increased global franchise licenses sold from 3,469 as of December 31, 2020 to 4,424 as of December 31, 2021. As of December 31, 2021, franchisees were contractually obligated to open an additional 1,806 studios in North America. In addition, as of December 31, 2021, we had 176 studios open internationally and master franchisees were contractually obligated to sell licenses to franchisees to open an additional 956 studios in ten countries, of which master franchisees have sold 184 licenses for studios not yet opened as of December 31, 2021;
- generated system-wide sales of $710 million and $443 million in 2021 and 2020, respectively;
- experienced an increase in same store sales of 41% for the year ended December 31, 2021 from the prior year, compared to a decline in same store sales of 34% for the year ended December 31, 2020 from the prior year, which reflects a significant rebound of studio performance from the impact of the COVID-19 pandemic;
- generated run-rate AUV of $446 thousand and $287 thousand in 2021 and 2020, respectively;

- acquired certain assets and rights to two additional brands in 2021;
- completed an IPO of 10,000,000 shares of Class A common stock and sold an additional 904,000 shares upon exercise of underwriter's option to purchase additional shares; and
- completed a private sale of Series A Convertible Preferred Stock to certain institutional investors with gross proceeds of $200 million.

All metrics above are presented on an adjusted basis to reflect historical information of the brands we acquired and therefore includes time periods during which certain of the brands were operated by our predecessors. We acquired Club Pilates and CycleBar in September 2017, StretchLab in November 2017, Row House in December 2017, AKT in March 2018, YogaSix in July 2018, Pure Barre in October 2018, Stride in December 2018, Rumble in March 2021 and BFT in October 2021.

The COVID-19 Pandemic

The COVID-19 pandemic continues to impact global economic activities and poses the risk that prevents or restricts us and our employees, franchisees, members and suppliers from conducting business activities, as federal, state, local and foreign governments mandated stay-at-home orders and closures of businesses, encouraged social distancing measures and implemented travel restrictions and prohibitions on non-essential activities and business.

The COVID-19 pandemic adversely impacted our ability to generate revenue. A substantial portion of our revenue is derived from royalty fees, which were affected by the decline in system-wide sales as almost all of our franchised studios were temporarily closed beginning in mid-March 2020. New studio openings were also delayed during this period. We also experienced a reduction in sales of new studio licenses and in installation of equipment in new studios. Additionally, we temporarily reduced our marketing fund fees from 2% to 1% of the sales of franchisees while studios were closed due to the COVID-19 pandemic and related government mandates as part of our COVID-19 support response.

In response to the COVID-19 pandemic, franchisees temporarily closed almost all studios system-wide in mid-March 2020, although our franchised studios have resumed operations as of December 31, 2021. As the COVID-19 pandemic continued to impact areas in which our studios operate, certain of our studios have had to re-close or significantly reduce capacity, and additional studios may have to re-close or further reduce capacity, pursuant to local guidelines. We also experienced lower license sales and delays in new studios openings due to the COVID-19 pandemic. However, we have continued opening studios throughout the COVID-19 pandemic and franchisees have opened 555 studios globally from April 2020 through December 2021, including studios opened by Rumble and BFT.

Our proven operational model allowed us to provide robust support to franchisees during the COVID-19 pandemic and has led to no units permanently closed under our ownership. Even though studios were temporarily closed, franchisees maintained strong member loyalty, with many members maintaining actively paying accounts or putting their memberships “on hold.” Members who did not pay membership dues while “on hold” kept their agreements and preserved the ability to reactivate when studios reopened, mitigating high member cancellation rates. While studios were closed, we continued to generate revenue from franchise license and royalty payments as customers engaged with our digital platform services and purchased merchandise. We took significant action to support franchisees’ efforts to ensure they had access to resources that guided them on generating revenues and reducing operating costs, including a temporary reduction in marketing fund percentage collected.

The adverse effects of the COVID-19 pandemic began to decline during 2021, although, infection rates continue to fluctuate in various regions and new strains and variants of the virus, including the delta and omicron variants, remain a risk. During the second through fourth quarter of 2021 in particular, as vaccination rates have increased substantially in the United States and restrictions on indoor fitness classes in most states have either been reduced or eliminated, franchisees’ membership visits have increased. As of December 31, 2021, the membership levels and membership visits for the quarter ended December 31, 2021 were at 117% relative to the quarter ended December 31, 2019 (excludes Rumble and BFT). For the quarter ended December 31, 2021, run-rate Average Unit Volume ("AUVs") recovered to approximately 94% relative to the quarter ended December 31, 2019 (includes Rumble and BFT).

Following the significant disruption to the global fitness industry caused by the COVID-19 pandemic, we took ownership of a greater number of studios than we would expect to hold in the normal course of our business. We are in the process of reselling the licenses for these studios to new or existing franchisees ("company-owned transition studios") as operating studios is not a component of our business model. However, we may not be able to do so and we may choose to close some or all such studios to the extent they are not profitable for an extended period of time and could incur charges in connection therewith for asset impairment and lease termination, employee severance and related matters, which could adversely affect our business, results of operations, cash flows and financial condition. See Note 3 of Notes to Consolidated Financial Statements for additional information.

The full extent of the future impact of the COVID-19 pandemic on our operational and financial performance is uncertain and will depend on many factors outside of our control, including, without limitation, the timing, extent, trajectory and duration of the pandemic; the availability, distribution and effectiveness of vaccines; the spread of new variants of COVID-19; the continued and renewed imposition of protective public safety measures; the disruption to global supply chain; rising inflation rates; the impact of the pandemic on the fitness industry and responses from our franchisees to the pandemic. Although we have implemented measures to mitigate the impact of the COVID-19 pandemic on our business, we expect the pandemic to continue to adversely affect franchisees, as well as our overall business, results of operations, cash flows and financial condition.

Rumble Acquisition

On March 24, 2021, H&W Franchise Holdings LLC (parent entity prior to the IPO) entered into a contribution agreement with Rumble Holdings LLC, Rumble Parent LLC and Rumble Fitness LLC to acquire certain rights and intellectual property of Rumble Fitness LLC (“Rumble”), to be used by H&W Franchise Holdings LLC in connection with the franchise business under the “Rumble” trade name. Pursuant to this agreement, Rumble became a direct subsidiary of Rumble Parent LLC, which is owned by Rumble Holdings LLC, and H&W Franchise Holdings LLC acquired certain rights and intellectual property of Rumble Holdings LLC, which beneficially held all of the issued and outstanding membership interests of Rumble. As consideration, H&W Franchise Holdings, LLC (i) issued Class A Units equivalent to 1,300,032 shares of XPO Inc. Class A common stock to Rumble Holdings LLC, (ii) issued Class A Units equivalent to 2,024,445 shares of XPO Inc. Class A common stock to Rumble Holdings LLC, which are subject to vesting and forfeiture as provided in the contribution agreement and (iii) assumed and discharged any liabilities arising from and after the closing date under the assigned contracts and acquired assets. H&W Franchise Holdings, LLC then contributed the Rumble assets to H&W Intermediate Holdings, LLC, which then immediately contributed the Rumble assets to XPO LLC. As a result of this transaction, Rumble became a holder of 5% or more of the equity interests of H&W Franchise Holdings LLC.

Prior to the vesting and/or forfeiture of certain equity instruments issued to Rumble Holdings LLC, the instruments will be treated as a liability on our balance sheet instead of equity and will therefore be subject to a subsequent quarterly fair value remeasurement on a mark-to-market basis as a derivative liability. As a result, fluctuations in these quarterly liability valuations will impact our financial results following the IPO in accordance with movements in our stock price, and the related valuation of the derivative liability that we will be required to make on a quarterly basis. See Note 3 of Notes to Consolidated Financial Statements for additional information.

BFT Acquisition

On October 13, 2021, the Company entered into an Asset Purchase Agreement (“APA”) with GRPX Live Pty Ltd., an Australian corporation, and its affiliates (the “Seller”) whereby the Company acquired certain assets relating to the concept and brand known as BFT™. Assets acquired include franchise rights, brand, intellectual property and the rights to manage and license the franchise business (the “Franchise System”). The Company also assumed certain contingent liabilities associated with the purchased assets and provided certain indemnifications to the Seller. This acquisition is expected to enhance the Company’s franchise offerings and provide a platform for future growth, which the Company believes is complementary to its portfolio of franchises.

Consideration for the transaction included cash of $60.0 million AUD ($44.3 million USD based on the currency exchange rate as of the purchase date). In addition, the Company agreed to pay contingent consideration to the Seller consisting of quarterly cash payments based on the sales of the Franchise System and equipment packages in the United States and Canada, as well as a percentage of royalties collected by the Company, provided that aggregate minimum payments of $5.0 million AUD (approximately $3.7 million USD based on the currency exchange rate as of the purchase date) are required to be paid to the Seller for the two-year period ending December 31, 2023 and the aggregate amount of such payments for the two-year period ending December 31, 2023 is subject to a maximum of $14.0 million AUD (approximately $10.3 million USD based on the currency exchange rate as of the purchase date). Based on the purchase price allocation, the Company has determined that the fair value of the estimated contingent consideration liability as of the acquisition date is $9.4 million and is recorded in accrued expenses and contingent consideration from acquisitions in the consolidated balance sheets.

In addition, the Company entered into a Master Franchise Agreement (“MFA”) with an affiliate of the Seller (the “Master Franchisee”), pursuant to which the Company granted the Master Franchisee the master franchise rights for the BFT™ brands in Australia, New Zealand and Singapore. In exchange, the Company will receive certain fees and royalties, including a percentage of the revenue generated by the Master Franchisee under the MFA. The MFA contains an option for the Company to repurchase the master franchise rights granted under the MFA in either 2023 or 2024 at a purchase price based on the Master Franchisee’s EBITDA. If the Company (or a designee of the Company) does not exercise the option pursuant to the terms of the MFA, then the Company might be required to pay a cancellation fee to the Master Franchisee which might be material to the Company. If the Master Franchisee rejects an offer to repurchase the franchise rights, then the cancellation fee is not required to be paid.

At the acquisition date, there were certain claims and lawsuits against the Seller for which the Company has agreed to indemnify the Seller. The claims and lawsuits relate to alleged patent and trademark infringements. Plaintiff alleges that plaintiff has suffered, and is likely to continue to suffer, loss and damage due to breach of the patents by the Seller and is seeking damages or in the alternative an account of profits. The Seller has filed a cross-claim alleging that the defendant’s two Australian patents are, and always have been, invalid and that they should be revoked. The court in Australia held a trial in December 2020, and on February 14, 2022, the court issued a decision holding that the Plaintiff’s claims of infringement were invalid and that even if they were valid, the Seller did not infringe upon these patents and trademarks. In addition, the Plaintiff has brought related claims for patent infringement against the Seller in the United States District Court for Delaware, and these actions are currently pending. See Note 3 of Notes to Consolidated Financial Statements for additional information.

Factors Affecting Our Results of Operations

In addition to the impact of the COVID-19 pandemic as described above, we believe that the most significant factors affecting our results of operations include:

- ***Licensing new qualified franchisees, selling additional licenses to existing franchisees and opening studios.*** Our growth depends upon our success in licensing new studios to new and existing franchisees. We believe our success in attracting new franchisees and attracting existing franchisees to invest in additional studios has resulted from our diverse offering of attractive brands, corporate level support, training provided to franchisees and the opportunity to realize attractive returns on their invested capital. We believe our significant investments in centralized systems and infrastructure help support new and existing franchisees. To continue to attract qualified new franchisees, sell additional studios to existing franchisees and assist franchisees in opening their studios, we plan to continue to invest in our brands to enable them to deliver positive consumer experiences and in our integrated services at the brand level to support franchisees.

•***Timing of studio openings.*** Our revenue growth depends to a significant extent on the number of studios that are open and operating. Many factors affect whether a new studio will be opened on time, if at all, including the availability and cost of financing, selection and availability of suitable studio locations, delays in hiring personnel as well as any delays in equipment delivery or installation. To the extent franchisees are unable to open new studios on the timeline we anticipate, or at all, we will not realize the revenue growth that we expect. We believe our investments in centralized systems and infrastructure, including real estate site selection, studio build-out and design assistance help enable franchisees to open studios in a timely manner, and we plan to continue to invest in our systems to continue to provide assistance during the opening process.

•***Increasing same store sales.*** Our long-term revenue prospects are driven in part by franchisees' ability to increase same store sales (discussed below). Several factors affect our same store sales in any given period, including the number of stores that have been in operation for a significant period of time, growth in total memberships and marketing and promotional efforts. We expect to continue to seek to grow same store sales and AUVs by helping franchisees acquire new members, increase studio utilization and drive increased spend from consumers. We also intend to expand ancillary revenue streams, such as our digital platform offerings and retail merchandise.

•***International expansion.*** We continue to invest in increasing the number of franchisees outside of North America. We have developed strong relationships and executed committed development contracts with master franchisees to propel our international growth. We plan to continue to invest in these relationships and seek new relationships and opportunities, including through acquisitions and partnerships, in countries that we have targeted for expansion.

•***Consumer demand and competition for discretionary income***. Our revenue and future success will depend in part on the attractiveness of our brands and the services provided by franchisees relative to other fitness and entertainment options available to consumers. Our franchisees' AUVs are dependent upon the performance of studios and may be impacted by reduced capacity as a result of various factors, including the COVID-19 pandemic and shifting consumer demand and behavior for fitness services. Macroeconomic factors generally, and economic factors affecting a particular geographic territory, may also increase competition for discretionary income, impact the returns generated by franchisees and therefore impact our operating results.

Key Performance Indicators

In addition to our financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), we regularly review the following key metrics to measure performance, identify trends, formulate financial projections, compensate our employees, and monitor our business. While we believe that these metrics are useful in evaluating our business, other companies may not use similar metrics or may not calculate similarly titled metrics in a consistent manner.

The following table sets forth our key performance indicators for the years ended December 31, 2021, 2020 and 2019:

	Years Ended December 31,		
	2021	**2020**	**2019**
		($ in thousands)	
System-wide sales	$ 709,657	$ 442,732	$ 560,410
Number of new studio openings globally	334	286	428
Number of studios operating globally (cumulative total as of period end)	2,130	1,796	1,510
Number of licenses sold globally (cumulative total as of period end)	4,424	3,469	3,119
Number of licenses contractually obligated to open internationally (cumulative total as of period end)	956	686	544
AUV (LTM as of period end)	$ 394	$ 283	$ 449
AUV (run-rate)	$ 446	$ 287	$ 477
Same store sales	41 %	(34%)	9 %
Adjusted EBITDA*	$ 27,323	$ 9,807	$ 16,474

*The definition of "Adjusted EBITDA" and a detailed reconciliation of Adjusted EBITDA is set forth below under the section entitled "Non-GAAP Financial Measures".

All metrics above, other than adjusted EBITDA, are presented on an adjusted basis to include historical information of Rumble and BFT prior to the acquisition by the Company in March and October 2021, respectively. All references to these metrics in this Form 10-K use this same basis of reporting.

System-Wide Sales

System-wide sales represent gross sales by all studios in North America. System-wide sales includes sales by franchisees that are not revenue realized by us in accordance with GAAP. While we do not record sales by franchisees as revenue, and such sales are not included in our consolidated financial statements, this operating metric relates to our revenue because we receive approximately 7% and 2% of the sales by franchisees as royalty revenue and marketing fee revenue, respectively. We believe that this operating measure aids in understanding how we derive our royalty revenue and marketing fee revenue and is important in evaluating our performance. System-wide sales growth is driven by new studio openings and increases in same store sales. Management reviews system-wide sales monthly, which enables us to assess changes in our franchise revenue, overall studio performance, the health of our brands and the strength of our market position relative to competitors.

Number of New Studio Openings

The number of new studio openings reflects the number of studios opened globally during a particular reporting period. We consider a new studio to be open once the studio begins offering classes. Opening new studios is an important part of our growth strategy. New studios may not generate material revenue in the early period following an opening and their revenue may not follow historical patterns. Management reviews the number of new studio openings in order to help forecast operating results and to monitor studio opening processes.

Number of Studios Operating

In addition to the number of new studios opened during a period, we track the number of total studios operating globally at the end of a reporting period. We view this metric on a net basis to take account of any studios that may have closed during the reporting period. While nearly all our franchised studios are licensed to franchisees, from time to time we own and operate a limited number of studios (typically as we take possession of a studio following a franchisee ceasing to operate it and as we prepare it to be licensed to a new franchisee). Management reviews the number of studios operating at a given point in time in order to help forecast system-wide sales, franchise revenue and other revenue streams.

Licenses Sold

The number of licenses sold in North America and globally reflect the cumulative number of licenses sold by us (or, outside of North America, by our master franchisees), since inception through the date indicated. Licenses contractually obligated to open refer to licenses sold net of opened studios and terminations. Licenses contractually obligated to open internationally reflect the number of licenses that master franchisees were contractually obligated to sell licenses to franchisees to open internationally that have not yet opened as of the date indicated. The number of licenses sold is a useful indicator of the number of studios that have opened and that are expected to open in the future, which management reviews in order to monitor and forecast our revenue streams. Of the franchisees that opened their first studio in 2019, on average it took approximately 12.2 months from signing the franchise agreement to open. The length of time increased during 2020 and 2021 due to COVID-related opening restrictions. Management also reviews the number of licenses sold globally and the number of licenses contractually obligated to open internationally in order to help forecast studio growth and system-wide sales.

Average Unit Volume

LTM AUV consists of the average sales for the trailing 12 calendar months for all studios in North America that have been open for at least 13 calendar months as of the measurement date. Run-rate AUV represents quarterly AUV multiplied by four, for studios that are at least six months old at the beginning of the respective quarter. AUV is calculated by dividing sales during the applicable period for all studios being measured by the number of studios being measured. AUV growth is primarily driven by changes in same store sales and is also influenced by new studio openings. Management reviews AUV to assess studio economics.

Same Store Sales

Same store sales refer to period-over-period sales comparisons for the base of studios. We define the same store sales base to include studios in North America that have been open for at least 13 calendar months as of the measurement date. Any transfer of ownership of a studio does not affect this metric. We measure same store sales based solely upon monthly sales as reported by franchisees. This measure highlights the performance of existing studios, while excluding the impact of new studio openings. Management reviews same store sales to assess the health of the franchised studios.

Non-GAAP Financial Measures

In addition to our results determined in accordance with GAAP, we believe the following non-GAAP measures are useful in evaluating our operating performance. We use the following non-GAAP financial information to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that non-GAAP financial information, when taken collectively, is helpful to investors because it provides consistency and comparability with past financial performance. In addition, our management uses non-GAAP measures to compare our performance relative to forecasts and to benchmark our performance externally against competitors. However, non-GAAP financial information is presented for supplemental informational purposes only, has limitations as an analytical tool, and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. In addition, other companies, including companies in our industry, may calculate and present similarly titled non-GAAP measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measure as tools for comparison. A reconciliation is provided below for the non-GAAP financial measures to the most directly comparable financial measures stated in accordance with GAAP. Investors are encouraged to review the related GAAP financial measures and the reconciliation of the non-GAAP financial measures to their most directly comparable GAAP financial measures and not rely on any single financial measure to evaluate our business.

We believe that the non-GAAP financial measures presented below, when taken together with the corresponding GAAP financial measures, provides meaningful supplemental information regarding our performance by excluding certain items that may not be indicative of our business, results of operations or outlook.

Adjusted EBITDA

We define adjusted EBITDA as EBITDA (net income/loss before interest, taxes, depreciation and amortization), adjusted for the impact of certain non-cash and other items that we do not consider in our evaluation of ongoing operating performance. These items include equity-based compensation, acquisition and transaction expenses (income) (including change in contingent consideration), management fees and expenses (that was discontinued after July 2021), integration and related expenses, litigation expenses (consisting of legal and related fees for specific proceedings that arise outside of the ordinary course of our business), employee retention credit (a tax credit for retaining employees throughout the COVID-19 pandemic) and expense related to the remeasurement of our TRA obligation that we do not believe reflect our underlying business performance and affect comparability. EBITDA and adjusted EBITDA are also frequently used by analysts, investors and other interested parties to evaluate companies in our industry.

We believe that adjusted EBITDA, viewed in addition to, and not in lieu of, our reported GAAP results, provides useful information to investors regarding our performance and overall results of operations because it eliminates the impact expenses that we believe reduce the comparability of our underlying core business performance from period to period and is therefore useful to our investors in comparing the core performance of our business from period to period.

The following table presents a reconciliation of net loss, the most directly comparable financial measure calculated in accordance with GAAP, to adjusted EBITDA for the years ended December 31, 2021, 2020 and 2019:

	Years Ended December 31,		
	2021	2020	2019
	($ in thousands)		
Net loss	$ (51,440)	$ (13,640)	$ (37,134)
Interest expense, net	23,545	21,065	15,919
Income taxes	783	369	164
Depreciation and amortization	10,172	7,651	6,386
EBITDA	(16,940)	15,445	(14,665)
Equity-based compensation	9,699	1,751	2,064
Acquisition and transaction expenses (income)	26,618	(10,990)	7,948
Management fees and expenses	462	795	557
Integration and related expenses	—	386	15,022
Litigation expenses	8,312	2,420	5,548
Employee retention credit	(2,269)	—	—
TRA remeasurement	1,441	—	—
Adjusted EBITDA	$ 27,323	$ 9,807	$ 16,474

Results of Operations

The following table presents our consolidated results of operations for the years ended December 31, 2021, 2020 and 2019:

	Years Ended December 31,		
	2021	2020	2019
	($ in thousands)		
Revenue, net:			
Franchise revenue	$ 74,459	$ 48,056	$ 47,364
Equipment revenue	22,583	20,642	40,012
Merchandise revenue	20,140	16,648	22,215
Franchise marketing fund revenue	13,623	7,448	8,648
Other service revenue	24,274	13,798	10,891
Total revenue, net	155,079	106,592	129,130
Operating costs and expenses:			
Costs of product revenue	28,550	25,727	41,432
Costs of franchise and service revenue	12,716	8,392	5,703
Selling, general and administrative expenses	94,798	60,917	80,495
Depreciation and amortization	10,172	7,651	6,386
Marketing fund expense	13,044	7,101	8,217
Acquisition and transaction expenses (income)	26,618	(10,990)	7,948
Total operating costs and expenses	185,898	98,798	150,181
Operating income (loss)	(30,819)	7,794	(21,051)
Other (income) expense:			
Interest income	(1,164)	(345)	(168)
Interest expense	24,709	21,410	16,087
Gain on debt extinguishment	(3,707)	—	—
Total other expense	19,838	21,065	15,919
Loss before income taxes	(50,657)	(13,271)	(36,970)
Income taxes	783	369	164
Net loss	$ (51,440)	$ (13,640)	$ (37,134)

The following table presents our consolidated results of operations for the years ended December 31, 2021, 2020 and 2019 as a percentage of revenue:

	Years Ended December 31,		
	2021	2020	2019
Revenue, net:			
Franchise revenue	48.0 %	45.1 %	36.7 %
Equipment revenue	14.6 %	19.4 %	31.0 %
Merchandise revenue	13.0 %	15.6 %	17.2 %
Franchise marketing fund revenue	8.8 %	7.0 %	6.7 %
Other service revenue	15.6 %	12.9 %	8.4 %
Total revenue, net	100.0 %	100.0 %	100.0 %
Operating costs and expenses:			
Costs of product revenue	18.4 %	24.1 %	32.1 %
Costs of franchise and service revenue	8.2 %	7.9 %	4.4 %
Selling, general and administrative expenses	61.1 %	57.1 %	62.3 %
Depreciation and amortization	6.6 %	7.2 %	4.9 %
Marketing fund expense	8.4 %	6.7 %	6.4 %
Acquisition and transaction expenses (income)	17.2 %	(10.3)%	6.2 %
Total operating costs and expenses	119.9 %	92.7 %	116.3 %
Operating income (loss)	(19.9)%	7.3 %	(16.3)%
Other (income) expense:			
Interest income	(0.8)%	(0.3)%	(0.1)%
Interest expense	15.9 %	20.1 %	12.5 %
Gain on debt extinguishment	(2.4)%	— %	— %
Total other expense	12.7 %	19.8 %	12.4 %
Loss before income taxes	(32.6)%	(12.5)%	(28.7)%
Income taxes	0.5 %	0.3 %	0.1 %
Net loss	(33.2)%	(12.8)%	(28.8)%

Comparison of the years ended December 31, 2021 and December 31, 2020

The following is a discussion of our consolidated results of operations for the year ended December 31, 2021 versus the year ended December 31, 2020.

Revenue

	Years Ended December 31,		Change from Prior Year	
	2021	2020	$	%
	($ in thousands)			
Franchise revenue	$ 74,459	$ 48,056	$ 26,403	54.9 %
Equipment revenue	22,583	20,642	1,941	9.4 %
Merchandise revenue	20,140	16,648	3,492	21.0 %
Franchise marketing fund revenue	13,623	7,448	6,175	82.9 %
Other service revenue	24,274	13,798	10,476	75.9 %
Total revenue, net	$ 155,079	$ 106,592	$ 48,487	45.5 %

Total revenue. Total revenue was $155.1 million in the year ended December 31, 2021, compared to $106.6 million in the year ended December 31, 2020, an increase of $48.5 million, or 45.5%. The increase in total revenue was primarily due to an increase in franchise revenue, franchise marketing fund revenue and other service revenue attributable to reopening of studios that were temporarily closed in 2020 due to the COVID-19 pandemic and opening of new studios in 2021.

Franchise revenue. Franchise revenue was $74.4 million in the year ended December 31, 2021, compared to $48.1 million in the year ended December 31, 2020, an increase of $26.4 million, or 54.9%. Franchise revenue consisted of franchise royalty fees of $46.3 million, training fees of $6.7 million, franchise territory fees of $14.9 million and technology fees of $6.5 million in the year ended December 31, 2021, compared to franchise royalty fees of $28.4 million, training fees of $5.8 million, franchise territory fees of $9.8 million and technology fees of $4.0 million in the year ended December 31, 2020. The increase in franchise royalty fees was primarily due to a 41% increase in same store sales due in large part to temporary studio closures as a result of the COVID-19 pandemic in the prior year period, and to 240 new studio openings in North America since December 31, 2020, which also contributed to the increase in franchise territory fees and technology fees, and to a lesser extent, the acquisition of Rumble and BFT during 2021.

Equipment revenue. Equipment revenue was $22.6 million in the year ended December 31, 2021, compared to $20.6 million in the year ended December 31, 2020, an increase of $1.9 million, or 9.4%. Most equipment revenue is recognized in the period that the equipment is installed. Equipment installations in the year ended December 31, 2021, totaled 316 compared to 279 in the year ended December 31, 2020 with the average price of equipment installed decreasing in the year ended December 31, 2021 when compared to the year ended December 31, 2020. The decrease in average price is due to a brand mix, international versus North America mix and a higher proportion of equipment installed with brands with lower equipment prices.

Merchandise revenue. Merchandise revenue was $20.1 million in the year ended December 31, 2021, compared to $16.6 million in the year ended December 31, 2020, an increase of $3.5 million, or 21.0%. The increase was due primarily to a higher number of operating studios in the current year period and temporary closures of studios in the prior year period.

Franchise marketing fund revenue. Franchise marketing fund revenue was $13.6 million in the year ended December 31, 2021, compared to $7.4 million in the year ended December 31, 2020, an increase of $6.2 million, or 82.9%. The increase was primarily due to an increase in same store sales, 240 new studio openings in North America since December 31, 2020, and to a temporary reduction in the marketing fund percentage collected from 2% to 1% of the sales of franchisees whose studios were closed due to the COVID-19 pandemic in 2020.

Other service revenue. Other service revenue was $24.3 million in the year ended December 31, 2021, compared to $13.8 million in the year ended December 31, 2020, an increase of $10.5 million, or 75.9%. The increase was primarily due to a $5.5 million increase in revenue from company-owned transition studios and a $6.2 million increase in other preferred vendor commission and convention revenue, partially offset by a $1.2 million decrease in our digital platform revenue.

Operating Costs and Expenses

	Years Ended December 31, 2021	2020	Change from Prior Year $	%
	($ in thousands)			
Costs of product revenue	$ 28,550	$ 25,727	$ 2,823	11.0 %
Costs of franchise and service revenue	12,716	8,392	4,324	51.5 %
Selling, general and administrative expenses	94,798	60,917	33,881	55.6 %
Depreciation and amortization	10,172	7,651	2,521	32.9 %
Marketing fund expense	13,044	7,101	5,943	83.7 %
Acquisition and transaction expenses (income)	26,618	(10,990)	37,608	(342.2)%
Total operating costs and expenses	$ 185,898	$ 98,798	$ 87,100	88.2 %

Costs of product revenue. Costs of product revenue was $28.6 million in the year ended December 31, 2021, compared to $25.7 million in the year ended December 31, 2020, an increase of $2.8 million, or 11.0%, compared to an increase in related revenues of 14.6%. Costs of product revenue as a percentage of related revenue decreased to 66.8% in the year ended December 31, 2021, from 69.0% in the year ended December 31, 2020. The decrease was due to a shift in equipment revenue mix in 2021 and a higher percentage of non-branded merchandise revenue in 2021 for which the company earns a commission with no corresponding cost of revenue.

Costs of franchise and service revenue. Costs of franchise and service revenue was $12.7 million in the year ended December 31, 2021, compared to $8.4 million in the year ended December 31, 2020, an increase of $4.3 million, or 51.5%. The increase was primarily due to an increase in costs related to technology fee revenue, consistent with the related revenue increase.

Selling, general and administrative expenses. Selling, general and administrative expenses were $94.8 million in the year ended December 31, 2021, compared to $60.9 million in the year ended December 31, 2020, an increase of $33.9 million, or 55.6%. The increase was primarily attributable to an increase in salaries and wages and occupancy expenses of $7.9 million and $3.8 million, respectively, primarily related to the increase in number of company-owned transition studios; $8.0 million increase in equity-based compensation, primarily related to modification of awards in 2021 and new grants; increases in marketing and promotion expense and insurance expense of $4.7 million and $2.5 million, respectively; increases in legal costs of $4.1 million primary related to increased settlements and litigation costs; and net increases of $5.3 million in other variable expenses in 2021, partially offset by a reduction in bad debt expense of $2.4 million.

Depreciation and amortization. Depreciation and amortization expense was $10.2 million in the year ended December 31, 2021, compared to $7.7 million in the year ended December 31, 2020, an increase of $2.5 million, or 32.9%. The increase was due primarily to increase in intangible assets related to the Rumble and BFT acquisitions in March and October 2021.

Marketing fund expense. Marketing fund expense was $13.0 million in the year ended December 31, 2021, compared to $7.1 million in the year ended December 31, 2020, and is consistent with the increase in franchise marketing fund revenue.

Acquisition and transaction expenses (income). Acquisition and transaction expenses (income) were $26.6 million in the year ended December 31, 2021, compared to ($11.0) million in the year ended December 31, 2020, a change of $37.6 million, or 342.2%. These expenses (income) represent the non-cash change in contingent consideration related to business acquisitions, $1.0 million of transaction expenses in 2021 related to the acquisitions of Rumble and BFT and $25.1 million of expense in 2021 related to the change in contingent consideration related to the Rumble acquisition.

Other (Income) Expense, net

	Years Ended December 31, 2021	2020	Change from Prior Year $	%
	($ in thousands)			
Interest income	$ (1,164)	$ (345)	$ (819)	237.4 %
Interest expense	24,709	21,410	3,299	15.4 %
Gain on debt extinguishment	(3,707)	—	(3,707)	NA
Total other expense, net	$ 19,838	$ 21,065	$ (1,227)	(5.8)%

Interest income. Interest income primarily consists of interest on notes receivable and was insignificant in the years ended December 31, 2021 and 2020.

Interest expense. Interest expense was $24.7 million in the year ended December 31, 2021, compared to $21.4 million in the year ended December 31, 2020, an increase of $3.3 million, or 15.4%. Interest expense consists of interest on notes payable and long-term debt, accretion of earn-out liabilities and amortization of deferred loan costs. The increase was due primarily to write off of $7.5 million of deferred loan costs and debt discount and $2.3 million prepayment penalty incurred in the year ended December 31, 2021, related to our credit agreement with Cerberus Business Finance Agency, LLC, which was replaced with a new credit facility in April 2021, and $115.0 million pay down of debt with IPO proceeds, compared to $1.5 million of prepayment and other penalties incurred in the year ended December 31, 2020 and a write off of $1.8 million of deferred loan costs related to our credit agreement with Monroe Capital Management Advisors, LLC, which was replaced with a new credit facility in March 2020.

Gain on debt extinguishment. Gain on debt extinguishment of $3.7 million in the year ended December 31, 2021 represents the forgiveness of principal and interest on our PPP Loan.

Income Taxes

	Years Ended December 31, 2021	2020	Change from Prior Year $	%
	($ in thousands)			
Income taxes	$ 783	$ 369	$ 414	112.2 %

Income taxes. Income taxes were insignificant in years ended December 31, 2021 and 2020.

Comparison of the years ended December 31, 2020 and December 31, 2019

The following is a discussion of our consolidated results of operations for the year ended December 31, 2020 versus the year ended December 31, 2019.

Revenue

	Years Ended December 31, 2020	2019	Change from Prior Year $	%
	($ in thousands)			
Franchise revenue	$ 48,056	$ 47,364	$ 692	1.5 %
Equipment revenue	20,642	40,012	(19,370)	(48.4)%
Merchandise revenue	16,648	22,215	(5,567)	(25.1)%
Franchise marketing fund revenue	7,448	8,648	(1,200)	(13.9)%
Other service revenue	13,798	10,891	2,907	26.7 %
Total revenue, net	$ 106,592	$ 129,130	$ (22,538)	(17.5)%394

Total revenue. Total revenue was $106.6 million in the year ended December 31, 2020, compared to $129.1 million in the year ended December 31, 2019, a decrease of $22.5 million, or 17.5%. The decrease in total revenue was primarily due to a decrease of $19.4 million of equipment revenue, which was due to the decrease in new studio openings caused by the COVID-19 pandemic and to a lesser extent merchandise revenue due to temporary studio closures and reduced usage during 2020 as a result of the COVID-19 pandemic.

Franchise revenue. Franchise revenue was $48.1 million in the year ended December 31, 2020, compared to $47.4 million in the year ended December 31, 2019, an increase of $0.7 million, or 1.5%. Franchise revenue consisted of franchise royalty fees of $28.5 million, training fees of $5.8 million, franchise territory fees of $9.8 million and technology fees of $4.0 million in 2020, compared to franchise royalty fees of $33.9 million, training fees of $6.6 million, franchise territory fees of $5.4 million and technology fees of $1.5 million in 2019. The decrease in franchise royalty fees was primarily due to a 34% decrease in same store sales due in large part to temporary studio closures, partially offset by 240 new studio openings in North America in 2020, which contributed to the increase in franchise territory fees and technology fees. The number of new studio openings does not reflect the number of new studios Rumble or BFT opened in 2020.

Equipment revenue. Equipment revenue was $20.6 million in the year ended December 31, 2020, compared to $40.0 million in the year ended December 31, 2019, a decrease of $19.4 million, or 48.4%. The decrease was primarily attributable to 240 new studio openings in North America in 2020, compared to 394 new studio openings in North America in 2019. The decrease in the number of new studio openings was due to the COVID-19 pandemic, including government mandated closures of in-person fitness studios. Most of the equipment revenue is recognized in the period that a new studio opens. The number of new studio openings in 2019 and 2020 do not reflect the number of new studios Rumble or BFT opened in 2019 and 2020.

Merchandise revenue. Merchandise revenue was $16.6 million in the year ended December 31, 2020, compared to $22.2 million in the year ended December 31, 2019, a decrease of $5.6 million, or 25.1%. The decrease was due primarily to temporary studio closures in 2020 due to the COVID-19 pandemic.

Franchise marketing fund revenue. Franchise marketing fund revenue was $7.4 million in the year ended December 31, 2020, compared to $8.6 million in the year ended December 31, 2019, a decrease of $1.2 million, or 13.9%. The decrease was primarily due to a 34% decrease in same store sales, and a temporary reduction in the marketing fund percentage collected from 2% to 1% of the sales of franchisees whose studios were closed due to the COVID-19 pandemic and related government mandates as part of our COVID-19 support response, partially offset by 240 new studio openings in North America in 2020. The number of new studio openings does not reflect the number of new studios Rumble opened in 2020.

Other service revenue. Other service revenue was $13.8 million in the year ended December 31, 2020, compared to $10.9 million in the year ended December 31, 2019, an increase of $2.9 million, or 26.7%. The increase was primarily due to a $2.2 million increase in our digital platform revenue and a $1.4 million increase in other preferred vendor commission revenue, partially offset by a $0.6 million decrease in revenue from company-owned studios.

Operating Costs and Expenses

	Years Ended December 31, 2020	Years Ended December 31, 2019	Change from Prior Year $	Change from Prior Year %
	($ in thousands)			
Costs of product revenue	$ 25,727	$ 41,432	$ (15,705)	(37.9)%
Costs of franchise and service revenue	8,392	5,703	2,689	47.2 %
Selling, general and administrative expenses	60,917	80,495	(19,578)	(24.3)%
Depreciation and amortization	7,651	6,386	1,265	19.8 %
Marketing fund expense	7,101	8,217	(1,116)	(13.6)%
Acquisition and transaction expenses (income)	(10,990)	7,948	(18,938)	(238.3)%
Total operating costs and expenses	$ 98,798	$ 150,181	$ (51,383)	(34.2)%

Costs of product revenue. Costs of product revenue was $25.7 million in the year ended December 31, 2020, compared to $41.4 million in the year ended December 31, 2019, a decrease of $15.7 million, or 37.9%. The decrease was consistent with the decrease in equipment and merchandise revenue in 2020.

Costs of franchise and service revenue. Costs of franchise and service revenue was $8.4 million in the year ended December 31, 2020, compared to $5.7 million in the year ended December 31, 2019, an increase of $2.7 million, or 47.2%. The increase was primarily due to an increase in amortized franchise territory sales commissions, technology fees and our digital platform costs, consistent with related revenue increases, including the $2.5 million increase in technology fees, $2.2 million increase in our digital platform revenue and a $1.4 million increase in other preferred vendor commission revenue.

Selling, general and administrative expenses. Selling, general and administrative expenses were $60.9 million in the year ended December 31, 2020, compared to $80.5 million in the year ended December 31, 2019, a decrease of $19.6 million, or 24.3%. The decrease was primarily attributable a reduction in variable expenses in response to the impact of the COVID-19 pandemic on our business, including a $5.7 million decrease in variable marketing and promotion, which includes advertising and convention expenses, a $1.3 million decrease in travel expenses, and a $15.5 million decrease in studio support expense, primarily related to a decrease in costs to integrate businesses acquired in 2018, which included updating existing Pure Barre studios for consistency with our standards. These decreases were partially offset by an increase in salaries and wages and occupancy expenses of $1.1 million and $0.8 million, respectively, primarily related to studios acquired in 2020 and a $0.8 million increase in bad debt expense.

Depreciation and amortization. Depreciation and amortization expense was $7.7 million in the year ended December 31, 2020, compared to $6.4 million in the year ended December 31, 2019, an increase of $1.3 million, or 19.8%. The increase was due primarily to depreciation expense related to property and equipment placed in service during the year ended December 31, 2020, including our new digital platform and assets related to company-owned studios.

Marketing fund expense. Marketing fund expense was $7.1 million in the year ended December 31, 2020, compared to $8.2 million in the year ended December 31, 2019, a decrease of $1.1 million, or 13.6%. The decrease was consistent with the decrease in franchise marketing fund revenue.

Acquisition and transaction expenses (income). Acquisition and transaction expenses (income) were ($11.0) million in the year ended December 31, 2020, compared to $7.9 million in the year ended December 31, 2019, a change of $18.9 million, or 238.3%. These expenses (income) represent the non-cash change in contingent consideration related to 2017 and 2018 business acquisitions.

Other (Income) Expense, net

	Years Ended December 31, 2020	2019	Change from Prior Year $	%
	($ in thousands)			
Interest income	$ (345)	$ (168)	$ (177)	105.4 %
Interest expense	21,410	16,087	5,323	33.1 %
Gain on debt extinguishment	—	—	—	NA
Total other expense, net	$ 21,065	$ 15,919	$ 5,146	32.3 %

Interest income. Interest income primarily consists of interest on notes receivable and was insignificant in each of the years ended December 31, 2020 and 2019.

Interest expense. Interest expense was $21.4 million in the year ended December 31, 2020, compared to $16.1 million in the year ended December 31, 2019, an increase of $5.3 million, or 33.1%. Interest expense consists of interest on notes payable and long-term debt, accretion of earn-out liabilities and amortization of deferred loan costs. The increase was due primarily to a $2.6 million increase in amortization of debt issuance costs and a $4.2 million increase in interest on long-term debt due primarily to a higher average outstanding debt balance in 2020, partially offset by a $1.5 million decrease in earn-out accretion.

Income Taxes

	Years Ended December 31, 2020	2019	Change from Prior Year $	%
	($ in thousands)			
Income taxes	$ 369	$ 164	$ 205	125.0 %

Income taxes. Income taxes were $0.4 million in the year ended December 31, 2020, compared to $0.2 million in the year ended December 31, 2019.

Liquidity and Capital Resources

As of December 31, 2021, we had $19.9 million of cash and cash equivalents, excluding $1.4 million of restricted cash for marketing fund purposes.

We require cash principally to fund day-to-day operations, finance capital investments, service our outstanding debt and address our working capital needs. Based on our current level of operations and anticipated growth, we believe that our available cash balance and the cash generated from our operations will be adequate to meet our anticipated debt service requirements and obligations under our tax receivable agreement, capital expenditures, payment of tax distributions and working capital needs for at least the next twelve months. Our ability to continue to fund these items and continue to reduce debt could be adversely affected by the occurrence of any of the events described under “Risk Factors.” There can be no assurance, however, that our business will generate sufficient cash flows from operations or that future borrowings will be available under our credit facility or otherwise to enable us to service our indebtedness, including our credit facility, or to make anticipated capital expenditures. Our future operating performance and our ability to service, extend or refinance the credit facility will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

Initial Public Offering

On July 23, 2021, XPO Inc. completed an initial public offering ("IPO") of 10,000,000 shares of Class A common stock at a price to the public of $12.00 per share. After underwriter discounts and commissions, we received net proceeds from the IPO of approximately $111.9 million, before deduction of offering expenses. Also on July 23, 2021, we issued and sold 200,000 shares of Convertible Preferred for aggregate cash proceeds of $200 million, before deduction of offering costs. Holders of Convertible Preferred shares are entitled to quarterly coupon payments at the rate of 6.50% of the fixed liquidation preference per share, initially $1,000 per share. In the event the quarterly preferential coupon is not paid in cash, the fixed liquidation preference automatically increases at the PIK rate of 7.50%. The Convertible Preferred has an initial conversion price equal to $14.40 per share and is mandatorily convertible under certain circumstances and redeemable at the option of the holder beginning on the date that is eight years from the IPO or upon change of control. The issuance of Convertible Preferred shares and Class A common stock by us and the related net proceeds were recorded in the consolidated financial statements on July 23, 2021, the closing date of the IPO.

In August 2021, the underwriters exercised the option to purchase additional shares, pursuant to which XPO Inc. issued and sold 904,000 shares of Class A common stock at a price to the public of $12.00 per share. After underwriter discounts and commissions, we received net proceeds of approximately $10.1 million on August 24, 2021. We used (i) $9.0 million to purchase 750,000 LLC Units from our Chief Executive Officer and (ii) $1.1 million for working capital.

Credit Facility

On April 19, 2021, we entered into a Financing Agreement with Wilmington Trust, National Association, as administrative agent and collateral agent, and MSD XPO Partners, LLC, MSD PCOF Partners XXXIX, LLC and DESALKIV Cayman C-2, Ltd. (f/k/a DELALV Cayman C-2, Ltd.) as the lenders (the "Credit Agreement"), which consists of a $212 million senior secured term loan facility (the "Term Loan Facility", and the loans thereunder, the "Term Loan"). Affiliates of MSD XPO Partners, LLC, MSD PCOF Partners XXXIX, LLC and DESALKIV Cayman C-2, Ltd. (f/k/a DELALV Cayman C-2, Ltd.) (collectively, the "Preferred Investors") also separately purchased 200,000 shares of our 6.50% Series A Convertible Preferred Stock (the "Series A Convertible preferred stock") for $200 million. Our obligations under the Credit Agreement are guaranteed by Xponential Intermediate Holdings, LLC and certain of our material subsidiaries, and are secured by substantially all of the assets of Xponential Intermediate Holdings, LLC and certain of our material subsidiaries.

Under the Credit Agreement, we are required to make: (i) monthly payments of interest on the Term Loan and (ii) quarterly principal payments equal to 0.25% of the original principal amount of the Term Loan. Borrowings under the Term Loan Facility bear interest at a per annum rate of, at our option, either (a) the LIBOR Rate (as defined in the Credit Agreement) plus a margin of 6.50% or (b) the Reference Rate (as defined in the Credit Agreement) plus a margin of 5.50% (7.5% at September 30, 2021).

The Credit Agreement also contains mandatory prepayments of the Term Loan with: (i) 50% of Xponential Intermediate Holdings, LLC and its subsidiaries' Excess Cash Flow (as defined in the Credit Agreement), subject to certain exceptions; (ii) 100% of the net proceeds of certain asset sales and insurance/condemnation events, subject to reinvestment rights and certain other exceptions; (iii) 100% of the net proceeds of certain extraordinary receipts, subject to reinvestment rights and certain other exceptions; (iv) 100% of the net proceeds of any incurrence of debt, excluding certain permitted debt issuances; and (v) up to $60 million of net proceeds in connection with an initial public offering of at least $200 million, subject to certain exceptions.

Unless agreed in advance, all voluntary prepayments and certain mandatory prepayments of the Term Loan made (i) on or prior to the first anniversary of the closing date are subject to a 2.00% premium on the principal amount of such prepayment and (ii) after the first anniversary of the closing date and on or prior to the second anniversary of the closing date are subject to a 0.50% premium on the principal amount of such prepayment. Otherwise, the Term Loan may be paid without premium or penalty, other than customary breakage costs with respect to LIBOR Rate Term Loans.

The Credit Agreement contains customary affirmative and negative covenants, including, among other things: (i) to maintain certain total leverage ratios, liquidity levels and EBITDA levels (in each case, as discussed further in the Credit Agreement); (ii) to use the proceeds of borrowings only for certain specified purposes; (iii) to refrain from entering into certain agreements outside of the ordinary course of business, including with respect to consolidation or mergers; (iv) restricting further indebtedness or liens; (v) restricting certain transactions with our affiliates; (vi) restricting investments; (vii) restricting prepayments of subordinated indebtedness; (viii) restricting certain payments, including certain payments to our affiliates or equity holders and distributions to equity holders; and (ix) restricting the issuance of equity. As of December 31, 2021, we were in compliance with these covenants.

The Credit Agreement also contains customary events of default, which could result in acceleration of amounts due under the Credit Agreement. Such events of default include, subject to the grace periods specified therein, our failure to pay principal or interest when due, our failure to satisfy or comply with covenants, a change of control, the imposition of certain judgments and the invalidation of liens we have granted.

The proceeds of the Term Loan were used to repay principal, interest and fees outstanding under our prior financing agreement (including a prepayment penalty of approximately $1.9 million) and for working capital and other corporate purposes. Principal payments of the Term Loan of $0.53 million are due quarterly.

Immediately following the IPO, on July 23, 2021 we executed a first amendment to the Credit Agreement, which amended the amount of the prepayment premium applicable to the prepayment of the Term Loan, and paid off $115.0 million of the principal balance of the Term Loan.

On October 8, 2021, we entered into a second amendment (the "Amendment") to the Credit Agreement. The Amendment provides for, among other things, additional term loans in an aggregate principal amount of $38 million (the “2021 Incremental Term Loan”), the proceeds of which were used to fund the BFT acquisition and the payment of fees, costs and expenses related to the Amendment. The Amendment also (i) increased the amount of the quarterly principal payments of the loans provided pursuant to the Credit Agreement (including the 2021 Incremental Term Loan) commencing on December 31, 2021 and (ii) amended the amount of the prepayment premium applicable in the event the 2021 Incremental Term Loan is prepaid within two years of the effective date of the Amendment. Outstanding borrowings on the Term Loan and Incremental Term Loan were $133.2 million at December 31, 2021.

PPP Loan

In April 2020, we entered into a promissory note with Citizens Business Bank under the Paycheck Protection Program of the CARES Act pursuant to which Citizens Business Bank agreed to make a loan to us in the amount of approximately $3.7 million (the “PPP Loan”). The PPP Loan matures in April 2022, bears interest at a rate of 1.0% per annum and requires no payments during the first 16 months from the date of the loan. On June 10, 2021, we were notified that the U.S. Small Business Administration (the “SBA”) had forgiven the PPP Loan in full.

Cash Flows

The following table presents summary cash flow information for the years ended December 31, 2021 and 2020:

	Years Ended December 31,	
	2021	2020
	($ in thousands)	
Net cash provided by (used in) operating activities	$ 14,451	$ (728)
Net cash provided by (used in) investing activities	(50,635)	(4,601)
Net cash provided by (used in) financing activities	46,205	7,289
Net increase in cash, cash equivalents and restricted cash	$ 10,021	$ 1,960

Cash Flows from Operating Activities

In the year ended December 31, 2021, cash provided by operating activities was $14.5 million, compared to cash used of $0.7 million in the year ended December 31, 2020, an increase in cash provided of $15.2 million. Of the change, $9.1 million was due to a higher net loss offset by adjustments for non-cash items. Additionally, the following changes in operating assets and liabilities contributed to the increased operating cash flows:

- increase in cash inflows relating to (1) deferred revenue of $23.0 million due to an increase in sales of additional franchises; (2) other current liabilities of $2.4 million driven by $1.4 million increase in Tax Receivable Agreement ("TRA") liability; and (3) inventory of $0.6 million, partially offset by an

•increase in cash outflows relating to (1) accounts payable and accrued expenses of $3.0 million due to timing of payments; (2) increase in accounts receivable and prepaid expense of $10.9 million; and (3) deferred costs of $5.9 million due to an increase in sales of additional franchises.

Cash Flows from Investing Activities

In the year ended December 31, 2021, cash used in investing activities was $50.6 million, compared to $4.6 million in the year ended December 31, 2020, an increase of $46.0 million. The increase was primarily attributable to an increase in cash used to purchase BFT resulting in $44.3 million outflow, purchases of property and equipment and issuing notes receivables, partially offset by an increase in cash received from collection of notes receivable, increase in cash proceeds from sales of assets and decrease in cash used to purchase studios.

Cash Flows from Financing Activities

In the year ended December 31, 2021, cash provided by financing activities was $46.2 million, compared to $7.3 million in the year ended December 31, 2020, an increase in cash provided of $38.9 million. The increase was primarily attributable to cash received resulting from the IPO and preferred stock issuance, net of offering costs, of $308.3 million, change to distributions to member of $62.6 million, lower payments on line of credit, lower debt issuance costs and increased borrowings from long term debt of $61.5 million, partially offset by $176.7 million payments made in connection with reorganization transactions as described in Note 11 of Notes to consolidated financial statements, $143.4 million increase in payments made to decrease net borrowings on our line of credit and long-term debt, an increase in dividend payment of $9.0 million, an increase in contingent consideration payment of $8.9 million and changes to the member contributions and receipts from member of $55.5 million.

The following table presents summary cash flow information for the years ended December 31, 2020 and 2019:

	Years Ended December 31,	
	2020	2019
	($ in thousands)	
Net cash provided by (used in) operating activities	$ (728)	$ 1,548
Net cash provided by (used in) investing activities	(4,601)	(9,779)
Net cash provided by (used in) financing activities	7,289	6,361
Net increase (decrease) in cash, cash equivalents and restricted cash	$ 1,960	$ (1,870)

Cash Flows from Operating Activities

In 2020, cash used in operating activities was $0.7 million, compared to cash provided of $1.5 million in 2019, a decrease in cash provided of $2.2 million. Of the change, $7.2 million was due to a lower net loss adjusted for non-cash items. This amount was more than offset by the following changes in cash flows from operating assets and liabilities:

•accounts payable, accrued expenses and other liabilities decreased $6.5 million due to timing of payments;

•deferred revenue decreased $28.1 million due to a decrease in sales of additional franchises;

•current assets, excluding deferred costs, increased $8.0 million due primarily to an increase in accounts receivable; and

•deferred costs increased $17.3 million due to a decrease in sales of additional franchises.

Cash Flows from Investing Activities

In 2020, cash used in investing activities was $4.6 million, compared to $9.8 million in 2019, a decrease of $5.2 million. The decrease was primarily attributable to a decrease in cash used to purchase property and equipment and to fund notes receivable.

Cash Flows from Financing Activities

In 2020, cash provided by financing activities was $7.3 million, compared to $6.4 million in 2019, an increase of $0.9 million. The increase was primarily attributable to an increase in net borrowings on our line of credit and long-term debt of $21.0 million, member contributions in 2020 of $27.3 million, net receipts from member and affiliates of $31.0 million partially offset by distributions to member of $73.2 million in 2020 and an increase in payment of debt issuance costs of $5.0 million.

Material Cash Commitments

The table below represents our material cash commitments, including the scheduled maturities of our contractual obligations as of December 31, 2021. The table excludes certain potential cash requirements because they may involve future cash payments that are considered uncertain and cannot be estimated because they vary based upon future conditions; however, the exclusion of these obligations should not be construed as an implication that they are immaterial, as they could significantly affect our short- and long-term liquidity and capital resource needs depending on a variety of future events, facts and conditions.

	Payments due during the years ending December 31,				
	Total	2022	2023-2024	2025-2026	Thereafter
			($ in thousands)		
Operating lease obligations (1)	$ 30,920	$ 3,713	$ 7,363	$ 6,333	$ 13,511
Debt, principal (2)	133,200	2,960	5,920	124,320	—
Debt, interest (3)	29,816	9,888	19,136	792	—
Contingent consideration payments (4)	10,340	3,678	6,662	—	—
Total	$ 204,276	$ 20,239	$ 39,081	$ 131,445	$ 13,511

(1) We lease our facilities under non-cancelable operating leases.

(2) Represents scheduled debt obligation payments on debt outstanding as of December 31, 2021.

(3) Represents scheduled interest payments.

(4) Includes current and noncurrent estimated contingent consideration liabilities at December 31, 2021, based on expected achievement dates for earn-out targets, which includes the contingent consideration relating to purchase of BFT.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures of contingent assets and liabilities. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. Actual results may differ from those estimates.

Our critical accounting policies are those that materially affect our consolidated financial statements including those that involve difficult, subjective or complex judgments by management. A thorough understanding of these critical accounting policies is essential when reviewing our consolidated financial statements. We believe that the critical accounting policies listed below are those that are most important to our results of operations or involve the most difficult management decisions related to the use of significant estimates and assumptions as described above. For a more detailed summary of our significant accounting policies, see the notes to our consolidated financial statements included elsewhere in this Form 10-K.

Revenue Recognition

Our contracts with customers consist of franchise agreements with franchisees. We also enter into agreements to sell merchandise and equipment, training, digital platform services and membership to company-owned studios. Our revenue consists of franchise revenue, merchandise revenue and franchise marketing fund revenue which we consider recurring revenue, as well as equipment revenue and other service revenue. In addition, we earn on-demand revenue, service revenue and other revenue.

Each of our primary sources of revenue and their respective revenue policies are discussed further below.

Franchise revenue

We enter into franchise agreements for each studio. Our performance obligation under the franchise license is granting certain rights to access our intellectual property; all other services we provide under the franchise agreement are highly interrelated, not distinct within the contract, and therefore accounted for as a single performance obligation, which is satisfied over the term of each franchise agreement. Those services include initial development, operational training, preopening support and access to our technology throughout the franchise term. Fees generated related to the franchise license include development fees, royalty fees, marketing fees, technology fees and transfer fees which are discussed further below. Variable fees are not estimated at contract inception, and are recognized as revenue when invoiced, which occurs monthly. We have concluded that our agreements do not contain any financing components.

Franchise development fee revenue: Our franchise agreements typically operate under ten-year terms with the option to renew for up to two additional five-year successor terms. We determined the renewal options are neither qualitatively nor quantitatively material and do not represent a material right. Initial franchise fees are non-refundable and are typically collected upon signing of the franchise agreement. Initial franchise fees are recorded as deferred revenue when received and are recognized on a straight-line basis over the franchise life, which we have determined to be ten years (and five years for renewals) as we fulfill our promise to grant the franchisee the rights to access and benefit from our intellectual property and to support and maintain the intellectual property.

We may enter into an area development agreement with certain franchisees. Area development agreements are for a territory in which a developer has agreed to develop and operate a certain number of franchise locations over a stipulated period of time. The related territory is unavailable to any other party and is no longer marketed to future franchisees by us. Depending on the number of studios purchased, under franchise agreements or area development agreements, the initial franchise fee ranges from $60,000 (single studio), to $350,000 (ten studios) and is paid to us when a franchisee signs the area development agreement. Area development fees are initially recorded as deferred revenue. The development fees are allocated to the number of studios purchased under the development agreement. The revenue is recognized on a straight-line basis over the franchise life for each studio under the development agreement. Development fees and franchise fees are generally recognized as revenue upon the termination of the development agreement with the franchisee.

We may enter into master franchise agreements with master franchisees, under which the master franchisee sells licenses to franchisees in one or more countries outside of North America. The master franchise agreements generally provide a ten-year period under which the master franchisee may sell licenses. The master franchise agreement term ends on the earlier of the expiration or termination of the last franchise agreement sold by the master franchisee. Initial master franchise fees are recorded as deferred revenue when received and are recognized on a straight-line basis over 20 years.

Franchise royalty fee revenue: Royalty revenue represents royalties earned from each of the franchised studios in accordance with the franchise disclosure document and the franchise agreement for use of the various brands' names, processes and procedures. The royalty rate in the franchise agreement is typically 7% of the gross sales of each location operated by each franchisee. Royalties are billed on a monthly basis. The royalties are entirely related to our performance obligation under the franchise agreement and are billed and recognized as franchisee sales occur.

Technology fees: We may provide access to third-party or other proprietary technology solutions to the franchisee for a fee. The technology solution may include various software licenses for statistical tracking, scheduling, allowing club members to record their personal workout statistics, music and technology support. We bill and recognize the technology fee as earned each month as the technology solution service is performed.

Transfer fees: Transfer fees are paid to us when one franchisee transfers a franchise agreement to a different franchisee. Transfer fees are recognized as revenue on a straight-line basis over the term of the new or assumed franchise agreement, unless the original franchise agreement for an existing studio is terminated, in which case the transfer fee is recognized immediately.

Training revenue: We provide coach training services either through direct training of the coaches who are hired by franchisees or by providing the materials and curriculum directly to the franchisees who utilize the materials to train their hired coaches. Direct training fees are recognized over time as training is provided. Training fees for materials and curriculum are recognized at the point in time of delivery of the materials.

We also offer coach training and final coach certification through online classes. Fees received by us for online class training are recognized as revenue over time for the twelve-month period that we are obligated to provide access to the online training content.

Franchise marketing fund revenue: Franchisees are required to pay marketing fees of 2% of their gross sales. The marketing fees are collected by us monthly and are to be used for the advertising, marketing, market research, product development, public relations programs and materials deemed appropriate to benefit brands. Our promise to provide the marketing services funded through the marketing fund is considered a component of our performance obligation to grant the franchise license. We bill and recognize marketing fund fees as revenue each month as gross sales occur. Marketing fund expenses are recognized as incurred, and any marketing fund expenditures in excess of marketing fund fees are reclassified as selling, general and administrative expenses in the consolidated statements of operations.

Equipment and merchandise revenue

The following revenues are generated as a result of transactions with or related to franchisees.

Equipment revenue: We also sell authorized equipment to franchisees to be used in the franchised studios. Certain franchisees may prepay for equipment, and in that circumstance, the revenue is deferred until delivery. Equipment revenue is recognized when control of the equipment is transferred to the franchisee, which is at the point in time when delivery and installation of the equipment at the studio is complete.

Merchandise revenue: We sell branded and non-branded merchandise to franchisees for retail sales to members at studios. For branded merchandise sales, the performance obligation is satisfied at the point in time of shipment of the ordered branded merchandise to the franchisee. For such branded merchandise sales, we are the principal in the transaction as we control the merchandise prior to it being delivered to the franchisee. We record branded merchandise revenue and related costs upon shipment on a gross basis. Franchisees have the right to return and/or receive credit for defective merchandise. Returns and credit for defective merchandise were not significant for the years ended years ended December 31, 2021, 2020 and 2019.

For certain non-branded merchandise sales, we earn a commission to facilitate the transaction between the franchisee and the supplier. For such non-branded merchandise sales, we are the agent in the transaction, facilitating the transaction between the franchisee and the supplier, as we do not obtain control of the non-branded merchandise during the order fulfillment process. We record non-branded merchandise commissions revenue at the time of shipment.

Other service revenue

Service revenue: For company-owned transition studios, our distinct performance obligation is to provide the fitness classes to the member. Revenue from company-owned transition studios has been very limited as we typically only own a limited number of studios and only for a short period of time pending the resale of the licenses to a franchisee. The company-owned transition studios sell memberships by individual class and by class packages. Revenue from the sale of classes and class packages for a specified number of classes are recognized over time as the member attends and utilizes the classes. Revenues from the sale of class packages for an unlimited number of classes are recognized over time on a straight-line basis over the duration of the contract period.

Digital platform revenue: We grant subscribers access to an online platform, which contains a library of virtual classes that is continually updated, through monthly or annual subscription packages. Revenue is recognized over time on a straight-line basis over the subscription period.

Additionally, we earn commission income from certain of our franchisees' use of certain preferred vendors other than from merchandise and equipment described above. In these arrangements, we are the agent as we are not primarily responsible for fulfilling the orders. Commissions are earned and recognized at the point in time the vendor ships the product to franchisees.

Sales taxes, value added taxes and other taxes that are collected in connection with revenue transactions are withheld and remitted to the respective taxing authorities. As such, these taxes are excluded from revenue. We account for shipping and handling as activities to fulfill the promise to transfer the good. Therefore, shipping and handling fees that are billed to customers, who are primarily franchisees, are recognized in revenue and the associated shipping and handling costs are recognized in cost of product sold as soon as control of the goods transfers to the customer.

Contract Costs

Contract costs consist of deferred commissions resulting from franchise and area development sales by third-party and affiliate brokers and sales personnel. The total commission charged by the broker is deferred at the point of a franchise sale. The commissions are evenly split among the number of studios purchased under the development agreement and begin to be amortized when a subsequent franchise agreement is executed. The commissions are recognized on a straight-line basis over the initial ten-year franchise agreement term to align with the recognition of the franchise agreement or area development fees.

Business Combinations

We account for business combinations using the acquisition method of accounting, which results in the assets acquired and liabilities assumed being recorded at fair value.

The valuation methodologies used are based upon the nature of the asset or liability. The significant assets measured at fair value include intangible assets. The fair value of trademarks is estimated by following the relief from royalty method. The fair value of franchise agreements is based upon following the excess earnings method. The fair value of internal use software is based upon following the cost method. Inputs used in the methodologies primarily included sales forecasts, projected future cash flows, royalty rate and discount rate commensurate with the risk involved.

Amortization of definite-lived trademarks, franchise agreements and internal use software is recorded over the estimated useful lives of the assets using the straight-line method, which we believe approximates the period during which we expect to receive the related benefits.

Acquisition-Related Contingent Consideration

Some of the business combinations that we have consummated include contingent consideration to be potentially paid based upon the occurrence of future events, such as the achievement of franchise studio openings and change of control earn-outs. Acquisition-related contingent consideration associated with a business combination is initially recognized at fair value and remeasured each reporting period, with changes in fair value recorded in the consolidated statement of operations. The estimates of fair value involve the use of acceptable valuation methods, such as probability-weighted discounted cash flow analysis, and contain uncertainties as they require assumptions about the likelihood of achieving specified milestone criteria, projections of future financial performance and assumed discount rates. Changes in the fair value of the acquisition-related contingent consideration result from several factors including changes in the timing and amount of revenue estimates, changes in probability assumptions with respect to the likelihood of achieving specified milestone criteria and changes in discount rates. A change in any of these assumptions could produce a different fair value, which could have a material impact on our results of operations. Assuming there had been a 10% increase in the fair value of operational or change of control distribution valuations, contingent consideration would have increased by $0.1 million, $1.1 million and $0.8 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Impairment of Long-Lived Assets, Including Goodwill and Intangible Assets

Goodwill has been assigned to our reporting units for purposes of impairment testing. Our ten reporting units are each of the brand names under which we sell franchises. We test for impairment of goodwill annually or sooner whenever events or circumstances indicate that goodwill might be impaired. The annual impairment test is performed as of the first day of our fourth quarter. The annual goodwill test begins with a qualitative assessment, where qualitative factors and their impact on critical inputs are assessed to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If we determine that a reporting unit has an indication of impairment based on the qualitative assessment, we are required to perform a quantitative assessment. We generally determine the estimated fair value using a discounted cash flow approach, giving consideration to the market valuation approach. If the carrying value exceeds the estimate of fair value a write-down is recorded. We calculate impairment as the excess of the carrying value of goodwill over the estimated fair value.

We test for impairment of indefinite-lived trademarks annually or sooner whenever events or circumstances indicate that trademarks might be impaired. We first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of the trademarks is less than the carrying amount. In the absence of sufficient qualitative factors, trademark impairment is determined utilizing a two-step analysis. The two-step analysis involves comparing the fair value to the carrying value of the trademarks. We determine the estimated fair value using a relief from royalty approach. If the carrying amount exceeds the fair value, we impair the trademarks to their fair value.

We assess potential impairments to our long-lived assets, which include property and equipment and amortizable intangible assets, whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of an asset is measured by a comparison of the carrying amount of an asset group to the estimated undiscounted future cash flows expected to be generated by the asset group. If the carrying amount of the asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized as the amount by which the carrying amount of the asset exceeds the fair value of the asset.

During the year ended December 31, 2021, we recorded aggregate impairments of property and equipment and amortizing intangible assets related to company-owned transition studios aggregating $0.8 million. There were no impairment charges recorded during the years ended December 31, 2020 and 2019. The estimated fair value of the respective reporting units substantially exceeds their carrying value.

Equity-Based Compensation

We have equity-based compensation plans under which we receive services from our employees as consideration for equity instruments, including profit interest units and restricted stock units ("RSUs"). The compensation expense is determined based on the fair value of the award as of the grant date. Prior to going public, we were issuing shares that were valued based on the underlying units of the parent entity. We utilized a discounted cash flow analysis, a market approach of comparable companies in our industry and a comparable acquisitions analysis. The market approach involves companies in our industry that we determine to be comparable. Comparable acquisitions analysis involves analyzing sales of controlling interests in companies that we determine are comparable. In conducting this valuation, we also took into consideration recent valuation reports of third-party valuation specialists prepared for us, as well as any significant internal and external events occurring subsequent to those reports that may have caused the value of the units to increase or decrease since the dates of those reports. Estimates used in our valuation of equity-based compensation are highly complex and subjective. Valuations and estimates of our common stock value is no longer necessary as we are a publicly traded company and at this point we rely on market price to determine the market value of our shares.

Compensation expense for time-based units is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. Compensation expense for performance-based units will be recorded when the performance targets are met.

We prepare our consolidated financial statements in accordance with GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures of contingent assets and liabilities. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. Actual results may differ from those estimates.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Xponential Fitness, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Xponential Fitness, Inc. and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations, changes to stockholders' equity/member's equity (deficit) and cash flows, for each of the three years in the period ended December 31, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, 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 audit 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

Costa Mesa, California
March 4, 2022
We have served as the Company's auditor since 2019.

Xponential Fitness, Inc.

Consolidated Balance Sheets
(amounts in thousands, except share and per share amounts)

	December 31, 2021	December 31, 2020
Assets		
Current Assets:		
Cash, cash equivalents and restricted cash	$ 21,320	$ 11,299
Accounts receivable, net (Note 9)	11,702	5,196
Inventories	6,928	6,161
Prepaid expenses and other current assets	5,271	5,480
Deferred costs, current portion	3,712	3,281
Notes receivable from franchisees, net (Note 9)	2,293	1,288
Total current assets	51,226	32,705
Property and equipment, net	12,773	13,694
Goodwill	169,073	139,680
Intangible assets, net	136,863	98,124
Deferred costs, net of current portion	42,015	35,445
Notes receivable from franchisees, net of current portion (Note 9)	3,041	2,576
Other assets	553	614
Total assets	$ 415,544	$ 322,838
Liabilities, redeemable convertible preferred stock and equity (deficit)		
Current Liabilities:		
Accounts payable	$ 14,905	$ 18,339
Accrued expenses (Note 9)	21,045	13,764
Deferred revenue, current portion	22,747	14,247
Notes payable (Note 9)	983	970
Current portion of long-term debt	2,960	5,795
Other current liabilities	3,253	1,804
Total current liabilities	65,893	54,919
Deferred revenue, net of current portion	95,691	74,361
Contingent consideration from acquisitions (Note 16)	54,881	8,399
Long-term debt, net of current portion, discount and issuance costs	127,983	176,002
Other liabilities	4,675	4,408
Total liabilities	349,123	318,089
Commitments and contingencies (Note 16)		
Redeemable convertible preferred stock, $0.0001 par value, 400,000 shares authorized, 200,000 shares issued and outstanding as of December 31, 2021, no shares authorized, issued and outstanding as of December 31, 2020	276,890	—
Member's/Stockholders' equity (deficit):		
Undesignated preferred stock, $0.0001 par value, 4,600,000 shares authorized, none issued and outstanding as of December 31, 2021, no shares authorized, issued and outstanding as of December 31, 2020	—	—
Class A common stock, $0.0001 par value, 500,000,000 shares authorized, 23,898,042 shares issued and outstanding as of December 31, 2021, no shares authorized, issued and outstanding as of December 31, 2020	2	—
Class B common stock, $0.0001 par value, 500,000,000 shares authorized, 22,968,674 shares issued and outstanding as of December 31, 2021, no shares authorized, issued and outstanding as of December 31, 2020	2	—
Additional paid-in capital	—	—
Member's contribution	—	113,697
Receivable from Member/shareholder (Note 9)	(10,600)	(1,456)
Accumulated deficit	(643,833)	(107,492)
Total stockholders'/member's equity (deficit) attributable to Xponential Fitness, Inc.	(654,429)	4,749
Noncontrolling interests	443,960	—
Total stockholders'/member's equity (deficit)	(210,469)	4,749
Total liabilities, redeemable convertible preferred stock and equity (deficit)	$ 415,544	$ 322,838

See accompanying notes to consolidated financial statements.

Xponential Fitness, Inc.

Consolidated Statements of Operations
(amounts in thousands, except share and per share amounts)

	Years Ended December 31, 2021	2020	2019
Revenue, net:			
Franchise revenue	$ 74,459	$ 48,056	$ 47,364
Equipment revenue	22,583	20,642	40,012
Merchandise revenue	20,140	16,648	22,215
Franchise marketing fund revenue	13,623	7,448	8,648
Other service revenue	24,274	13,798	10,891
Total revenue, net	155,079	106,592	129,130
Operating costs and expenses:			
Costs of product revenue	28,550	25,727	41,432
Costs of franchise and service revenue	12,716	8,392	5,703
Selling, general and administrative expenses (Note 9)	94,798	60,917	80,495
Depreciation and amortization	10,172	7,651	6,386
Marketing fund expense	13,044	7,101	8,217
Acquisition and transaction expenses (income)	26,618	(10,990)	7,948
Total operating costs and expenses	185,898	98,798	150,181
Operating income (loss)	(30,819)	7,794	(21,051)
Other (income) expense:			
Interest income	(1,164)	(345)	(168)
Interest expense (Note 9)	24,709	21,410	16,087
Gain on debt extinguishment	(3,707)	—	—
Total other expense	19,838	21,065	15,919
Loss before income taxes	(50,657)	(13,271)	(36,970)
Income taxes	783	369	164
Net loss	(51,440)	(13,640)	(37,134)
Less: Net loss attributable to noncontrolling interests	(32,611)	—	—
Net loss attributable to Xponential Fitness, Inc.	$ (18,829)	$ (13,640)	$ (37,134)
Net loss per share of Class A common stock:			
Basic	$ (2.85)	N/A	N/A
Diluted	$ (2.85)	N/A	N/A
Weighted average shares of Class A common stock outstanding:			
Basic	22,402,703	N/A	N/A
Diluted	22,402,703	N/A	N/A

See accompanying notes to consolidated financial statements.

Xponential Fitness, Inc.

Consolidated Statements of Changes to Stockholders'/Member's Equity (Deficit)
(amounts in thousands, except share amounts)

	Class A Common Stock		Class B Common Stock								
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Member's Contribution	Receivable from Member	Accumulated Deficit	Noncontrolling interests	Total Equity (Deficit)	Redeemable noncontrolling interests
Balance at January 1, 2019	—	$ —	—	$ —	$ —	$ 150,201	$ (31,298)	$ (56,718)	$ —	$ 62,185	$ —
Equity-based compensation	—	—	—	—	—	2,064	—	—	—	2,064	—
Payment of Member expenses	—	—	—	—	—	—	(437)	—	—	(437)	—
Net loss	—	—	—	—	—	—	—	(37,134)	—	(37,134)	—
Balance at December 31, 2019	—	—	—	—	—	152,265	(31,735)	(93,852)	—	26,678	—
Equity-based compensation	—	—	—	—	—	1,751	—	—	—	1,751	—
Member contributions	—	—	—	—	—	32,884	—	—	—	32,884	—
Distributions to Member	—	—	—	—	—	(73,203)	—	—	—	(73,203)	—
Payment received from Member, net	—	—	—	—	—	—	30,279	—	—	30,279	—
Net loss	—	—	—	—	—	—	—	(13,640)	—	(13,640)	—
Balance at December 31, 2020	—	—	—	—	—	113,697	(1,456)	(107,492)	—	4,749	—
Activity prior to Reorganization Transactions and IPO											
Equity-based compensation	—	—	—	—	—	708	—	—	—	708	—
Parent contribution of Rumble assets	—	—	—	—	—	20,483	—	—	—	20,483	—
Distributions to Member	—	—	—	—	—	(10,600)	—	—	—	(10,600)	—
Payment received from Member, net	—	—	—	—	—	—	1,456	—	—	1,456	—
Net loss	—	—	—	—	—	—	—	(13,342)	—	(13,342)	—
Balance prior to Reorganization Transactions and IPO	—	—	—	—	—	124,288	—	(120,834)	—	3,454	—
Activity in connection with Reorganization Transactions and IPO											
Effect of Reorganization Transactions	12,994,042	1	23,542,663	2	—	(124,288)	(10,600)	(202,374)	—	(337,259)	282,513
Issuance of Class A common stock at the IPO, net of underwriting and offering costs	10,000,000	1	—	—	104,387	—	—	—	—	104,388	—
Purchase of shares from LCAT shareholders	—	—	—	—	(104,387)	—	—	(46,598)	—	(150,985)	—
Issuance of Class A common stock for underwriters' option to purchase additional shares	904,000	—	—	—	10,116	—	—	—	—	10,116	—
Redemption of Class B shares	—	—	(750,000)	—	(9,000)	—	—	—	—	(9,000)	—
Balance post the Reorganization Transactions and IPO	23,898,042	2	22,792,663	2	1,116	—	(10,600)	(369,806)	—	(379,286)	282,513
Activity after the Reorganization Transactions and IPO but prior to the amendment of the LLC agreement											
Net loss	—	—	—	—	—	—	—	(17,155)	—	(17,155)	(17,568)
Equity-based compensation	—	—	—	—	2,089	—	—	—	—	2,089	5,731
Fair value adjustment for redeemable noncontrolling interest	—	—	—	—	(2,065)	—	—	(172,385)	—	(174,450)	174,450
Removing the redeemable feature of the noncontrolling interest	—	—	—	—	—	—	—	—	445,126	445,126	(445,126)
Balance subsequent to the amendment of the LLC agreement	23,898,042	2	22,792,663	2	1,140	—	(10,600)	(559,346)	445,126	(123,676)	—

Activity subsequent to the amendment of the LLC agreement											
Vesting of Class B shares	—	—	176,011	—	—	—	—	—	—	—	—
Adjustment of preferred stock to redemption value	—	—	—	—	(1,116)	—	—	(77,378)	—	(78,494)	—
Equity-based compensation	—	—	—	—	283	—	—	—	535	818	—
Payment of preferred stock dividends	—	—	—	—	(307)	—	—	(5,435)	—	(5,742)	—
Net loss	—	—	—	—	—	—	—	(1,674)	(1,701)	(3,375)	—
Balance at December 31, 2021	$ 23,898,042	$ 2	$ 22,968,674	$ 2	$ —	$ —	$ (10,600)	$ (643,833)	$ 443,960	$ (210,469)	$ —

See accompanying notes to consolidated financial statements.

Xponential Fitness, Inc.

Consolidated Statements of Cash Flows
(amounts in thousands)

	Years Ended December 31, 2021	2020	2019
Cash flows from operating activities:			
Net loss	$ (51,440)	$ (13,640)	$ (37,134)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	10,172	7,651	6,386
Amortization and write off of debt issuance cost	5,749	3,096	526
Amortization and write off of discount on long-term debt	2,704	—	—
Change in contingent consideration from acquisitions	25,640	(10,990)	7,948
Bad debt expense	410	2,766	1,528
Equity-based compensation	9,699	1,751	2,064
Non-cash interest	583	1,321	2,823
Gain on debt extinguishment	(3,707)	—	—
Loss from disposal of assets	483	68	691
Impairment of long-lived assets	781	—	—
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(6,608)	2,977	(6,567)
Inventories	(768)	(1,392)	(296)
Prepaid expenses and other current assets	(4,220)	(2,904)	(1,627)
Deferred costs	(7,122)	(1,204)	(18,476)
Notes receivable	137	210	(579)
Accounts payable	(3,013)	1,709	6,527
Accrued expenses	3,596	1,914	936
Related party payable	(1)	(28)	(68)
Other current liabilities	1,449	(955)	401
Deferred revenue	30,011	7,005	35,140
Other assets	1	(196)	(50)
Other liabilities	(85)	113	1,375
Net cash provided by (used in) operating activities	14,451	(728)	1,548
Cash flows from investing activities:			
Purchases of property and equipment	(3,638)	(1,880)	(7,226)
Purchase of studios	(450)	(1,150)	(532)
Proceeds from sale of assets	433	58	2,012
Purchase of intangible assets	(1,220)	(1,010)	(281)
Notes receivable issued	(2,258)	(619)	(3,002)
Notes receivable payment received	820	—	—
Acquisition of businesses	(44,322)	—	(750)
Net cash used in investing activities	(50,635)	(4,601)	(9,779)
Cash flows from financing activities:			
Borrowings from line of credit	—	10,000	—
Payments on line of credit	—	(18,000)	—
Borrowings from long-term debt	255,980	188,665	12,000
Payments on long-term debt	(310,600)	(149,219)	(1,602)
Debt issuance costs	(996)	(5,158)	(205)
Proceeds from the issuance of Class A common stock, net of underwriting costs	122,016	—	—
Payments of costs related to IPO	(3,082)	—	—
Payments to purchase 750,000 LLC units/Class B Shares	(9,000)	—	—
Proceeds from issuance of redeemable convertible preferred stock, net of offering costs	198,396	—	—
Payment to purchase all of the shares of LCAT from LCAT shareholders	(144,485)	—	—
Payment of H&W Cash Merger Consideration	(11,720)	—	—
Payments to acquire the Preferred Units and LLC Units	(20,493)	—	—
Exchange of LLC units for Class B shares	2	—	—
Payment of preferred stock dividend and deemed dividend	(8,992)	—	—
Payment of contingent consideration	(12,154)	(3,250)	(1,656)
Loans from related party (Note 9)	—	—	1,048
Payments on loans from related party (Note 9)	(85)	(111)	(2,532)
Member contributions	562	27,286	—
Distributions to Member	(10,600)	(73,203)	—
Receipts from (advances to) Member, net (Note 9)	1,456	30,279	(437)
Receipts from (advances to) affiliates, net (Note 9)	—	—	(255)
Net cash provided by financing activities	46,205	7,289	6,361
Increase (decrease) in cash, cash equivalents and restricted cash	10,021	1,960	(1,870)
Cash, cash equivalents and restricted cash, beginning of year	11,299	9,339	11,209
Cash, cash equivalents and restricted cash, end of year	$ 21,320	$ 11,299	$ 9,339

See accompanying notes to consolidated financial statements.

Xponential Fitness, Inc.

Consolidated Statements of Cash Flows
(amounts in thousands)

	Years Ended December 31,		
	2021	2020	2019
Supplemental cash flow information:			
Interest paid	$ 16,136	$ 17,035	$ 12,859
Income taxes paid	1,403	228	174
Noncash investing and financing activity:			
Capital expenditures accrued	$ 595	$ 196	$ 1,211
Receivable recorded for sale of company-owned studio	—	—	200
Contingent consideration converted to Member contribution	—	5,598	
Debt issuance costs added to debt principal	—	975	—
Parent contribution of Rumble assets	20,483	—	—
Original contingent consideration related to Rumble	23,100	—	—
Rumble note receivable from shareholder	10,600	—	—
Adjustment of preferred stock to redemption value	78,494	—	—
Adjustment of redeemable noncontrolling interest	174,450	—	—
Deferred offering costs reclassified into equity	4,429	—	—
Accrued deemed dividend	3,250	—	—

See accompanying notes to consolidated financial statements.

Note 1 – Nature of Business and Operations

Xponential Fitness, Inc. (the "Company" or "XPO Inc."), was formed as a Delaware corporation on January 14, 2020. On July 23, 2021, the Company completed an initial public offering ("IPO") of 10,000,000 shares of Class A common stock at an initial public offering price of $12.00 per share. Pursuant to a reorganization into a holding company structure, the Company is a holding company with its principal asset being a controlling ownership interest in Xponential Fitness LLC ("XPO LLC") through its ownership interest in Xponential Intermediate Holdings, LLC ("XPO Holdings"). Information for any period prior to July 23, 2021 relates to XPO LLC.

XPO LLC was formed on August 11, 2017 as a Delaware limited liability company for the sole purpose of franchising fitness brands in several verticals within the boutique fitness industry. XPO LLC is a wholly owned subsidiary of XPO Holdings, which was formed on February 24, 2020, and prior to the IPO, ultimately, H&W Franchise Holdings, LLC (the "Parent"). Prior to the formation of XPO Holdings, the Company was a wholly owned subsidiary of H&W Franchise Intermediate Holdings, LLC (the "Member").

As of December 31, 2021, the Company's portfolio of ten brands includes: "Club Pilates," a Pilates facility franchisor; "CycleBar," a premier indoor cycling franchise; "StretchLab," a fitness concept offering one-on-one assisted stretching services; "Row House," a rowing concept that provides an effective and efficient workout centered around the sport of rowing; "YogaSix," a yoga concept that concentrates on connecting to one's body in a way that is energizing; "AKT" and "Pure Barre," which are dance-based concepts that provide a combination of personal training and movement based techniques; "Stride," a running concept that offers treadmill-based high-intensity interval training and strength-training; "Rumble," a boxing concept that offers boxing-inspired group fitness classes, which was acquired on March 24, 2021; and "BFT", a high-intensity interval training concept that combines functional, high-energy strength, cardio, and conditioning-based classes, designed to achieve the unique health goals of its members, which was acquired on October 13, 2021. The Company, through its brands, licenses its proprietary systems to franchisees who in turn operate studios to promote training and instruction programs to their club members within each vertical. In addition to franchised studios, the Company operated 25, 40 and four company-owned transition studios as of December 31, 2021, 2020 and 2019, respectively.

In connection with the IPO, XPO Inc. entered into the following series of transactions to implement an internal reorganization (the "Reorganization Transactions"). The pre-IPO members of XPO Holdings (the "Pre-IPO LLC Members") who retained their equity ownership in the form of limited liability company units (the "LLC Units"), immediately following the consummation of the Reorganization Transactions are referred to as "Continuing Pre-IPO LLC Members."

- Because XPO Inc. manages and operates the business and controls the strategic decisions and day-to-day operations of XPO LLC through its ownership of XPO Holdings and because it also has a substantial financial interest in XPO LLC through its ownership of XPO Holdings, it consolidates the financial results of XPO LLC and XPO Holdings, and a portion of its net income is allocated to the noncontrolling interests to reflect the entitlement of the Continuing Pre-IPO LLC Members to a portion of XPO Holdings' net income or loss.
- XPO Inc.'s amended and restated certificate of incorporation authorizes the issuance of two classes of common stock, Class A common stock and Class B common stock (collectively, "common stock") and preferred stock and the certificates of designation adopted in connection with the IPO designated 200,000 shares of preferred stock as 6.50% Series A-1 Convertible Preferred Stock (the "Series A-1 preferred stock") and 200,000 shares of Preferred Stock as 6.50% Series A Convertible Preferred Stock (the "Series A Convertible preferred stock" and, together with the Series A-1 preferred stock, the "Convertible Preferred"). Each share of common stock entitles its holder to one vote per share on all matters submitted to a vote of stockholders.
- Prior to completion of the IPO, XPO Inc. acquired, directly and indirectly, limited liability company units of XPO Holdings (the "LLC Units") through (i) the contribution of LLC Units by H&W Investco, LP and Lag Fit, Inc. in exchange for Class A common stock (the "IPO Contribution") and (ii) the "Mergers," in which Rumble Holdings LLC and H&W Investco Blocker II, LP (the "Blocker Companies") were contributed by their owners (the "Blocker Shareholders") to XPO Inc. in exchange for Class A common stock, and, in the case of H&W Investco Blocker II, LP a cash payment (the "H&W Cash Merger Consideration"), after which the Blocker Companies immediately merged with and into XPO Inc.

•Prior to the completion of the IPO, XPO Inc. issued and sold 200,000 shares of Convertible Preferred to certain affiliates of MSD Partners, L.P., a fund within the D.E. Shaw group and a fund managed by Redwood Capital Management, LLC (the "Preferred Investors") for aggregate cash proceeds of $200,000, before deduction of offering costs.

•Each Continuing Pre-IPO LLC Member (other than LCAT Franchise Fitness Holdings, Inc. ("LCAT") was issued a number of shares of Class B common stock equal to the number of vested LLC Units held by such Continuing Pre-IPO LLC Member.

•Under the Limited Liability Company Agreement of XPO Holdings (the "Amended LLC Agreement"), holders of LLC Units (other than XPO Inc.) have the right, from and after the completion of the IPO (subject to the terms of the Amended LLC Agreement), to require XPO Holdings to redeem all or a portion of their LLC Units for, at XPO Inc.'s election, newly-issued shares of Class A common stock on a one-for-one basis or a cash payment equal to the volume-weighted average market price of one share of Class A common stock for each LLC Unit redeemed (subject to customary adjustments) or the net proceeds from a substantially contemporaneous offering of Class A common stock in accordance with the terms of the Amended LLC Agreement. Additionally, in the event of a redemption request from a holder of LLC Units, XPO Inc. may, at its option, effect a direct exchange of cash or Class A common stock for LLC Units in lieu of such a redemption. Shares of Class B common stock will be cancelled on a one-for-one basis if XPO Inc., following a redemption request from a holder of LLC Units, redeems or exchanges LLC Units of such holder pursuant to the terms of the Amended LLC Agreement.

•XPO Inc. used the net proceeds from the IPO, together with the net proceeds received from the sale of Convertible Preferred to (i) acquire newly issued preferred units of XPO Holdings (the "Preferred Units") and LLC Units, (ii) purchase all of the shares of LCAT from LCAT shareholders and (iii) pay the H&W Cash Merger Consideration. The Company evaluated the fair value of shares being purchased from LCAT and determined that the payment exceeded the fair value by $6,500, which was recorded as a deemed dividend and will be paid in quarterly installments through June 2022 (see Note 2 accrued expenses).

•After the acquisition of LCAT from LCAT shareholders, LCAT merged with and into XPO Inc., after which XPO Inc. owns directly the LLC Units previously held by LCAT.

•XPO Inc. entered into a tax receivable agreement ("TRA") that obligates it to make payments to the Continuing Pre-IPO LLC Members, the Blocker Shareholders and any future party to the TRA (the "TRA parties") in the aggregate generally equal to 85% of the applicable cash savings realized as a result of (i) certain favorable tax attributes acquired from the Blocker Companies in the Mergers (including net operating losses and the Blocker Companies' allocable share of existing tax basis), (ii) increases in XPO Inc.'s allocable share of existing tax basis and tax basis adjustments that resulted or may result from (x) the IPO Contribution, the redemption of Class A-5 Units of H&W Franchise Holdings, LLC (the "Class A-5 Units") in connection with the IPO (the "Class A-5 Unit Redemption"), and the purchase of LLC Units from Continuing Pre-IPO LLC Members in the IPO, (y) future taxable redemptions and exchanges of LLC Units by Continuing Pre-IPO LLC Members, and (z) certain payments made under the TRA, and (iii) deductions in respect of interest under the TRA. XPO Inc. will retain the benefit of the remaining 15% of these tax savings.

•XPO Holdings used the proceeds from the issuance of LLC Units and Preferred Units (i) to repay approximately $116,059 of outstanding borrowings under the Term Loan (see Note 8), including prepayment penalties and interest, (ii) to pay fees and expenses of approximately $6,700 in connection with the IPO and the Reorganization Transactions, (iii) to pay approximately $20,500 in the Class A-5 Unit Redemption for the Class A-5 Units redeemed from certain of the Continuing Pre-IPO Members and (iv) the remainder for working capital.

•Executed a 32.88 for one split of the LLC Units. All LLC Units issued prior to the IPO are as adjusted for the split.

The corporate structure following the completion of the IPO, as described above, is commonly referred to as an "Up-C" structure, which is used by partnerships and limited liability companies when they undertake an initial public offering of their business. The Up-C structure will allow Continuing Pre-IPO LLC Members to continue to realize tax benefits associated with owning interests in an entity that is treated as a partnership, or "pass-through" entity, for income tax purposes following the IPO.

Immediately following the closing of the IPO, XPO LLC is the predecessor of the Company for financial reporting purposes. As the sole managing member of XPO LLC, the Company operates and controls all of the business and affairs of XPO LLC. The Reorganization Transactions are accounted for as a reorganization of entities under common control. As a result, the consolidated financial statements of the Company recognize the assets and liabilities received in the Reorganization Transactions at their historical carrying amounts, as reflected in the historical consolidated financial statements of XPO LLC. The Company will consolidate XPO LLC on its consolidated financial statements and record a noncontrolling interest related to the Class B units held by the Class B stockholders on its consolidated balance sheet and statement of operations.

Basis of presentation – The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP").

On October 13, 2021 and March 24, 2021, the Company acquired the rights to franchise the BFT and Rumble concepts, respectively, and has included the results of operations of BFT and Rumble in its consolidated statements of operations from the acquisition dates forward. See Note 3 for additional information.

Principles of consolidation – The Company's consolidated financial statements include the accounts of its wholly owned subsidiaries. All intercompany transactions have been eliminated in consolidation.

Use of estimates – The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Actual results could differ from these estimates under different assumptions or conditions.

Note 2 – Summary of Significant Accounting Policies

Segment information – Operating segments are defined as components of an entity for which separate financial information is available and that is regularly reviewed by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources to an individual segment and in assessing performance. The Company's Chief Executive Officer is the Company's CODM. The CODM reviews financial information presented on a consolidated basis for purposes of making operating decisions, allocating resources and evaluating financial performance. As such, the Company has determined that it operates in one reportable and operating segment. During the years ended December 31, 2021, 2020 and 2019, the Company did not generate material international revenues and as of December 31, 2021 and 2020, the Company did not have material assets located outside of the United States.

Cash, cash equivalents and restricted cash – The Company considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

The Company has marketing fund restricted cash, which can only be used for activities that promote the Company's brands. Restricted cash was $1,427 and $999 at December 31, 2021 and 2020, respectively.

Concentration of credit risk—Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash, accounts receivable and notes receivable. The Company maintains its cash with high-credit quality financial institutions. At December 31, 2021 and 2020, the Company had cash, cash equivalents and restricted cash that total $12,852 and $8,832, respectively, on deposit with high-credit quality financial institutions that exceed federally insured limits. The Company has not experienced any loss as a result of these or previous similar deposits. In addition, the Company closely monitors the extension of credit to its franchisees while maintaining allowances for potential credit losses.

(amounts in thousands, except share, per share and unit amounts)

Accounts receivable and allowance for doubtful accounts – Accounts receivable primarily consist of amounts due from franchisees and vendors. These receivables primarily relate to royalties, advertising contributions, equipment and product sales, training, vendor commissions and other miscellaneous charges. Receivables are unsecured; however, the franchise agreements provide the Company the right to withdraw funds from the franchisee's bank account or to terminate the franchise for nonpayment. On a periodic basis, the Company evaluates its accounts receivable balance and establishes an allowance for doubtful accounts based on a number of factors, including evidence of the franchisee's ability to comply with credit terms, economic conditions and historical receivables. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. At December 31, 2021 and 2020, the allowance for doubtful accounts was $2,193 and $2,405, respectively.

Inventories – Inventories are comprised of finished goods including equipment and branded merchandise primarily held for sale to franchisees. Cost is determined using the first-in-first-out method. Management analyzes obsolete, slow-moving and excess merchandise to determine adjustments that may be required to reduce the carrying value of such inventory to the lower of cost or net realizable value. Write-down of obsolete or slow-moving and excess inventory charges are included in costs of product revenue in the consolidated statements of operations.

Deferred offering costs – Deferred offering costs, primarily consisted of legal, accounting and other fees relating to the Company's initial public offering. As of December 31, 2020, the Company had capitalized $4,429 of deferred offering costs within prepaid expenses and other current assets in the consolidated balance sheet. Upon consummation of the IPO in July 2021, total deferred offering costs of $7,511 were reclassified to additional paid-in capital within stockholders' equity and recorded against the proceeds of the IPO.

Property and equipment, net – Property and equipment are carried at cost less accumulated depreciation. Depreciation is recognized on a straight-line method, based on the following estimated useful lives:

Furniture and equipment	5 years
Computers and software	3-5 years
Vehicles	5 years
Leasehold improvements	Lesser of useful life or lease term

The cost and accumulated depreciation of assets sold or retired are removed from the accounts and any gain or loss is included in the results of operations during the period of sale or disposal. Costs for repairs and maintenance are expensed as incurred. Repairs and maintenance costs for the years ended December 31, 2021, 2020 and 2019 were insignificant.

Goodwill and indefinite-lived intangible assets – Indefinite-lived intangible assets consist of goodwill and certain trademarks.

Goodwill – The Company tests for impairment of goodwill annually or sooner whenever events or circumstances indicate that goodwill might be impaired. Goodwill has been assigned to reporting units for purposes of impairment testing. The Company's reporting units are the brand names under which it sells franchises. The annual impairment test is performed as of the first day of the Company's fourth quarter. The annual impairment test begins with a qualitative assessment, where qualitative factors and their impact on critical inputs are assessed to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If the Company determines that a reporting unit has an indication of impairment based on the qualitative assessment, it is required to perform a quantitative assessment. The Company generally determines the estimated fair value using a discounted cash flow approach, giving consideration to the market valuation approach. If the carrying value exceeds the estimate of fair value, a write-down is recorded. The Company calculates impairment as the excess of the carrying value of goodwill over the estimated fair value. Based on the test results, no impairment was recorded for the years ended December 31, 2021, 2020 and 2019.

Trademarks – The Company tests for impairment of trademarks with an indefinite life annually or sooner whenever events or circumstances indicate that trademarks might be impaired. The Company first assesses qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of the trademarks is less than the carrying amount. In the absence of sufficient qualitative factors, trademark impairment is determined utilizing a two-step analysis. The two-step analysis involves comparing the fair value to the carrying value of the trademarks. The Company determines the estimated fair value using a relief from royalty approach. If the carrying amount exceeds the fair value, the Company impairs the trademarks to their fair value. Based on the test results, no impairment was recorded for the years ended December 31, 2021, 2020 and 2019.

Definite-lived intangible assets – Definite-lived intangible assets, consisting of franchise agreements, reacquired franchise rights, customer relationships, non-compete agreements, certain trademarks and web design and domain, are amortized using the straight-line method over the estimated remaining economic lives. Deferred video production costs are amortized on an accelerated basis. Amortization expense related to intangible assets is included in depreciation and amortization expense. The recoverability of the carrying values of all intangible assets with finite lives is evaluated when events or changes in circumstances indicate an asset's value may be impaired. Impairment testing is based on a review of forecasted undiscounted operating cash flows. If such analysis indicates that the carrying value of these assets is not recoverable, the carrying value of such assets is reduced to fair value, which is determined based on discounted future cash flows, through a charge to the consolidated statements of operations. Definite-lived intangible asset impairments of $118, $0 and $0 were recorded for the years ended December 31, 2021, 2020 and 2019, respectively, related to company-owned transition studio assets for which the carrying value was deemed not recoverable.

Revenue recognition – The Company's contracts with customers consist of franchise agreements with franchisees. The Company also enters into agreements to sell merchandise and equipment, training, on-demand video services and membership to company-owned transition studios. The Company's revenues primarily consist of franchise license revenues, other franchise related revenues including equipment and merchandise sales and training revenue. In addition, the Company earns on-demand revenue, service revenue and other revenue.

Each of the Company's primary sources of revenue and their respective revenue policies are discussed further below.

Franchise revenue –

The Company enters into franchise agreements for each franchised studio. The Company's performance obligation under the franchise license is granting certain rights to access the Company's intellectual property; all other services the Company provides under the franchise agreement are highly interrelated, not distinct within the contract, and therefore accounted for as a single performance obligation, which is satisfied over the term of each franchise agreement. Those services include initial development, operational training, preopening support and access to the Company's technology throughout the franchise term. Fees generated related to the franchise license include development fees, royalty fees, marketing fees, technology fees and transfer fees, which are discussed further below. Variable fees are not estimated at contract inception, and are recognized as revenue when invoiced, which occurs monthly. The Company has concluded that its agreements do not contain any financing components.

Franchise development fee revenue – The Company's franchise agreements typically operate under ten-year terms with the option to renew for up to two additional five-year successor terms. The Company determined the renewal options are neither qualitatively nor quantitatively material and do not represent a material right. Initial franchise fees are non-refundable and are typically collected upon signing of the franchise agreement. Initial franchise fees are recorded as deferred revenue when received and are recognized on a straight-line basis over the franchise life, which the Company has determined to be ten years, as the Company fulfills its promise to grant the franchisee the rights to access and benefit from the Company's intellectual property and to support and maintain the intellectual property.

The Company may enter into an area development agreement with certain franchisees. Area development agreements are for a territory in which a developer has agreed to develop and operate a certain number of franchise locations over a stipulated period of time. The related territory is unavailable to any other party and is no longer marketed to future franchisees by the Company. Depending on the number of studios purchased under franchise agreements or area development agreements, the initial franchise fee ranges from $60 (single studio) to $350 (ten studios) and is paid to the Company when a franchisee signs the area development agreement. Area development fees are initially recorded as deferred revenue. The development fees are allocated to the number of studios purchased under the development agreement. The revenue is recognized on a straight-line basis over the franchise life for each studio under the development agreement. Development fees and franchise fees are generally recognized as revenue upon the termination of the development agreement with the franchisee.

The Company may enter into master franchise agreements with master franchisees, under which the master franchisee sells licenses to franchisees in one or more countries outside of North America. The master franchise agreements generally provide a ten-year period under which the master franchisee may sell licenses. The master franchise agreement term ends on the earlier of the expiration or termination of the last franchise agreement sold by the master franchisee. Initial master franchise fees are recorded as deferred revenue when received and are recognized on a straight-line basis over 20 years.

Franchise royalty fee revenue – Royalty revenue represents royalties earned from each of the franchised studios in accordance with the franchise disclosure document and the franchise agreement for use of the brands' names, processes and procedures. The royalty rate in the franchise agreement is typically 7% of the gross sales of each location operated by each franchisee. Royalties are billed on a monthly basis. The royalties are entirely related to the Company's performance obligation under the franchise agreement and are billed and recognized as franchisee sales occur.

Technology fees – The Company may provide access to third-party or other proprietary technology solutions to the franchisees for a fee. The technology solution may include various software licenses for statistical tracking, scheduling, allowing club members to record their personal workout statistics, music and technology support. The Company bills and recognizes the technology fee as earned each month as the technology solution service is performed.

Transfer fees – Transfer fees are paid to the Company when one franchisee transfers a franchise agreement to a different franchisee. Transfer fees are recognized as revenue on a straight-line basis over the term of the new or assumed franchise agreement, unless the original franchise agreement for an existing studio is terminated, in which case the transfer fee is recognized immediately.

Training revenue – The Company provides coach training services either through direct training of the coaches who are hired by franchisees or by providing the materials and curriculum directly to the franchisees who utilize the materials to train their hired coaches. Direct training fees are recognized over time as training is provided. Training fees for materials and curriculum are recognized at the point in time of delivery of the materials.

The Company also offers coach training and final coach certification through online classes. Fees received by the Company for online class training are recognized as revenue over time for the 12-month period that the Company is obligated to provide access to the online training content.

Franchise marketing fund revenue – Franchisees are required to pay marketing fees of 2% of their gross sales. The marketing fees are collected by the Company on a monthly basis and are to be used for the advertising, marketing, market research, product development, public relations programs and materials deemed appropriate to benefit brands. The Company's promise to provide the marketing services funded through the marketing fund is considered a component of the Company's performance obligation to grant the franchise license. The Company bills and recognizes marketing fund fees as revenue each month as gross sales occur.

Equipment and merchandise revenue –

The following revenues are generated as a result of transactions with or related to the Company's franchisees.

Equipment revenue – The Company sells authorized equipment to franchisees to be used in the franchised studios. Certain franchisees may prepay for equipment, and in that circumstance, the revenue is deferred until delivery. Equipment revenue is recognized when control of the equipment is transferred to the franchisee, which is at the point in time when delivery and installation of the equipment at the studio is complete.

Merchandise revenue – The Company sells branded and non-branded merchandise to franchisees for retail sales to customers at studios. For branded merchandise sales, the performance obligation is satisfied at the point in time of shipment of the ordered branded merchandise to the franchisee. For such branded merchandise sales, the Company is the principal in the transaction as it controls the merchandise prior to it being delivered to the franchisee. The Company records branded merchandise revenue and related costs upon shipment on a gross basis. Customers have the right to return and/or receive credit for defective merchandise. Returns and credit for defective merchandise were insignificant for the years ended December 31, 2021, 2020 and 2019.

For certain non-branded merchandise sales, the Company earns a commission to facilitate the transaction between the franchisee and the supplier. For such non-branded merchandise sales, the Company is the agent in the transaction, facilitating the transaction between the franchisee and the supplier, as the Company does not obtain control of the non-branded merchandise during the order fulfillment process. The Company records non-branded merchandise commissions revenue at the time of shipment.

Other revenue –

Service revenue – Historically, the revenue from company-owned transition studios has been very limited as the Company typically only owns a small number of studios and only for a short period of time pending the resale of the license to a franchisee. For company-owned transition studios, the Company’s distinct performance obligation is to provide the fitness classes to the customer. The company-owned studios sell memberships by individual class and by class packages. Revenue from the sale of classes and class packages for a specified number of classes are recognized over time as the customer attends and utilizes the classes. Revenues from the sale of class packages for an unlimited number of classes are recognized over time on a straight-line basis over the duration of the contract period.

On-demand revenue – The Company grants a subscriber access to an online hosted platform, which contains a library of web-based classes that is continually updated, through monthly or annual subscription packages. Revenue is recognized over time on a straight-line basis over the subscription period.

Other revenue – The Company earns commission income from certain of its franchisees’ use of certain preferred vendors. In these arrangements, the Company is the agent as it is not primarily responsible for fulfilling the orders. Commissions are earned and recognized at the point in time the vendor ships the product to franchisees.

Sales taxes, value added taxes and other taxes that are collected in connection with revenue transactions are withheld and remitted to the respective taxing authorities. As such, these taxes are excluded from revenue. The Company elected to account for shipping and handling as activities to fulfill the promise to transfer the good. Therefore, shipping and handling fees that are billed to franchisees are recognized in revenue and the associated shipping and handling costs are recognized in cost of product sold as soon as control of the goods transfers to the franchisee.

Credit Losses – The Company’s accounts and notes receivable are recorded at net realizable value, which includes an appropriate allowance for estimated credit losses. The estimate of credit losses is based upon historical bad debts, current receivable balances, age of receivable balances, the customer’s financial condition and current economic trends, all of which are subject to change. Actual uncollected amounts have historically been consistent with the Company’s expectations. The Company’s payment terms on its receivables from franchisees are generally 30 days.

(amounts in thousands, except share, per share and unit amounts)

The following table provides a reconciliation of the activity related to the Company's accounts receivable, other receivables and notes receivable allowance for credit losses:

	Accounts receivable	Other receivables	Notes receivable	Total
Balance at January 1, 2019	$ 137	$ —	$ 676	$ 813
Bad debt expense recognized during the year	228	429	1,299	1,956
Write-off of uncollectible amounts	(140)	—	—	(140)
Balance at December 31, 2019	225	429	1,975	2,629
Bad debt expense recognized during the year	2,685	—	81	2,766
Write-off of uncollectible amounts	(505)	—	(147)	(652)
Balance at December 31, 2020	2,405	429	1,909	4,743
Bad debt expense recognized during the year	102	—	308	410
Write-off of uncollectible amounts	(314)	—	(78)	(392)
Balance at December 31, 2021	$ 2,193	$ 429	$ 2,139	$ 4,761

Shipping and handling fees – Shipping and handling fees billed to customers are recorded in merchandise and equipment revenues. The costs associated with shipping goods to customers are included in costs of product revenue in the consolidated statements of operations.

Costs of franchise and service revenue – Costs of franchise and service revenue consists of commissions related to the signing of franchise agreements, travel and personnel expenses related to the on-site training provided to the franchisees, and expenses related to the purchase of the technology packages and the related monthly fees. Costs of franchise and service revenue excludes depreciation and amortization.

Costs of product revenue – Costs of product revenue consists of cost of equipment and merchandise and related freight charges. Costs of product revenue excludes depreciation and amortization.

Advertising costs – Advertising costs are expensed as incurred. Advertising costs are included in selling, general and administrative expense. For the years ended December 31, 2021, 2020 and 2019, the Company had approximately $6,890, $5,409 and $6,622, respectively, of advertising costs, including amounts spent in excess of marketing fund revenue.

Selling, general and administrative expenses – The Company's selling, general and administrative ("SG&A") expenses primarily consist of salaries and wages, sales and marketing expenses, professional and legal fees, occupancy expenses, management fees, travel expenses and conference expenses.

Marketing fund expenses – Marketing fund expenses are recognized as incurred, and any marketing fund expenditures in excess of marketing fund revenue are reclassified as SG&A expenses in the consolidated statements of operations.

Acquisition and transaction expenses (income) – Acquisition and transaction expenses (income) include costs directly related to the acquisition of businesses, which include expenditures for advisory, legal, valuation, accounting and similar services, in addition to amounts recorded for changes in contingent consideration (see Note 16).

(amounts in thousands, except share, per share and unit amounts)

Accrued expenses – Accrued expenses consisted of the following:

	December 31, 2021		December 31, 2020	
Accrued compensation	$	4,248	$	2,351
Contingent consideration from acquisitions, current portion		3,678		3,229
Sales tax accruals		6,003		4,931
Legal accruals		2,932		—
Accrued offering costs		—		2,151
Accrued deemed dividend		3,250		—
Other accruals		934		1,102
Total accrued expenses	$	21,045	$	13,764

Comprehensive income – The Company does not have any components of other comprehensive income recorded within the consolidated financial statements and therefore does not separately present a consolidated statement of comprehensive income in the consolidated financial statements.

Fair value measurements – ASC Topic 820, *Fair Value Measurements and Disclosures*, applies to all financial assets and financial liabilities that are measured and reported on a fair value basis and requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements. ASC 820 establishes a valuation hierarchy for disclosures of the inputs to valuations used to measure fair value.

This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates and yield curves), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 – Unobservable inputs that reflect assumptions about what market participants would use in pricing the asset or liability. These inputs would be based on the best information available, including the Company's own data.

The Company's financial instruments include cash, restricted cash, accounts receivable, notes receivable, accounts payable, accrued expenses and notes payable. The carrying amounts of these financial instruments approximates fair value due to their short maturities, proximity of issuance to the balance sheet date or variable interest rate.

Redeemable convertible preferred stock – The Convertible Preferred becomes redeemable at the option of the holder as of a specific date unless an event that is not probable of occurring happens before that date. Therefore, the Company determined that it is probable that the Convertible Preferred will become redeemable based on the passage of time. The Company has elected to recognize changes in the redemption value immediately as they occur and adjust the carrying amount of the instrument to equal the redemption value at the end of each reporting period.

Redeemable noncontrolling interests – Redeemable noncontrolling interests represent the economic interests of XPO LLC held by Class B common stockholders. Income or loss is attributed to the redeemable noncontrolling interests based on the weighted average LLC interests outstanding during the period. In December 2021, the Company and the Continuing Pre-IPO LLC Members amended the LLC agreement where the redemption option in cash was removed, except to the extent the cash proceeds to be used to make the redemption in cash are immediately available and were directly raised from a secondary offering of Company's equity securities. The redeemable noncontrolling interest was adjusted to its fair value as of such date and recorded in equity as noncontrolling interest.

Earnings (loss) per share – Basic earnings (loss) per share is calculated by dividing the earnings (loss) attributable to Class A common stockholders by the number of weighted-average shares of Class A common stock outstanding. Shares of Class B common stock do not share in the earnings or losses of the Company and are therefore not participating securities. As such, separate presentation of basic and diluted earnings (loss) per share of Class B common stock under the two-class method has not been presented.

Diluted earnings (loss) per share adjusts the basic earnings (loss) per share calculation for the potential dilutive impact of common shares such as equity awards using the treasury-stock method. Diluted earnings (loss) per share considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares would have an anti-dilutive effect. Shares of Class B common stock are considered potentially dilutive shares of Class A common stock; however, related amounts have been excluded from the computation of diluted earnings (loss) per share of Class A common stock because the effect would have been anti-dilutive under the if-converted and two-class methods.

Prior to the IPO, XPO LLC had one class of membership interest which was held by the Member. Earnings per share data is not provided in the consolidated financial statements for periods prior to the IPO as XPO LLC was a single-member limited liability company with only one unit.

Income taxes – The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities (“DTAs” and “DTLs”) for the expected future tax consequences of events that have been included in the financial statements. Under this method, the Company determines DTAs and DTLs on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on DTAs and DTLs is recognized in income in the period that includes the enactment date. The Company recognizes DTAs to the extent that it believes that these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, carryback potential if permitted under the tax law, and results of recent operations. If the Company determines that it would be able to realize DTAs in the future in excess of the net recorded amount, an adjustment to the DTA valuation allowance would be made, which would reduce the provision for income taxes.

The Company records uncertain tax positions in accordance with Accounting Standards Codification ("ASC") Topic 740 on the basis of a two-step process in which the Company (1) determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. The Company does not have any uncertain tax positions. The Company recognizes potential interest and penalties, if any, related to income tax matters in income tax expense. The Company did not incur any interest or penalties for the years ended December 31, 2021, 2020 and 2019.

Recently adopted accounting pronouncements –

Accounting for income taxes – In December 2019, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update ("ASU") No. 2019-02, “Income Taxes (Topic 740): Simplifying the Account for Income Taxes.” The FASB issued this update as part of its simplification initiative to improve areas of GAAP and reduce cost and complexity while maintaining usefulness. The main provisions include the removal of the exception to the incremental approach of intra-period tax allocation when there is a loss from continuing operations and income or gain from other items, the exception to the general methodology for calculating in an interim period when the year-to-date loss exceeds anticipated loss for the year, and requiring that an entity recognize a franchise tax that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax.

ASU 2019-12 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2020, for public business entities (“PBE”). The Company adopted ASU 2019-12 for the quarter ended September 30, 2021, its first quarter as a PBE. However, there was no cumulative effect to be recognized upon adoption.

Debt – In August 2020, the FASB issued ASU No. 2020-06, "Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40)." ASU 2020-06 simplifies the accounting for certain convertible instruments, amends guidance on derivative scope exceptions for contracts in an entity's own equity and modifies the guidance on diluted earnings per share calculations as a result of these changes. ASU 2020-06 will take effect for public entities for annual reporting periods beginning after December 15, 2021, and interim periods with those fiscal years. As permitted by the standard, the Company has elected to early adopt this standard in January of 2021 with no impact upon adoption.

Recently issued accounting pronouncements –

The Company qualifies as an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). An emerging growth company may take advantage of reduced reporting requirements and is relieved of certain other significant requirements that are otherwise generally applicable to public companies. As an emerging growth company the JOBS Act permits the Company an extended transition period for complying with new or revised accounting standards affecting public companies. The Company has elected to use this extended transition period.

Accounting for leases – In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." This new topic, which supersedes "Leases (Topic 840)," applies to all entities that enter into a contract that is or contains a lease, with some specified scope exemptions. This new standard requires lessees to evaluate whether a lease is a finance lease using criteria similar to those a lessee uses under current accounting guidance to determine whether a lease is a capital lease. Leases that do not meet the criteria for classification as finance leases are to be classified as operating leases.

Under the new standard, for each lease classified as an operating lease, lessees are required to recognize on the balance sheet: (i) a right-of-use ("ROU") asset representing the right to use the underlying asset for the lease term; and (ii) a lease liability for the obligation to make lease payments over the lease term.

Based on ASU No. 2020-05, "Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)," issued by FASB in June 2020, which defers the effective date of Leases (Topic 842) to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The guidance requires a modified retrospective transition approach with application in all comparative periods presented (the "comparative method"), or alternatively, as of the effective date as the date of initial application without restating comparative period financial statements (the "effective date method"). The Company expects to adopt the new standard on January 1, 2022 and use the effective date method for the initial application. The new guidance also provides several practical expedients and policies that companies may elect upon transition. The Company plans to elect the package of practical expedients under which we will not reassess the classification of our existing leases, reevaluate whether any expired or existing contracts are or contain leases or reassess initial direct costs under the new guidance. The Company does not expect to elect the practical expedient pertaining to land easements, as it is not applicable to its leases. Additionally, the Company expects to elect to use the practical expedient that permits a reassessment of lease terms for existing leases using hindsight.

We also expect to elect the short-term lease recognition exemption where we will not recognize ROU assets or lease liabilities for qualifying leases. For a lease to qualify it has to have a lease term that is 12 months or less and the cannot include the options to purchase the underlying assets that the lessee is reasonably certain to exercise. We also currently expect to elect the practical expedient to not separate lease and non-lease components.

The Company performed an analysis of the impact of the new lease guidance and is in the process of completing the final phase of the implementation of the new guidance. The implementation plan includes analyzing the impact of the new guidance on current lease contracts, reviewing the completeness of its existing lease portfolio, comparing accounting policies under current accounting guidance to the new accounting guidance and identifying potential differences from applying the requirements of the new guidance to its lease contracts. Upon transition to the new guidance on January 1, 2022, the Company currently expects to recognize approximately $17,600 and $21,800 of ROU assets and operating lease liabilities, respectively.

Credit Losses – In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments—Credit Losses (Topic 326)." The standard introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses and will apply to trade receivables. The new guidance will be effective for the Company's annual and interim periods beginning after December 15, 2022. The Company is currently evaluating the impact of the adoption of the standard on the consolidated financial statements.

(amounts in thousands, except share, per share and unit amounts)

Reference Rate Reform – In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by the expected transition away from reference rates that are expected to be discontinued, such as LIBOR. ASU 2020-04 was effective upon issuance. The Company may elect to apply the guidance prospectively through December 31, 2022. The Company is currently evaluating the impact of the adoption of the standard on the consolidated financial statements.

Business Combinations – In October 2021, the FASB issued ASU No. 2021-08, "Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers." ASU 2021-08 primarily addresses the recognition and measurement of acquired revenue contracts with customers at the date of and after a business combination. The amendment improves comparability by specifying for all acquired revenue contracts regardless of their timing of payment (1) the circumstances in which the acquirer should recognize contract assets and contract liabilities that are acquired in a business combination and (2) how to measure those contract assets and contract liabilities. This results in better comparability for revenue contracts with customers acquired in a business combination and revenue contracts with customers not acquired in a business combination. ASU 2021-08 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years with early adoption permitted. The Company is currently evaluating the impact of the adoption of the standard on the consolidated financial statements.

Note 3 – Acquisitions and Dispositions

The Company completed the following acquisitions which contain Level 3 fair value measurements related to the recognition of goodwill and intangibles.

Studios

During the years ended December 31, 2021 and 2020, the Company entered into agreements with franchisees under which the Company repurchased six and 18 studios, respectively, to operate as company-owned transition studios. The aggregate purchase price for the acquisitions was $450 and $1,150, less $60 and $231of net deferred revenue and deferred costs resulting in total purchase consideration of $390 and $919 for the years ended December 31, 2021 and 2020, respectively. The following summarizes the aggregate fair values of the assets acquired and liabilities assumed:

	December 31, 2021	December 31, 2020
Property and equipment	$ 196	$ 646
Reacquired franchise rights	194	158
Customer relationships	—	33
Goodwill	—	82
Total purchase price	$ 390	$ 919

The fair value of reacquired franchise rights was based on the excess earnings method and are considered to have an approximate five to eight-year life. The fair value of customer relationships is based on the cost approach and are considered to have an approximate one-year life. Inputs used in the methodologies primarily included sales forecasts, projected future cash flows and discount rate commensurate with the risk involved. The goodwill created through the purchases is attributable to the assumed future value of the cash flows from the studios acquired. The acquisitions were not material to the results of operations of the Company.

During the years ended December 31, 2021 and 2020, the Company refranchised 53 and six company-owned transition studios for aggregate proceeds of $433 and $58 and recorded a loss on disposal of the related assets of $483 and $37, respectively. The Company is actively seeking to refranchise the remaining company-owned transition studios, however expects to hold a small number of strategic transition studios for a limited time while facilitating the transfer of these studios to new or existing franchisees.

When the Company believes that a studio will be refranchised for a price less than its carrying value, but does not believe the studio has met the criteria to be classified as held for sale, the Company reviews the studio for impairment. The Company evaluates the recoverability of the studio assets by comparing estimated sales proceeds plus holding period cash flows, if any, to the carrying value of the studio. For studio assets that are not deemed to be recoverable, the Company recognizes impairment for any excess of carrying value over the fair value of the studios, which is based on the expected net sales proceeds. During the years ended December 31, 2021 and 2020, the Company recorded impairment charges of $781 and $0, respectively, which is a level 3 measurement and is included in selling, general and administrative expenses.

BFT

On October 13, 2021, the Company entered into an Asset Purchase Agreement ("APA") with GRPX Live Pty Ltd., an Australian corporation, and its affiliates (the "Seller") whereby the Company acquired certain assets relating to the concept and brand known as BFT™. Assets acquired include franchise rights, brand, intellectual property and the rights to manage and license the franchise business (the "Franchise System"). The Company also assumed certain contingent liabilities associated with the purchased assets and provided certain indemnifications to the Seller. This acquisition is expected to enhance the Company's franchise offerings and provide a platform for future growth, which the Company believes is complementary to its portfolio of franchises.

Consideration for the transaction included cash of $60,000 AUD ($44,322 USD based on the currency exchange rate as of the purchase date). In addition, the Company agreed to pay contingent consideration to the Seller consisting of quarterly cash payments based on the sales of the Franchise System and equipment packages in the U.S. and Canada, as well as a percentage of royalties collected by the Company, provided that aggregate minimum payments of $5,000 AUD (approximately $3,694 USD based on the currency exchange rate as of the purchase date) are required to be paid to the Seller for the two-year period ending December 31, 2023 and the aggregate amount of such payments for the two-year period ending December 31, 2023 is subject to a maximum of $14,000 AUD (approximately $10,342 USD based on the currency exchange rate as of the purchase date). Based on the purchase price allocation, the Company determined that the fair value of the estimated contingent consideration liability as of the acquisition date is $9,388 and is recorded in accrued expenses and contingent consideration from acquisitions in the consolidated balance sheets.

In addition, the Company entered into a Master Franchise Agreement ("MFA") with an affiliate of the Seller (the "Master Franchisee"), pursuant to which the Company granted the Master Franchisee the master franchise rights for the BFT™ brands in Australia, New Zealand and Singapore. In exchange, the Company will receive certain fees and royalties, including a percentage of the revenue generated by the Master Franchisee under the MFA. The MFA contains an option for the Company to repurchase the master franchise rights granted under the MFA in either 2023 or 2024 at a purchase price based on the Master Franchisee's EBITDA. If the Company (or a designee of the Company) does not exercise the option pursuant to the terms of the MFA, then the Company might be required to pay a cancellation fee to the Master Franchisee which might be material to the Company. If the Master Franchisee rejects an offer to repurchase the franchise rights, then the cancellation fee is not required to be paid.

At the acquisition date, there were certain claims and lawsuits against the Seller for which the Company has agreed to indemnify the Seller. The claims and lawsuits relate to alleged patent and trademark infringements. Plaintiff alleges that plaintiff has suffered, and is likely to continue to suffer, loss and damage due to breach of the patents by the Seller and is seeking damages or in the alternative an account of profits. The Seller has filed a cross-claim alleging that the defendant's two Australian patents are, and always have been, invalid and that they should be revoked. The Court held a trial in December 2020, and on February 14, 2022, the Court issued a decision holding that the Plaintiff's claims of infringement were invalid and that even if they were valid, the Seller did not infringe upon these patents and trademarks. In addition, the Plaintiff has brought related claims for patent infringement against the Seller in the United States District Court for Delaware, and these actions are currently pending. See Note 16 for additional information.

As a part of the purchase accounting, the Company has not recorded any liability for the potential cancelation fee (which was evaluated in accordance with ASC 805, Business Combinations) and potential legal indemnification liability (which was evaluated in accordance with ASC 450, Contingencies). The Company continues to evaluate additional information in relation to these matters, including information that existed as of the acquisition date.

(amounts in thousands, except share, per share and unit amounts)

The transaction was accounted for as a business combination using the acquisition method of accounting, which requires the assets acquired and the liabilities assumed to be recorded at their respective fair value as of the date of the transaction. The excess of the purchase price over the estimated fair value of the net assets and liabilities was allocated to goodwill. The Company determined the estimated fair values after review and consideration of relevant information as of the acquisition date, including discounted cash flows, quoted market prices and estimates made by management.

The allocation of the purchase price presented below was based on management's estimate of the fair values of the acquired assets and assumed liabilities using valuation techniques including income, cost and market approaches. These valuation techniques incorporate the use of expected future revenues, cash flows and growth rates as well as estimated discount rates commensurate with the risk involved. Trademark was valued using the relief from royalty method and is considered to have a 10-year life. Franchise agreements were valued using the excess earnings method and are considered to have an approximate 8.5-year life. Internal use software was valued using the cost method and is considered to have a three-year life. The goodwill of $21,210 arising from the acquisition consists largely of the synergies expected from combining the operations of the Company and BFT. The acquisition was not material to the results of operations of the Company.

The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date based on the purchase price allocation:

Goodwill	$	21,210
Franchise agreements		24,100
Trademark		8,100
Internal use software		300
Total purchase price	$	53,710

Goodwill and intangible assets recognized from this acquisition are expected to be tax deductible.

Rumble

On March 24, 2021, the Parent entered into a contribution agreement with Rumble Holdings LLC; Rumble Parent LLC and Rumble Fitness LLC (the “Selling Parties”) to acquire the franchise rights, brand, intellectual property and the rights to manage and license the “Rumble” franchise business. The Parent issued shares of the Parent’s Class A units equivalent to 1,300,032 shares of Class A common stock, which were used to fund the acquisition, and are subject to partial forfeiture if certain events occur. Additional units equivalent to 2,024,445 shares of Class A common stock were issued to the Selling Parties, which units will vest if share prices ranging from $50.62 to $75.56 are met, or if the Company or the Parent has a change of control. In connection with the contribution agreement, the Parent agreed to provide up to $20,000 in debt financing to the Selling Parties. See Note 8 for additional information. The Parent contributed all assets acquired from the Selling Parties to XPO LLC. The fair value of all the Parent’s Class A units issued to the Selling Parties was determined to be $20,483 and is a Level 3 measurement. The Company estimated the value of the Parent’s shares using Level 3 input factors including the fair value of the acquired entity, negotiated values with the sellers of the acquired entity, recent equity recapitalizations of the Parent, comparable industry transactions, adjusted EBITDA multiples ranging from 15 to 18 and the estimated fair value of the Company’s reporting units.

The Selling Parties are engaged in the business of operating fitness studios under the “Rumble” name which offer their customers boxing-inspired group fitness classes under the “Rumble” trade name, in addition to offering at home on-demand and live workouts on Rumble TV. The Company will also offer its customers related ancillary products and services related to this concept. The transaction terms include purchasing exclusive rights to establish and operate franchises under the “Rumble” trade name and use certain related assets for the purpose of establishing a franchise system. This acquisition is expected to enhance the Company’s franchise offerings and provide a platform for future growth, which the Company believes is complementary to its portfolio of franchises.

(amounts in thousands, except share, per share and unit amounts)

The transaction was accounted for as a business combination using the acquisition method of accounting, which requires the assets acquired to be recorded at their respective fair value as of the date of the transaction. The Company determined the estimated fair values after review and consideration of relevant information as of the acquisition date, including discounted cash flows, quoted market prices and estimates made by management. The fair values assigned to tangible and intangible assets acquired are based on management's estimates and assumptions. The following table summarizes the fair values of the assets acquired and liabilities assumed:

Goodwill	$	8,183
Franchise agreements		10,900
Trademark		1,400
Total purchase price	$	20,483

The consideration resulted in goodwill of $8,183, which consists largely of the synergies and economies of scale expected from combining the assets of Rumble with the Company's franchise servicing operations. The fair values, which are Level 3 measurements, of the recognizable intangible assets are comprised of trademarks and franchise agreements. The fair value of trademarks was estimated by the relief from royalty method and are considered to have a ten-year life. The fair value of the franchise agreements was based on the excess earnings method and are considered to have a ten-year life. Inputs used in the methodologies primarily included sales forecasts, projected future cash flows, royalty rate and discount rate commensurate with the risk involved. The acquisition was not material to the results of operations of the Company.

In connection with the Reorganization Transactions, the Parent merged with and into XPO Holdings. As a result, the shares issued to Rumble Holdings LLC, are treated as a liability on the Company's balance sheet instead of equity and are therefore subject to a quarterly fair value remeasurement on a mark-to-market basis as a derivative liability. The contingent consideration liability recorded at the IPO date was $23,100. See Note 16 for additional information.

Goodwill and intangible assets recognized from this acquisition are not expected to be tax deductible.

During the years ended December 31, 2021, 2020 and 2019 the Company incurred $978, $0 and $0 of transaction costs directly related to the acquisitions, which is included in acquisition and transaction expenses in the consolidated statements of operations.

(amounts in thousands, except share, per share and unit amounts)

Note 4 – Contract Liabilities and Costs from Contracts with Customers

Contract liabilities – Contract liabilities consist of deferred revenue resulting from franchise fees, development fees and master franchise fees paid by franchisees, which are recognized over time on a straight-line basis over the franchise agreement term. The Company also receives upfront payments from vendors under agreements that give the vendors access to franchisees' members to provide certain services to the members ("brand fees"). Revenue from the upfront payments is recognized on a straight-line basis over the agreement term and is reported in other service revenue. Also included in the deferred revenue balance are non-refundable prepayments for merchandise and equipment, as well as revenues for training, service revenue and on-demand fees for which the associated products or services have not yet been provided to the customer. The Company classifies these contract liabilities as either current deferred revenue or non-current deferred revenue in the consolidated balance sheets based on the anticipated timing of delivery. The following table reflects the change in franchise development and brand fee contract liabilities for the years ended December 31, 2021, 2020 and 2019. Other deferred revenue amounts of $11,805 and $6,852 for the years ended December 31, 2021 and 2020, respectively, are excluded from the table as the original expected duration of the contracts is one year or less.

	Franchise development fees	Brand fees	Total
Balance at January 1, 2019	$ 35,328	$ —	$ 35,328
Revenue recognized that was included in deferred revenue at the beginning of the year	(3,519)	—	(3,519)
Deferred revenue recorded as settlement in purchase accounting	—	—	—
Increase, excluding amounts recognized as revenue during the year	40,550	—	40,550
Balance at December 31, 2019	72,359	—	72,359
Revenue recognized that was included in deferred revenue at the beginning of the year	(7,921)	—	(7,921)
Deferred revenue recorded as settlement in purchase accounting	(1,329)	—	(1,329)
Increase, excluding amounts recognized as revenue during the year	13,262	5,385	18,647
Balance at December 31, 2020	76,371	5,385	81,756
Revenue recognized that was included in deferred revenue at the beginning of the year	(11,320)	(1,897)	(13,217)
Deferred revenue recorded as settlement in purchase accounting	(667)	—	(667)
Increase, excluding amounts recognized as revenue during the year	36,269	2,492	38,761
Balance at December 31, 2021	$ 100,653	$ 5,980	$ 106,633

(amounts in thousands, except share, per share and unit amounts)

The following table illustrates estimated revenue expected to be recognized in the future related to performance obligations that were unsatisfied (or partially unsatisfied) as of December 31, 2021. The expected future recognition period for deferred franchise development fees related to unopened studios is based on management's best estimate of the beginning of the franchise license term for those studios. The Company elected to not disclose short term contracts, sales and usage-based royalties, marketing fees and any other variable consideration recognized on an "as invoiced" basis.

Contract liabilities to be recognized in revenue in	Franchise development fees	Brand fees	Total
2022	$ 7,250	$ 3,142	$ 10,392
2023	7,747	2,838	10,585
2024	9,545	—	9,545
2025	10,376	—	10,376
2026	10,488	—	10,488
Thereafter	55,247	—	55,247
	$ 100,653	$ 5,980	$ 106,633

The following table reflects the components of deferred revenue:

	December 31, 2021	December 31, 2020
Franchise and area development fees	$ 100,653	$ 76,371
Brand fees	5,980	5,385
Equipment and other	11,805	6,852
Total deferred revenue	118,438	88,608
Non-current portion of deferred revenue	95,691	74,361
Current portion of deferred revenue	$ 22,747	$ 14,247

Contract costs – Contract costs consist of deferred commissions resulting from franchise and area development sales by third-party and affiliate brokers and sales personnel. The total commission is deferred at the point of a franchise sale. The commissions are evenly split among the number of studios purchased under the development agreement and begin to be amortized when a subsequent franchise agreement is executed. The commissions are recognized on a straight-line basis over the initial ten-year franchise agreement term to align with the recognition of the franchise agreement or area development fees. The Company classifies these deferred contract costs as either current deferred costs or non-current deferred costs in the consolidated balance sheets. The associated expense is classified within costs of franchise and service revenue in the consolidated statements of operations. At December 31, 2021 and 2020, there were approximately $3,071 and $2,553 of current deferred costs and approximately $41,941 and $35,417 in non-current deferred costs, respectively. The Company recognized approximately $6,006, $4,234 and $2,454 in franchise sales commission expense for the years ended December 31, 2021, 2020 and 2019, respectively.

Note 5 – Notes Receivable

The Company previously provided unsecured advances or extended financing related to the purchase of the Company's equipment or franchise fees to various franchisees. These arrangements have terms of up to 18 months with interest typically based on LIBOR plus 700 basis points with an initial interest free period. The Company also provided loans to various franchisees through its relationship with Intensive Capital Inc. ("ICI") (see Note 9 for additional information). The Company accrues the interest as an addition to the principal balance as the interest is earned. Activity related to these arrangements is presented within operating activities in the consolidated statements of cash flows.

The Company has also provided loans for the establishment of new or transferred franchise studios to various franchisees. These loans have terms of up to ten years and bear interest at a stated fixed rate ranging from 0% to 15%, or variable rates based on LIBOR plus a specified margin. The Company accrues interest as an addition to the principal balance as the interest is earned. Activity related to these loans is presented within investing activities in the consolidated statements of cash flows.

(amounts in thousands, except share, per share and unit amounts)

At December 31, 2021 and 2020, the principal balance of the notes receivable was approximately $7,473 and $5,773, respectively. The Company evaluates loans for collectability upon issuance of the loan and records interest only if the loan is deemed collectable. To the extent a loan becomes past due, the Company ceases the recording of interest in the period that a reserve on the loan is established. On a periodic basis, the Company evaluates its notes receivable balance and establishes an allowance for doubtful accounts, based on a number of factors, including evidence of the franchisee's ability to comply with the terms of the notes, economic conditions and historical collections. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. At December 31, 2021 and 2020, the Company has reserved approximately $2,139 and $1,909 as uncollectible notes receivable, respectively.

Note 6 – Property and equipment

Property and equipment consisted of the following:

	December 31, 2021	December 31, 2020
Furniture and equipment	$ 3,393	$ 3,586
Computers and software	8,686	6,451
Vehicles	12	12
Leasehold improvements	6,481	6,478
Construction in progress	982	1,201
Less: accumulated depreciation	(6,781)	(4,034)
Total property and equipment	$ 12,773	$ 13,694

Depreciation expense for the years ended December 31, 2021, 2020 and 2019 was $3,002, $2,587 and $1,254, respectively.

Note 7 – Goodwill and Intangible Assets

Goodwill represents the excess of cost over the fair value of identifiable net assets acquired related to the original purchase of the various franchise businesses and acquisition of company-owned transition studios. Goodwill is not amortized but is tested annually for impairment or more frequently if indicators of potential impairment exist. During the year ended December 31, 2021, there was an increase of $29,393 in previously reported goodwill due to the acquisitions of Rumble and BFT as discussed in Note 3. Goodwill totaled $169,073 and $139,680 as of December 31, 2021 and 2020, respectively.

Intangible assets consisted of the following:

		December 31, 2021			December 31, 2020		
	Amortization period (years)	Gross amount	Accumulated amortization	Net amount	Gross amount	Accumulated amortization	Net amount
Trademarks	10	$ 10,920	$ (794)	$ 10,126	$ 1,420	$ (373)	$ 1,047
Franchise agreements	7.5 – 10	69,500	(17,166)	52,334	34,500	(11,498)	23,002
Reacquired franchise rights	5 – 8	—	—	—	158	(15)	143
Customer relationships	1	—	—	—	33	(26)	7
Non-compete agreement	5	1,400	(1,282)	118	1,400	(1,002)	398
Web design and domain	3 – 10	430	(86)	344	130	(44)	86
Deferred video production costs	3	2,370	(1,036)	1,334	1,150	(316)	834
Total definite-lived intangible assets		84,620	(20,364)	64,256	38,791	(13,274)	25,517
Indefinite-lived intangible assets:							
Trademarks	N/A	72,607	—	72,607	72,607	—	72,607
Total intangible assets		$ 157,227	$ (20,364)	$ 136,863	$ 111,398	$ (13,274)	$ 98,124

Amortization expense for the years ended December 31, 2021, 2020 and 2019 was $7,170, $5,064 and $5,132, respectively.

(amounts in thousands, except share, per share and unit amounts)

The anticipated future amortization expense of intangible assets is as follows:

Year ending December 31,		
2022	$	10,217
2023		9,809
2024		9,513
2025		9,186
2026		6,502
Thereafter		19,029
Total	$	64,256

Note 8 – Debt

On September 29, 2017, H&W Franchise Holdings, LLC (“Parent”) obtained a five-year $55,000 term loan from a lender, along with a consortium of banks and other lenders (the “Prior Facility”). The rights and obligations were then assigned to and assumed by the Company and St. Gregory Holdco, LLC (“STG”), a subsidiary of the Parent immediately following the consummation of a related party recapitalization transaction. The Prior Facility also included a $3,000 revolving credit line for general corporate purposes. On June 28, 2018 and October 25, 2018, the Prior Facility was amended to increase the aggregate available borrowings to $145,000, including a $10,000 revolving credit line, and to extend the maturity date to October 25, 2023.

In December 2019, the Company entered into an amendment and waiver to the Prior Facility, pursuant to which, the Company agreed to pay monthly fees of $500 beginning on February 1, 2020, increasing by $500 on the first of each subsequent month until the amounts outstanding under the Prior Facility were repaid in full. In addition, the interest rate margin above LIBOR was to increase by 1% beginning on February 1, 2020, increasing by 1% on the first of each subsequent month until the amounts outstanding under the Prior Facility were repaid in full. Further, installment payments on the term loan were due in an amount equal to 1% of the aggregate amount of term loans beginning on February 1, 2020. In addition, penalties of up to $1,500 were to be incurred if certain information was not provided on the respective due dates through February 2020.

In February 2020, the Company entered into a further amendment to the Prior Facility that required a $30,000 principal payment, which was paid in February 2020 with the proceeds from an equity contribution (see Note 11). The amendment also reverted to the prior quarterly installment payment schedule and amended the monthly fees beginning March 1, 2020 to $1,000, increasing to $2,000 on August 1, 2020. The required information was provided by the due date related to $1,000 of penalties imposed by the December 2019 amendment. In February 2020, the Company paid $500 in penalties.

On February 28, 2020, the Company obtained a five-year $185,000 term loan from a lender, along with a consortium of other lenders (the “2020 Facility”). The 2020 Facility also included a $10,000 revolving credit facility. The 2020 Facility was collateralized by substantially all of the Company’s assets, including assets of the Company’s subsidiaries. The 2020 Facility had an interest rate based on a reference rate or LIBOR, plus an applicable margin. The proceeds of the term loan were used to repay borrowings, interest and fees outstanding under the Prior Facility, and a $1,000 prepayment penalty on the Prior Facility. In addition, $18,833 of the proceeds were distributed to the Member in March 2020. Principal payments of $925 were due quarterly beginning on June 30, 2020, and excess payments were required if the Company’s cash flows exceeded certain thresholds.

On March 24, 2021, the 2020 Facility was amended to provide for additional term loans in an amount up to $10,600, which amount was borrowed and the proceeds distributed to the Parent to fund a note payable under a $20,000 debt financing obligation in connection with the acquisition of Rumble (see Note 3 for additional information). Quarterly principal payments of $53 on the additional term loans were scheduled to begin June 30, 2021.

On April 19, 2021, the Company entered into a Financing Agreement with Wilmington Trust, National Association, as administrative agent and collateral agent, and the lenders party thereto (the “Credit Agreement”), which consists of a $212,000 senior secured term loan facility (the “Term Loan Facility”, and the loans thereunder, each a “Term Loan” and, together, the “Term Loans”). The Company’s obligations under the Credit Agreement are guaranteed by the Member and certain of the Company’s material subsidiaries and are secured by substantially all of the assets of the Member and certain of the Company’s material subsidiaries.

Under the Credit Agreement, the Company is required to make: (i) monthly payments of interest on the Term Loans and (ii) quarterly principal payments equal to 0.25% of the original principal amount of the Term Loans. Borrowings under the Term Loan Facility bear interest at a per annum rate of, at the Company's option, either (a) the specified LIBOR rate plus a margin of 6.50% or (b) the Reference Rate (as defined in the Credit Agreement) plus a margin of 5.50% (7.50% at December 31, 2021).

The Credit Agreement also contains mandatory prepayments of the Term Loans with: (i) 50% of the Member's and its subsidiaries' Excess Cash Flow (as defined in the Credit Agreement), subject to certain exceptions; (ii) 100% of the net proceeds of certain asset sales and insurance/condemnation events, subject to reinvestment rights and certain other exceptions; (iii) 100% of the net proceeds of certain extraordinary receipts, subject to reinvestment rights and certain other exceptions; (iv) 100% of the net proceeds of any incurrence of debt, excluding certain permitted debt issuances; and (v) up to $60,000 of net proceeds in connection with an initial public offering of at least $200,000, subject to certain exceptions.

Unless agreed in advance, all voluntary prepayments and certain mandatory prepayments of the Term Loan made (i) on or prior to the first anniversary of the closing date are subject to a 2.0% premium on the principal amount of such prepayment and (ii) after the first anniversary of the closing date and on or prior to the second anniversary of the closing date are subject to a 0.50% premium on the principal amount of such prepayment. Otherwise, the Term Loans may be paid without premium or penalty, other than customary breakage costs with respect to LIBOR Rate Term Loans.

The Credit Agreement contains customary affirmative and negative covenants, including, among other things: (i) to maintain certain total leverage ratios, liquidity levels and EBITDA levels; (ii) to use the proceeds of borrowings only for certain specified purposes; (iii) to refrain from entering into certain agreements outside of the ordinary course of business, including with respect to consolidation or mergers; (iv) restricting further indebtedness or liens; (v) restricting certain transactions with affiliates; (vi) restricting investments; (vii) restricting prepayments of subordinated indebtedness; (viii) restricting certain payments, including certain payments to affiliates or equity holders and distributions to equity holders; and (ix) restricting the issuance of equity. As of December 31, 2021, the Company was in compliance with these covenants.

The Credit Agreement also contains customary events of default, which could result in acceleration of amounts due under the Credit Agreement. Such events of default include, subject to the grace periods specified therein, failure to pay principal or interest when due, failure to satisfy or comply with covenants, a change of control, the imposition of certain judgments and the invalidation of liens the Company has granted.

The Company received net proceeds of $207,760 after deducting original issue discount equal to 2.0% of the gross amount of the borrowings under the Credit Agreement. The proceeds of the Term Loan were used to repay principal, interest and fees outstanding under the 2020 Facility aggregating $195,633 (including a prepayment penalty of approximately $1,929, which is included in interest expense for the year ended December 31, 2021) and for working capital and other corporate purposes. Principal payments of the Term Loan of $530 are due quarterly.

In July 2021, the Company repaid $115,000 of the principal balance of the Term Loans from proceeds of the IPO and Convertible Preferred. In connection with the repayment, the Company incurred a prepayment penalty of $413 and wrote off a pro rata portion of debt issuance costs and debt discount aggregating $2,454, which is included in interest expense for the year ended December 31, 2021.

On October 8, 2021, the Company entered into an amendment (the "Amendment") to the Credit Agreement. The Amendment provides for, among other things, additional term loan in an aggregate principal amount of $38,000 (the "2021 Incremental Term Loan"), the proceeds of which were used to fund the BFT acquisition and the payment of fees, costs and expenses related to the Amendment. The Amendment also (i) increased the amount of the quarterly principal payments of the loans provided pursuant to the Credit Agreement (including the 2021 Incremental Term Loan) commencing on December 31, 2021 and (ii) amended the amount of the prepayment premium applicable in the event the 2021 Incremental Term Loan is prepaid within two years of the effective date of the Amendment.

(amounts in thousands, except share, per share and unit amounts)

In April 2020, the Company received a loan in the amount of $3,665, pursuant to the Paycheck Protection Program (the "PPP") administered by the U.S. Small Business Administration. The PPP is part of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which provides for forgiveness of up to the full principal amount and accrued interest of qualifying loans guaranteed under the PPP. The loan was scheduled to mature April 17, 2022, bore interest at 1% per annum and required no payments during the first 16 months from the date of the loan. In June 2021, the Company was notified that the PPP loan was forgiven. The Company recorded the forgiveness, including accrued interest, as a gain on debt extinguishment in the consolidated statement of operations for $3,707 for the year ended December 31, 2021.

The Company incurred debt issuance costs of $996, $5,158 and $205 for the years ended December 31, 2021, 2020 and 2019, respectively. Debt issuance cost amortization amounted to approximately $5,749, $3,096 and $526 for the years ended December 31, 2021, 2020 and 2019, respectively. Unamortized debt issuance costs as of December 31, 2021 and 2020, were $341 and $5,094, respectively, and are presented as a reduction to long-term debt in the consolidated balance sheets.

Principal payments on outstanding balances of long-term debt as of December 31, 2021 were as follows:

Year ending December 31,		**Amount**
2022	$	2,960
2023		2,960
2024		2,960
2025		124,320
Total	$	133,200

The carrying value of the Company's long-term debt approximated fair value as of December 31, 2021 and 2020, due to the variable interest rate, which is a Level 2 input, or proximity of debt issuance date to the balance sheet date.

Note 9 – Related Party Transactions

The Company has numerous transactions with the pre-IPO Member and pre-IPO Parent and its affiliates. The significant related party transactions consist of borrowings from and payments to the Member and other related parties under common control of the Parent.

In September 2017, the Parent entered into a management services agreement with TPG Growth III Management, LLC ("TPG"), which was an affiliate of the Parent, to pay TPG an annual fee of $750 for management services provided to the Company. In June 2018, TPG assigned the management services agreement to H&W Investco Management LLC ("H&W Investco"), which is beneficially owned by a member of the Company's board of directors. During the years ended December 31, 2021, 2020 and 2019, the Company recorded approximately $462, $795 and $557, respectively, of management fees included within SG&A expenses for services received from H&W Investco, including reimbursement for reasonable out-of-pocket expenses. The management services agreement was terminated following the IPO in July 2021.

During the years ended December 31, 2021, 2020 and 2019, the Company recorded $0, $0 and $10,893, respectively, of deferred commission costs paid to affiliates of the Parent, which are being recognized over the initial ten-year franchise agreement terms.

As of December 31, 2019, the Company recorded a reduction to Member's equity of $31,735, representing the net amount of funds advanced to the Member, as the Company determined that the Member had no plan to repay these amounts in the foreseeable future. The receivable from the Parent was repaid in February 2020. During 2020, the Company provided net funds to STG aggregating $1,456 and recorded a corresponding reduction to member's equity for this same amount. During the year ended December 31, 2021, the Parent repaid the balance of the receivable. The aggregate receivable from the Parent at December 31, 2021 and 2020, was $0 and $1,456, respectively.

In February 2020, the Member contributed $49,443 to the Company in satisfaction of the $32,157 ($31,735 at December 31, 2019) receivable with the remainder recorded as a contribution. The proceeds were used to make a $30,000 principal payment on the Company's outstanding term loan under the Prior Facility (see Note 8), with the remainder available for unrestricted use by the Company. Also, in February 2020, the Company returned $19,443 of the contribution to the Member, which was recorded as a distribution. Also, in 2020, $53,760 of the proceeds from the borrowings under the 2020 Facility were forwarded to the Parent and recorded as a distribution. In August 2020, the Member contributed $10,000 to the Company, which was recorded as a contribution, the proceeds of which were used to repay the line of credit.

In March 2021, the Company recorded a distribution to the Parent of $10,600, which the Parent used to fund a note payable under a debt financing obligation in connection with the acquisition of Rumble. The Company earned interest at the rate of 11% per annum on the receivable from the Parent. In connection with the Reorganization Transactions, the Parent merged with and into the Member. XPO Inc. recorded $10,600 receivable from shareholder, as the Rumble seller is a shareholder of XPO Inc., for the debt financing provided to the Rumble seller.

The Company's Chief Executive Officer is the sole owner of ICI, which previously provided unsecured loans to the Company, which loans the funds to franchisees to purchase a franchise territory or to setup a studio. The Company recorded notes payable to ICI and notes receivable from the franchisees resulting from these transactions. The notes from ICI to the Company accrue interest at the time the loan is made, which is recorded as interest expense. The notes receivable begin to accrue interest 45 days after the issuance to the franchisee. At December 31, 2021 and 2020, the Company had recorded $96 and $94 of notes receivable and $0 and $86 of notes payable, respectively. The Company recognized $11, $13 and $48 of interest income and $5, $19 and $110 of interest expense for the years ended December 31, 2021, 2020 and 2019, respectively.

In September 2019, the Company entered into a five-year building lease agreement, expiring August 31, 2024, with Von Karman Production LLC, which is owned by the Company's Chief Executive Officer. Pursuant to the lease, the Company is obligated to pay monthly rent of $25 for the initial twelve months of the lease term with subsequent 3% annual rent increases. During the years ended December 31, 2021, 2020 and 2019, the Company recorded expense related to this lease of $319, $319 and $101, respectively and paid a security deposit of $29 related to this lease during the year ended December 31, 2019.

The Company earns revenues and has accounts receivable and notes receivables from franchisees who are also shareholders of or officers of the Company. Revenues from these affiliates, primarily related to franchise revenue, marketing fund revenue and merchandise revenue, were $1,910, $666 and $1,329 for the years ended December 31, 2021, 2020 and 2019, respectively. Included in accounts receivable as of December 31, 2021 and 2020, is $320 and $9, respectively, for such sales. At December 31, 2021 and 2020, notes receivable from franchisees includes $294 and $135 and notes receivable from franchisees, net of current portion includes $1,744 and $2,093, respectively, related to financing provided to these affiliates.

Note 10 – Redeemable Convertible Preferred Stock

On July 23, 2021, the Company issued and sold in a private placement 200,000 newly issued shares of Series A-1 Convertible Preferred Stock, par value $0.0001 per share (the "Convertible Preferred"), for aggregate cash proceeds of $200,000, before deduction for offering costs. Holders of Convertible Preferred shares are entitled to quarterly coupon payments at the rate of 6.50% of the fixed liquidation preference per share, initially $1,000 per share. In the event the quarterly preferential coupon is not paid in cash, the fixed liquidation preference automatically increases at the PIK rate of 7.50%. The Convertible Preferred has an initial conversion price equal to $14.40 per share and is mandatorily convertible under certain circumstances and redeemable at the option of the holder beginning on the date that is eight years from the IPO or upon change of control.

At issuance, the Company assessed the Convertible Preferred for any embedded derivatives. The Company determined that the Convertible Preferred represented an equity host under FASB ASC Topic 815, *Derivatives and Hedging* (ASC 815). The Company's analysis was based on a consideration of all stated and implied substantive terms and features of the hybrid financial instrument and weighing those terms and features on the basis of the relevant facts and circumstances. Certain embedded features in the Convertible Preferred require bifurcation. However, the fair value of such embedded features are immaterial upon issuance and as of December 31, 2021.

The Convertible Preferred ranks senior to the Company's common stock with respect to the payment of dividends and distribution of assets upon liquidation, dissolution and winding up. It is entitled to receive any dividends or distributions paid in respect of the common stock on an as-converted basis and has no stated maturity and will remain outstanding indefinitely unless converted into common stock or repurchased by the Company. Series A preferred stock will vote on as-converted basis with the Class A and Class B common stock and will have certain rights to appoint additional directors, including up to a majority of the Company's Board of Directors, under certain limited circumstances relating to an event of default or the Company's failure to repay amounts due to the Convertible Preferred holders upon a redemption. Shares of Series A-1 preferred stock are non-voting; however, any shares of Series A-1 preferred stock issued to the Preferred Investors will convert on a one-to-one basis to shares of Series A preferred stock when permitted under relevant antitrust restrictions.

At any time after July 23, 2029, upon a sale of the Company, or at any time after the occurrence and continuance of an event of default, holders of the Convertible Preferred have the right to require the Company to redeem all, but not less than all, of the Preferred shares then outstanding at a redemption price in cash equal to the greater of (i) the fair market value per share of Preferred Stock (based on the average volume-weighted average price per share of Class A common stock for the 10 consecutive trading day period ending on, and including, the trading day immediately preceding the redemption notice, and (ii) the fixed liquidation preference, plus accrued and unpaid dividends.

The Convertible Preferred is recorded as mezzanine equity (temporary equity) on the consolidated balance sheets because it is not mandatorily redeemable but does contain a redemption feature at the option of the Preferred holders that is considered not solely within the Company's control.

At December 31, 2021, the Company recognized the Preferred maximum redemption value of $276,890, which is the maximum redemption value on the earliest redemption date based on fair market value per share of Preferred Stock (based on the average volume-weighted average price per share of Class A common stock for the 10 consecutive trading day period ending on, and including, the trading day immediately preceding the redemption notice redemption) and 200,000 outstanding shares of Preferred. The recording of the Preferred maximum redemption value was treated as a deemed dividend, which was not included in the calculation of loss per share, and resulted in a $78,494 charge to additional paid-in capital.

Note 11 – Member's/Stockholder's Equity (Deficit)

Member's contributions – As described in Note 3 and presented in the consolidated statements of changes to stockholders'/member's equity (deficit), during the year ended December 31, 2021, the Parent contributed assets related to the Rumble acquisition. The fair value of assets contributed was $20,483.

As described in Note 9, in February 2020, the Member contributed $49,443 to the Company, of which $32,157 was in satisfaction of the receivable from the Member and the remainder was a member's contribution. Of this $49,443, $30,000 was used to paydown the principal on outstanding term loans under the Prior Facility (see Note 8) with the remainder available for unrestricted use by the Company. Also, in February 2020, the Company returned $19,443 of the contribution to the Member, which was recorded as a distribution. Also, in 2020, $53,760 of the proceeds from the borrowings under the 2020 Facility were paid to the Parent and recorded as a distribution.

Common stock – As described in Note 1, in connection with the IPO in July 2021, the Company issued 10,000,000 shares of Class A common stock, at a price of $12.00 per share. Immediately after the IPO, 22,994,042 shares of Class A common stock were outstanding, including 12,994,044 shares issued to historical owners of the Parent. Also on July 23, 2021, in connection with the completion of the Reorganization Transactions, 23,542,663 shares of Class B common stock were issued to the Continuing Pre-IPO LLC Members. In August 2021, the Company sold 904,000 shares of Class A common stock to the underwriters pursuant to the underwriter's option to purchase additional shares. After underwriter discounts and commissions, the Company received net proceeds of approximately $10,116 on August 24, 2021, which were used (i) $9,000 to purchase 750,000 LLC Units from the Company's Chief Executive Officer and (ii) $1,116 for working capital.

(amounts in thousands, except share, per share and unit amounts)

Redeemable noncontrolling interests – Following the IPO, XPO Inc. is the sole managing member of XPO LLC and, as a result, consolidates the financial results of XPO LLC. The Company reported redeemable noncontrolling interests representing the economic interests in XPO LLC held by the Continuing Pre-IPO LLC Members. Under the Amended LLC agreement, the Continuing Pre-IPO LLC Members were able to exchange their LLC Units for shares of Class A common stock on a one-for-one basis (simultaneously cancelling an equal number of shares of Class B common stock of the exchanging member), or at the option of the Company for cash.

Prior to the second amendment of the LLC agreement. the Company's decision of whether to exchange LLC Units for Class A common stock or cash was made at the discretion of the Continuing Pre-IPO LLC Members through their control of the Company's Board of Directors. Accordingly, the redeemable noncontrolling interest was reported as temporary equity at the greater of the redemption value of the units or the carrying value as of the balance sheet date, with a corresponding adjustment to additional paid-in capital.

Noncontrolling interests – In December 2021, the Company and the Continuing Pre-IPO LLC Members amended the LLC agreement where the redemption option in cash was removed, except to the extent the cash proceeds to be used to make the redemption in cash are immediately available and were directly raised from a secondary offering of the Company's equity securities. The redeemable noncontrolling interest was adjusted to its fair value as of such date and recorded in equity as noncontrolling interest. Future redemptions or exchanges of LLC Units by the Continuing Pre-IPO LLC Members will result in a change in ownership and reduce the amount recorded as noncontrolling interest and increase additional paid-in capital.

The following table summarizes the ownership of XPO LLC as of December 31, 2021:

Owner	Units Owned	Ownership percentage
XPO Inc.	23,898,042	51.0 %
Redeemable noncontrolling interests	22,968,674	49.0 %
Total	46,866,716	100.0 %

Note 12 – Equity Compensation

In June 2021, the Company adopted the 2021 Omnibus Incentive Plan (“2021 Plan”) under which the Company may grant options, restricted stock units and other equity-based awards. The number of shares available for issuance under the 2021 Plan shall not exceed in the aggregate the sum of (i) 5,745,507 shares of Class A common stock and (ii) the number of shares of Class A common stock issuable pursuant to awards previously granted under the First Amended and Restated Profits Interest Plan of H&W Franchise Holdings LLC (“Pre-IPO Plan”)(taking into account any conversion of such outstanding Awards). As of December 31, 2021, there were 4,622,630 shares available for future grants under the Plan, less the variable number of shares relating to RSU awards granted with performance conditions classified as a liability. As an accounting policy election, the Company recognizes forfeitures as they occur.

Phantom stock –

Club Pilates and CycleBar issued 13,158 and 165 phantom stock units, respectively, to certain employees that settle, or are expected to settle, with cash payments. The phantom stock units are awarded with vesting conditions that include a service period and/or performance targets and a change of control and are subject to certain forfeiture provisions prior to vesting. There was no expense recorded for the years ended December 31, 2021, 2020 and 2019 related to the phantom stock units as vesting is not considered probable. During the years ended December 31, 2021 and 2020, 13,158 phantom stock units issued by Club Pilates and 165 phantom stock units issued by CycleBar were cancelled, respectively.

(amounts in thousands, except share, per share and unit amounts)

Profit interest units –

Under the Pre-IPO Plan, the Parent granted time-based and performance-based profit interest units to certain key employees of the Company and its subsidiaries. Subsequent to the IPO, the profit interest units converted to Class B shares. The fair value of the time-based grants is recognized as compensation expense over the vesting period (generally four years), with an increase to Member's contribution / Additional Paid-in Capital in Member's / Stockholders' equity. The fair value of the time-based grants was calculated using a Black-Scholes option-pricing model with the following assumptions:

	Years Ended December 31,		
	2021	2020	2019
Risk free interest rate	0.05% – 0.16 %	0.15 %	1.55% – 2.20 %
Weighted average volatility	47.3 %	39.6 %	41.8 %
Dividend yield	— %	— %	— %
Expected terms (in years) (1)	0.86	1.31	1.62

(1) The Company has limited historical information regarding the expected term. Accordingly, the Company determined the expected life of the units using the simplified method.

As of December 31, 2021, the Company had $216 of unrecognized compensation expense expected to be recognized over a weighted average period of approximately 1.11 years for the time-based grants. For the years ended December 31, 2021, 2020 and 2019, compensation expense of $906, $1,751 and $2,064, respectively, was included within SG&A expenses.

The performance-based grants are awarded with vesting conditions based on performance targets connected to the value received from change of control of the Parent and are subject to certain forfeiture provisions prior to vesting. There was no expense recorded for the years ended December 31, 2020 and 2019 related to the performance-based awards as vesting was not considered to be probable.

In June 2021, the Parent amended the vesting condition associated with the previously issued profit interest units with performance-based vesting conditions. The vesting condition, as amended, is based on the average trading price of XPO Inc. common stock exceeding the IPO threshold price, as defined in the agreement. The amendment of these units is treated as a modification with the compensation cost of the amended units of $18,127 recognized over the new estimated service period through November 2022. The Company recorded expense of $6,069 for the year ended December 31, 2021, related to the modified awards. As of December 31, 2021, the Company had $12,058 of unrecognized compensation expense expected to be recognized in 2022.

	Performance-based profit interests Number of units	Time-based profit interests Number of units
Outstanding at January 1, 2019	1,873,377	1,261,014
Issued	65,558	10,966
Vested	—	(397,754)
Forfeited, expired, or canceled	(59,707)	(44,797)
Outstanding at December 31, 2019	1,879,228	829,429
Issued	52,638	52,672
Vested	—	(404,585)
Forfeited, expired, or canceled	—	—
Outstanding at December 31, 2020	1,931,866	477,516
Issued	2,681	3,097
Vested	—	(406,519)
Forfeited, expired, or canceled	—	—
Outstanding at December 31, 2021	1,934,547	74,094
Expected to vest	1,934,547	74,094

(amounts in thousands, except share, per share and unit amounts)

Restricted stock units –

The following table summarizes activity for restricted stock units ("RSUs") for the year ended December 31, 2021:

	Shares	Weighted Average Grant Date Fair Value per Share
Outstanding at January 1, 2021	—	$ —
Issued	1,122,877	13.76
Vested	—	—
Forfeited, expired, or canceled	—	—
Outstanding at December 31, 2021	1,122,877	$ 13.76

Restricted stock units are valued at the Company's closing stock price on the date of grant, and generally vest over a one- to three-year period. Compensation expense for restricted stock units is recognized on a straight-line basis. Total compensation expense recognized for restricted stock units was $2,372 for the year ended December 31, 2021. At December 31, 2021, the Company had $13,082 of total unamortized compensation expense related to non-vested restricted stock units. That cost is expected to be recognized over a weighted-average period of 2.33 years. In the year ended December 31, 2021, there were no forfeitures and no awards vested.

The Company granted RSU awards with performance conditions of meeting certain EBITDA targets through the year ending December 31, 2024. The awards were granted with fixed dollar valuation and the number of shares granted depends on the trading price at the closing date of the period in which the EBITDA target is met. As such, these awards are classified as a liability. As of December 31, 2021, management believes that the EBITDA targets will be achieved and is accordingly recognizing expense ratably over the vesting period. Management performs a regular assessment to determine the likelihood of meeting the targets and adjusts the expense recognized if necessary. As of December 31, 2021, the Company recognized $352 of expense and had $7,523 of total unrecognized expense relating to these grants.

On March 1, 2022, the Human Capital Management Committee of the Board of Directors of the Company approved the grant of (i) 1,221,261 RSUs with a targeted fair value at the grant date of approximately $25,000, which will be recognized as expense over the vesting period of three to four years and (ii) performance-based RSUs with an aggregate fair value of approximately $1,000, which will be recognized as expense over the three-year vesting period assuming the performance targets are achieved as of December 31, 2022.

Note 13 – Income Taxes and Tax Receivable Agreement

The Company is the managing member of XPO Holdings and, as a result, consolidates the financial results of XPO Holdings in the consolidated financial statements. XPO Holdings is a pass-through entity for U.S. federal and most applicable state and local income tax purposes following a corporate reorganization effected in connection with the IPO. As an entity classified as a partnership for tax purposes, XPO Holdings is not subject to U.S. federal and certain state and local income taxes. Any taxable income or loss generated by XPO Holdings is passed through to and included in the taxable income or loss of its members, including the Company. The Company is taxed as a corporation and pays corporate federal, state and local taxes with respect to income allocated from XPO Holdings, based on our 51% economic interest in XPO Holdings.

Prior to 2021, the Company was a pass-through entity for income tax purposes. As such, the information below is not applicable for periods prior to 2021.

Loss before income taxes for the year ended December 31, 2021 is as follows:

U.S. loss before income taxes	$ (50,599)
Foreign loss before income taxes	(58)
Loss before income taxes	$ (50,657)

(amounts in thousands, except share, per share and unit amounts)

Income tax expense (benefit) for the year ended December 31, 2021 consists of the following:

Current tax provision:		
Federal	$	322
State		274
Foreign		187
Total current tax provision		783
Deferred tax expense (benefit):		
Federal		—
State		—
Foreign		—
Total deferred tax expense		—
Income tax provision	$	783

A reconciliation between the Company's effective tax rate and the applicable U.S. federal statutory income tax rate for the year ended December 31, 2021 is as follows:

Tax computed at federal statutory rate	21.00 %
State tax, net of federal tax benefit	(0.07)%
Non-controlling interests	(2.10)%
Income (loss) from pass-through entities	(5.34)%
Permanent items	(1.48)%
Contingent consideration	(10.41)%
Preferred stock dividend	(1.50)%
Other	(0.02)%
Valuation allowance	(1.63)%
Effective tax rate	(1.55)%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes. The components that comprise the Company's net deferred tax assets consist of the following as of December 31, 2021:

Deferred tax assets:		
Investment in partnership	$	28,164
Net operating losses		28,844
Tax receivable agreement		59
Interest expense		3,055
Deferred revenue		1,111
Other		379
Total deferred tax assets		61,612
Valuation allowance for deferred tax assets		(61,592)
Total deferred tax assets, net of valuation allowance		20
Deferred tax liabilities:		
Property and equipment and intangible assets		(3)
Other		(17)
Total deferred tax liabilities		(20)
Net deferred tax assets (liabilities)	$	—

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2021. Such objective evidence limits the ability to consider other subjective evidence, such as projections for future growth.

On the basis of this evaluation, as of December 31, 2021, a full valuation allowance of $61,592 has been applied against the Company's net deferred tax assets that are not more likely than not to be realized. The amount of the DTA considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as projections for growth.

The Company recorded a valuation allowance to equity at the IPO date against its deferred tax assets related to its investment in XPO Holdings of approximately $60,197.

As of December 31, 2021, the Company had federal and state net operating loss carryforwards of $109,182 and $109,560, respectively. Of the total federal net operating losses, approximately $95,896 were generated after January 1, 2018, and therefore do not expire. Federal net operating losses generated after January 1, 2018 are subject to a taxable income limitation of 80% in accordance with the Tax Cuts and Jobs Act of 2017. The remaining federal and state net operating loss carryforwards will begin to expire in 2034, unless previously utilized by the Company. As of December 31, 2021, the Company has foreign tax credits of $137 that begin to expire in 2030.

Utilization of the net operating losses and credit carryforwards may be subject to annual limitations due to ownership changes that have occurred or that could occur in the future, as required by Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the "Code"), as well as similar state and foreign provisions. These ownership changes may limit the amount of net operating losses and R&D credit carryforwards that can be utilized annually to offset future taxable income and tax, respectively. In general, an "ownership change" as defined by Section 382 of the Code results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50 percentage points of outstanding stock of a company by certain stockholders.

On March 27, 2020, the United States enacted the CARES Act. The CARES Act is an emergency economic stimulus package that includes spending and tax breaks to strengthen the United States economy and fund a nationwide effort to curtail the effect of COVID-19. The CARES Act provides sweeping tax changes in response to the COVID-19 pandemic, some of the more significant provisions are amending certain provisions of the previously enacted Tax Cuts and Jobs Act related to depreciable property and net operating losses, deferral of payroll taxes, and the PPP. At December 31, 2021, the Company has not booked any income tax provision/(benefit) for the impact for the CARES Act due to its recent incorporation and the pass- through treatment of XPO Holdings. The Company has deferred payroll taxes of approximately $325 which will be due on or before December 31, 2022.

The Company is subject to taxation and files income tax returns in the United States federal jurisdiction, many state and foreign jurisdictions. The Company is not currently under examination by income tax authorities in federal, state or other jurisdictions. The Company’s tax returns remain open for examination in the U.S for years 2018 through 2021. The Company's foreign subsidiaries are generally subject to examination three years following the year in which the tax obligation originated. The years subject to audit may be extended if the entity substantially understates corporate income tax.

The Company does not expect a significant change in unrecognized tax benefits during the next 12 months.

Tax Receivable Agreement – In connection with the IPO, the Company entered into a TRA pursuant to which the Company is generally required to pay to the other parties thereto in the aggregate 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the Company actually realizes as a result of (i) certain favorable tax attributes acquired from the Blocker Companies in the Mergers (including net operating losses and the Blocker Companies’ allocable share of existing tax basis), (ii) increases in the Company's allocable share of existing tax basis and tax basis adjustments that resulted or may result from (x) the IPO Contribution and the Class A-5 Unit Redemption, (y) future taxable redemptions and exchanges of LLC Units by Continuing Pre-IPO LLC Members and (z) certain payments made under the TRA, and (iii) deductions attributable to imputed interest pursuant to the TRA (the “TRA Payments”). The Company expects to benefit from the remaining 15% of any tax benefits that it may actually realize. The TRA Payments are not conditioned upon any continued ownership interest in XPO Holdings or the Company. To the extent that the Company is unable to timely make payments under the TRA for any reason, such payments generally will be deferred and will accrue interest until paid.

The timing and amount of aggregate payments due under the TRA may vary based on a number of factors, including the amount and timing of the taxable income the Company generates each year and the tax rate then applicable. The Company calculates the liability under the TRA using a complex TRA model, which includes an assumption related to the fair market value of assets. The payment obligations under the TRA are obligations of XPO Inc. and not of XPO Holdings. Payments are generally due under the TRA within a specified period of time following the filing of the Company’s tax return for the taxable year with respect to which the payment obligation arises, although interest on such payments will begin to accrue at a rate of LIBOR plus 100 basis points from the due date (without extensions) of such tax return.

The TRA provides that if (i) there is a material breach of any material obligations under the TRA; or (ii) the Company elects an early termination of the TRA, then the TRA will terminate and the Company's obligations, or the Company's successor’s obligations, under the TRA will accelerate and become due and payable, based on certain assumptions, including an assumption that the Company would have sufficient taxable income to fully utilize all potential future tax benefits that are subject to the TRA and that any LLC Units that have not been exchanged are deemed exchanged for the fair market value of the Company's Class A common stock at the time of termination. The TRA also provides that, upon certain mergers, asset sales or other forms of business combination, or certain other changes of control, the TRA will not terminate but the Company’s or the Company’s successor’s obligations with respect to tax benefits would be based on certain assumptions, including that the Company or the Company’s successor would have sufficient taxable income to fully utilize the increased tax deductions and tax basis and other benefits covered by the TRA.

As of December 31, 2021, the Company has concluded, based on applicable accounting standards, that it was more likely than not that its deferred tax assets subject to the TRA would not be realized; therefore, the Company has not recorded a liability related to the tax savings it may realize from utilization of such deferred tax assets. Except for $1,440 of the current portion of the TRA, $37,203 of the TRA liability was not recorded as of December 31, 2021. If utilization of the deferred tax asset subject to the TRA becomes more likely than not in the future, the Company will record a liability related to the TRA which will be recognized as expense within its consolidated statements of operations.

Note 14 – Earnings (Loss) Per Share

For the year ended December 31, 2021, basic net loss per share has been calculated by dividing net loss attributable to Class A common stockholders for the period subsequent to the Reorganization Transactions, by the weighted average number of shares of Class A common stock outstanding for the same period. Shares of Class A common stock are weighted for the portion of the period in which the shares were outstanding. Diluted net loss per share has been calculated in a manner consistent with that of basic net loss per share while considering all potentially dilutive shares of Class A common stock outstanding during the periods.

Because a portion of XPO Holdings is owned by parties other than the Company, those parties participate in earnings and losses at the XPO Holdings level. Additionally, given the organizational structure of XPO Inc, a parallel capital structure exists at XPO Holdings such that the shares of XPO Holdings are redeemable on a one-to-one basis with the XPO Inc. shares. In order to maintain the one-to-one ratio, the preferred stock issued at the XPO Inc. level also exist at the XPO Holdings level. The Company applies the two-class method to allocate undistributed earnings or losses of XPO Holdings, and in doing so, determines the portion of XPO Holdings’ income or loss that is attributable to the Company and accordingly reflected in income or loss available to common stockholders in the Company’s calculation of basic earnings or loss per share. Due to the attribution of only a portion of the preferred stock dividends issued by XPO Holdings to the Company in first determining basic earnings or loss per share at the subsidiary level, the amounts presented as net loss attributable to redeemable noncontrolling interests and net loss attributable to XPO Inc. presented below will not agree to the amounts presented on the consolidated statement of operations.

Diluted loss per share attributable to common stockholders adjusts the basic loss per share attributable to common stockholders and the weighted average number of shares of common stock outstanding for the potential dilutive impact of potential common stock. The potential dilutive impact of redeemable convertible preferred stock and Class B common stock is evaluated using the as-if-converted method. Because the Company reported net losses for the period presented, all potentially dilutive common stock equivalents are antidilutive and have been excluded from the calculation of diluted net loss per share.

(amounts in thousands, except share, per share and unit amounts)

The following table presents the calculation of basic and diluted loss per share for the year ended December 31, 2021:

	Year Ended December 31, 2021
Numerator:	
Net loss	$ (51,440)
Less: net loss attributable to redeemable noncontrolling interests	78,417
Less: dividends on preferred shares	(5,742)
Less: deemed dividend	(84,994)
Net loss attributable to XPO Inc.	$ (63,759)
Denominator:	
Weighted average shares of Class A common stock outstanding - basic and diluted	22,402,703
Loss per share of Class A common stock - basic and diluted	$ (2.85)
Anti-dilutive shares excluded from loss per share of Class A common stock:	
Rumble Class A common stock	1,300,032
Contingent Rumble shares	2,024,445
Restricted stock units	1,122,877
Shares of Class B common stock	22,968,674
Convertible preferred stock	13,888,889
Profit interest units, time vesting	74,094
Profit interest units, performance vesting	1,934,547
Total shares excluded from loss per share of Class A common stock - diluted	43,313,558

Note 15 – Employee Benefit Plan

The Company maintains the Xponential Fitness, Inc. 401(k) Profit Sharing Plan and Trust (the "401(k) Plan"). Employees who have completed one month of service and have attained age 18 are eligible to participate in elective deferrals under the 401(k) Plan. Employees are eligible to participate for purposes of matching contributions upon completion of one year of service. On an annual basis, the Company will determine the formula for the discretionary matching contribution. In addition, the Company may make a discretionary nonelective contribution to the 401(k) Plan. During the years ended December 31, 2021, 2020 and 2019, the Company recorded expense for matching contributions to the 401(k) Plan of $483, $338 and $197, respectively.

Note 16 – Contingencies and Litigation

Litigation – In August 2020, Get Kaisered Inc., Kaiser Fitness LLC and Anna Kaiser (collectively, the "Plaintiffs") filed a complaint against the Company and the Member alleging, among other claims, breaches by the Company of an asset purchase agreement and a consulting agreement. The complaint seeks relief including monetary damages and injunctive relief. On February 8, 2022, the Company entered into a settlement agreement with the Plaintiffs, pursuant to which the parties agreed to resolve all disputes and dismiss all actions. In addition, the Company agreed to pay Plaintiffs an amount in cash as part of the settlement. The Company has included in accrued expenses in the consolidated balance sheet an amount which approximates the settlement amount when combined with pre-existing obligations. The settlement is expected to be paid in 2022.

In connection with the October 2021 acquisition of BFT, the Company agreed to indemnify the Seller for certain claims and lawsuits against the Seller that existed at the acquisition date. The claims and lawsuits relate to alleged patent and trademark infringements. Plaintiff alleges that plaintiff has suffered, and is likely to continue to suffer, loss and damage due to breach of the patents by the Seller and is seeking damages or in the alternative an account of profits. The Seller has filed a cross-claim alleging that the defendant's two Australian patents are, and always have been, invalid and that they should be revoked. The Court held a trial in December 2020, and on February 14, 2022, the Court issued a decision holding that the Plaintiff's claims of infringement were invalid and that even if they were valid, the Seller did not infringe upon these patents and trademarks. In addition, the Plaintiff has brought related claims for patent infringement against the Seller in the United States District Court for Delaware, and these actions are currently pending.

The Company is subject to normal and routine litigation brought by former or current employees, customers, franchisees, vendors, landlords or others. The Company intends to defend itself in any such matters. The Company believes that the ultimate determination of liability in connection with legal claims pending against it, if any, will not have a material adverse effect on its business, annual results of operations, liquidity or financial position; however, it is possible that the Company's business, results of operations, liquidity or financial condition could be materially affected in a particular future reporting period by the unfavorable resolution of one or more matters or contingencies during such period. The Company accrued for estimated legal liabilities and has entered into certain settlement agreements to resolve legal disputes and recorded $2,931 and $679, which is included in accrued expenses in the consolidated balance sheets as of December 31, 2021 and 2020, respectively.

Contingent consideration from acquisitions – In connection with the 2017 acquisition of CycleBar from a then affiliate of the Member, the Company recorded contingent consideration of $4,390 for the estimated fair value of the contingent payment. Payment of additional consideration is contingent on CycleBar reaching two milestones based on a number of operating franchise studios and average monthly revenues by September 2022. The first milestone payout was $5,000 and the second milestone was $10,000. The contingent consideration is measured at estimated fair value using a probability weighted discounted cash flow analysis. These inputs include the probability of achievement, the projected payment date and the discount rate of 8.5% used to present value the projected cash flows. In March 2020, the Parent entered into an agreement with the former owners of CycleBar, which (i) reduced the second milestone amount to $2,500, (ii) imposed interest at 10% per annum on the first and second milestones beginning March 5, 2020 and April 2, 2020, respectively, and (iii) increased the interest rate to 14% on the first milestone if not paid prior to January 1, 2021. As a result, in March 2020, the Company recorded a reduction to the contingent consideration liability of $5,598 with an offsetting increase in Member's equity. The Company recorded approximately $744, $706 and $754 of additional contingent consideration as interest expense for the years ended December 31, 2021, 2020 and 2019, respectively. At December 31, 2021 and 2020, the contingent consideration was $0 and $8,100 recorded as contingent consideration from acquisitions, respectively, in the consolidated balance sheets. During the year ended December 31, 2021, the Company paid the contingent consideration in full.

In connection with the 2017 acquisition of Row House, the Company agreed to pay to the sellers 20% of operational or change of control distributions, subject to distribution thresholds, until the date on which a change in control or liquidation of Row House occurs. As of the purchase date, the Company determined the fair value was zero as the distribution threshold had not been met. During the year ended December 31, 2021, the Company recorded $540 of additional contingent consideration, which was recorded as acquisition and transaction expenses (income). During the year ended December 31, 2020, the Company recorded a reduction of $6,065 to contingent consideration, of which $215 and ($6,280) was recorded as interest expense and acquisition and transaction expenses (income), respectively. During the year ended December 31, 2019, the Company recorded $4,017 of additional contingent consideration, of which $197 was recorded as interest expense and $3,820 as acquisition and transaction expenses (income), respectively. As of December 31, 2021 and 2020, contingent consideration totaled approximately $840 and $300, respectively. The Company determines the estimated fair value using a discounted cash flow approach, giving consideration to the market valuation approach, which is a Level 3 measurement. Inputs used in the methodology primarily included sales forecasts, projected future cash flows and discount rate commensurate with the risk involved.

In connection with the 2017 acquisition of StretchLab, the Company agreed to pay to the seller 20% of operational or change of control distributions, until the date on which a change of control or a liquidation of StretchLab occurs. The Company determined the estimated fair value using a discounted cash flow approach, giving consideration to the market valuation approach, which is a Level 3 measurement. Inputs used in the methodology primarily included sales forecasts, projected future cash flows and discount rate commensurate with the risk involved. As of the purchase date, the Company determined the fair value of the contingent consideration was $171. In September 2019, the Company entered into a settlement agreement with the StretchLab sellers to resolve disputes related to the acquisition and related agreements and to settle all amounts due under the contingent consideration. Under the terms of the settlement agreement, the Company took ownership of four StretchLab studios owned by the sellers, with a fair value of $532 and will make payments to the sellers aggregating $6,500, which was recorded at the settlement date using a discount rate of 8.345%. At December 31, 2021 and 2020, the liability was $0 and $1,979, respectively, recorded as accrued expenses in the consolidated balance sheets. The Company made an initial payment of $1,000 in September 2019, and the first quarterly payment of $688 in December 2019. Quarterly payments of $688 continued through September 2021, when the final payment was made.

In connection with the 2018 acquisition of AKT, the Company agreed to pay the seller 20% of operational or change of control distributions, subject to distribution thresholds until the date on which a change of control or a liquidation of AKT occurs. During the years ended December 31, 2021, 2020 and 2019, the Company recorded no change in contingent consideration, reduction of $4,460 and increase of $4,460, respectively, which was recorded as acquisition and transaction expenses (income). As of December 31, 2021 and 2020, contingent consideration totals $0 in the consolidated balance sheets. The Company determines the estimated fair value using a discounted cash flow approach, giving consideration to the market valuation approach, which is a Level 3 measurement. Inputs used in the methodology primarily included sales forecasts, projected future cash flows and discount rate commensurate with the risk involved.

In connection with the 2018 acquisition of YogaSix, the Company is obligated to make additional payments for purchase consideration if certain events occur. Payment of additional consideration is contingent on YogaSix reaching a milestone of opening a number of franchise studios before the fourth anniversary of the purchase date. The contingent consideration is measured at estimated fair value using a probability weighted discounted cash flow analysis. The inputs include the probability of achievement, the projected payment date and the discount rate of 8.5% used to present value the projected cash flows. The Company recorded $50, $13 and $77 of additional contingent consideration as interest expense for the years ended December 31, 2021, 2020 and 2019, respectively. At December 31, 2021 and 2020, the contingent consideration payable was $0 and $1,000, respectively, and is included in accrued expenses in the consolidated balance sheets. During the year ended December 31, 2021, the Company paid the contingent consideration in full.

In connection with the 2018 acquisition of Stride, the Company initially recorded contingent consideration of $1,869 for the estimated fair value of the contingent payments. Payment of additional consideration was contingent on Stride reaching two milestones for opening franchise studios before the first anniversary of the purchase date. The contingent consideration is measured at estimated fair value using a probability weighted discounted cash flow analysis. These inputs include the probability of achievement, the projected payment date and the discount rate of 8.5% used to present value the projected cash flows. The contingent consideration agreement was modified in 2019 and 2020. Payments of additional consideration, as amended, are now contingent on Stride reaching milestones for opening two franchise studios and membership enrollments for such studios at various dates through 2021. At December 31, 2021 and 2020, the contingent consideration of $0 and $250, respectively, was recorded as accrued expenses in the consolidated balance sheets. During the year ended December 31, 2021, the Company paid the contingent consideration in full.

In connection with the Reorganization Transactions, the Parent merged with and into the Member. The Company recorded contingent consideration equal to the fair value of the shares issued in connection with the Rumble acquisition of $23,100 and $10,600 receivable from shareholder for debt financing provided to the Rumble seller. The shares issued to the Rumble seller are treated as a liability on the Company's balance sheet as they are subject to vesting conditions or forfeiture if the Rumble seller defaults under the terms of the note receivable. The fair value of the contingent consideration is measured at estimated fair value using a Monte Carlo simulation analysis. During the year ended December 31, 2021, the Company recorded an increase of $25,100 to contingent consideration, which was recorded as acquisition and transaction expenses (income). At December 31, 2021, contingent consideration totals $48,200, recorded as contingent consideration from acquisitions in the consolidated balance sheets.

In connection with the October 2021 acquisition of BFT, the Company agreed to pay contingent consideration to the Seller consisting of quarterly cash payments based on the sales of the Franchise System and equipment packages in the U.S. and Canada, as well as a percentage of royalties collected by the Company, provided that aggregate minimum payments of $5,000 AUD (approximately $3,694 USD based on the currency exchange rate as of the purchase date) are required to be paid to the Seller for the two-year period ending December 31, 2023 and the aggregate amount of such payments for the two-year period ending December 31, 2023 is subject to a maximum of $14,000 AUD (approximately $10,342 USD based on the currency exchange rate as of the purchase date). At the acquisition date, the Company determined that the fair value of the estimated contingent consideration liability was $9,388. During the year ended December 31, 2021, the Company recorded $130 of additional contingent consideration, which was recorded as interest expense. At December 31, 2021, contingent consideration was $3,678 and $5,841 recorded as accrued expenses and contingent consideration from acquisitions, respectively, in the consolidated balance sheets.

Leases – The Company has entered into various building space leases that are classified as operating leases, including one building lease with a related party (see Note 9). Total rent expense for the years ended December 31, 2021, 2020 and 2019 was $5,651, $3,133 and $2,658, respectively.

(amounts in thousands, except share, per share and unit amounts)

Future minimum lease payments at December 31, 2021 were as follows:

	Related-party lease	Third-party leases	Total
Year ending December 31,			
2022	$ 321	$ 3,392	$ 3,713
2023	331	3,397	3,728
2024	225	3,410	3,635
2025	—	3,245	3,245
2026	—	3,088	3,088
Thereafter	—	13,511	13,511
Total	$ 877	$ 30,043	$ 30,920

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of December 31, 2021. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2021, our disclosure controls and procedures were effective at the reasonable assurance level.

Remediation of Material Weaknesses

As disclosed in Part I, "Item 1A. Risk Factors" of this Annual Report on Form 10-K, we previously identified material weaknesses in our internal control over financial reporting related to inadequate or missing (i) anti-fraud programs and controls, and (ii) general information technology controls and controls over information provided by third-party service providers.

A material weakness is a deficiency, or combination of deficiencies, in our internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our consolidated financial statements would not be prevented or detected on a timely basis.

As of December 31, 2021, we have remediated these material weaknesses by implementing new policies and procedures to (a) enhance the risk assessment process to incorporate elements of fraud, (b) modify user role-based access and implement internal controls to enable effective segregation of duties around journal entries and (c) formalize information technology governance processes, policies and procedures, and implement controls over network operations, access security, change management and information provided by third-party service providers. The remediation measures have strengthened the design and operating effectiveness of our internal control over financial reporting.

We assessed the impact of the remediated material weaknesses to the consolidated financial statements to ensure that the Company's consolidated financial statements were prepared in accordance with GAAP and accurately reflect its financial position and results of operation for the year ended December 31, 2021. As a result, management concluded that the consolidated financial statements included in this Annual Report present fairly, in all material respects, the Company's financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

Management's Report on Internal Control Over Financial Reporting

This Annual Report does not include a report of management's assessment regarding internal control over financial reporting or an attestation of our independent registered public accounting firm as permitted in this transition period under the rules of the SEC for newly public companies.

Changes in Internal Control over Financial Reporting

Other than changes described under "Remediation of Material Weaknesses" above there have been no significant changes in our internal control over financial reporting during the quarter ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

On March 1, 2022, the Human Capital Management Committee (the “Committee”) of the Board of Directors of the Company approved a new compensation package for the named executive officers of the Company effective as of March 26, 2022 and March 2, 2022, with respect to cash compensation and RSUs, respectively, as follows:

Name and Title	Annual Base Salary	Cash Bonus (percentage of base salary)	Number of Shares of Class A Common Stock subject Restricted Stock Units (“RSUs”)
Anthony Geisler, Chief Executive Officer	$ 600,000	100 %	322,124
John Meloun, Chief Financial Officer	$ 315,000	50 %	241,592
Ryan Junk, Chief Operating Officer	$ 315,000	35 %	161,060

The shares of Class A common stock subject to RSUs shall vest 25% on each of the four anniversaries of March 2, 2022, in each case subject to the holder’s continued employment through such vesting date. The RSUs will be subject to the terms of the Company’s Omnibus Incentive Plan and individual award agreements.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information called for by Item 10 is incorporated by reference to our Definitive Proxy Statement relating to our 2021 Annual Meeting of Stockholders. We intend to file such Definitive Proxy Statement with the Securities and Exchange Commission within 120 days after the end of the calendar year covered by this Annual Report on Form 10-K.

Item 11. Executive Compensation.

The information required by this Item 11 will be contained in the Definitive Proxy Statement referenced above in Item 10 and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item 12 will be contained in the Definitive Proxy Statement referenced above in Item 10 and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item 13 will be contained in the Definitive Proxy Statement referenced above in Item 10 and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

The information required by this Item 14 will be contained in the Definitive Proxy Statement referenced above in Item 10 and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) Financial Statements.
The financial statements required by this item are listed in Part II, Item 8 "Financial Statements and Supplementary Data" herein.

(a)(2) Financial Statement Schedules.
The financial statement schedules are omitted as they are either not applicable or the information required is presented in the financial statements or notes thereto.

(a)(3) Exhibits.
The following is a list of exhibits filed as part of this Annual Report on Form 10-K.

Exhibit Index

Exhibit No.	Exhibit Description	Form	File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of Xponential Fitness, Inc.	S-1/A	333-257443	3.2	7/22/2021
3.2	Amended and Restated Bylaws of Xponential Fitness, Inc.	S-1/A	333-257443	3.4	07/16/2021
3.3	Certificate of Designations of 6.50% Series A Convertible Preferred Stock of Xponential Fitness, Inc.	S-1/A	333-257443	3.5	06/29/2021
3.4	Certificate of Designations of 6.50% Series A-1 Convertible Preferred Stock of Xponential Fitness, Inc.	S-1/A	333-257443	3.6	06/29/2021
4.1	Specimen Class A Common Stock Certificate of Xponential Fitness, Inc.	S-1	333-257443	4.1	06/25/2021
4.2*	Description of Securities.				
10.1	Second Amended and Restated Limited Liability Company Operating Agreement of Xponential Intermediate Holdings, LLC.	S-1/A	333-257443	10.12	06/29/2021
10.2	Form of Registration Rights Agreement among Xponential Fitness, Inc. and the Investors named therein.	S-1	333-257443	10.15	06/25/2021
10.3	Form of Indemnification Agreement between Xponential Fitness, Inc., Xponential Holdings, LLC and its directors and executive officers.+	S-1	333-257443	10.26	06/25/2021
10.4	Office Lease dated as of November 16, 2017 by and between Quintana Office Property LLC and Xponential Fitness LLC.	S-1	333-257443	10.1	06/25/2021
10.5	Financing Agreement dated as of April 19, 2021 by and among Xponential Intermediate Holdings, LLC, as Parent, Xponential Fitness, LLC, each other subsidiary of Parent listed, as Borrowers and each other subsidiary of Parent listed as a Guarantor, as Guarantors, the lenders party thereto, as Lenders, and Wilmington Trust, National Association, as Collateral Agent and Administrative Agent.	S-1	333-257443	10.8	06/25/2021
10.6	Tax Receivable Agreement among Xponential Fitness, Inc., Xponential Intermediate Holdings, LLC and the Persons named therein.	S-1/A	333-257443	10.13	07/16/2021
10.7	Form of Xponential Fitness, Inc. Omnibus Incentive Plan.+	S-1/A	333-257443	10.16	07/16/2021
10.8	Form of Xponential Fitness, Inc. Employee Stock Purchase Plan.+	S-1/A	333-257443	10.17	07/16/2021
10.9	Xponential Fitness, Inc. Omnibus Incentive Plan Form of Notice of RSU Award.+	S-1/A	333-257443	10.28	07/16/21
10.10	Employment Agreement dated as of July 1, 2021 by and between Xponential Fitness, LLC and Anthony Geisler.+	S-1/A	333-257443	10.18	07/16/21

10.11	Employment Agreement dated as of June 17, 2021 by and between Xponential Fitness, LLC and John Meloun.+	S-1	333-257443	10.19	06/25/2021
10.12	Employment Agreement dated as of June 17, 2021 by and between Xponential Fitness, LLC and Sarah Luna.+	S-1	333-257443	10.22	06/25/2021
10.13	Employment Agreement dated as of June 17, 2021 by and between Xponential Fitness, LLC and Ryan Junk.+	S-1	333-257443	10.21	06/25/2021
10.14	Employment Agreement dated as of June 17, 2021 by and between Xponential Fitness, LLC and Megan Moen.+	S-1	333-257443	10.20	06/25/2021
10.15	First Amended and Restated Phantom Equity Plan of Club Pilates Franchise, LLC.+	S-1	333-257443	10.24	06/25/2021
10.16*	First Amended and Restated Phantom Equity Plan of CycleBar Holdco, LLC.+				
10.17	Securities Purchase Agreement dated as of June 25, 2021 by and among the Purchasers listed therein and Xponential Fitness, Inc.	S-1/A	333-257443	10.27	06/29/2021
10.18	First Amended and Restated Profits Interest Plan of H&W Franchise Holdings LLC.	S-1	333-257443	10.23	06/25/2021
10.19*†	Asset Purchase Agreement by and among BFT Franchise Holdings, LLC, GPRX Live Pty Ltd, Body Fit Training Company Pty Ltd, Body Fit Training USA, Inc., the shareholders party thereto and Cameron Falloon dated as of October 13, 2021.				
10.20*	First Amendment to Financing Agreement dated as of July 27, 2021 by and among Xponential Intermediate Holdings, LLC, as Parent, Xponential Fitness, LLC, each other subsidiary of Parent listed, as Borrowers and each other subsidiary of Parent listed as a Guarantor, as Guarantors, the lenders party thereto, as Lenders, and Wilmington Trust, National Association, as Collateral Agent and Administrative Agent.				
10.21*	Second Amendment to Financing Agreement dated as of October 8, 2021 by and among Xponential Intermediate Holdings, LLC, as Parent, Xponential Fitness, LLC, each other subsidiary of Parent listed, as Borrowers and each other subsidiary of Parent listed as a Guarantor, as Guarantors, the lenders party thereto, as Lenders, and Wilmington Trust, National Association, as Collateral Agent and Administrative Agent.				
21.1*	Subsidiaries of Registrant.				
23.1*	Consent of Deloitte & Touche LLP				
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.				
101.SCH	Inline XBRL Taxonomy Extension Schema Document				

101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.
\+ Denotes management contract or compensatory plan, contract or arrangement.
† Portions of this exhibit have been redacted pursuant to Item 601(b)(10)(iv) of Regulation S-K.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized**.**

	Xponential Fitness, Inc.	
Date: March 4, 2022	By:	/s/ Anthony Geisler **Anthony Geisler** **Chief Executive Officer**

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John Meloun as his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming that said attorney-in-fact and agent, or his substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Name	Title	Date
/s/ Anthony Geisler **Name**	Chief Executive Officer and Director (principal executive officer)	March 4, 2022
/s/ John Meloun **Name**	Chief Financial Officer (principal financial and accounting officer)	March 4, 2022
/s/ Mark Grabowski **Name**	Chairman of the Board	March 4, 2022
/s/ Brenda Morris **Name**	Director	March 4 2022
/s/ Chelsea Grayson	Director	March 4, 2022

DESCRIPTION OF CAPITAL STOCK

In this exhibit, “we,” “us,” “our” and “our company” refer to Xponential Fitness, Inc.

Our authorized capital stock consists of 500,000,000 shares of Class A common stock, par value $0.0001 per share, 500,000,000 shares of Class B common stock, par value $0.0001 per share, and 5,000,000 shares of preferred stock, par value $0.0001 per share, of which 200,000 shares have been designated as Series A preferred stock and 200,000 shares have been designated as Series A-1 preferred stock (which together constitute the Convertible Preferred). Unless our board of directors determines otherwise, we will issue all shares of our capital stock in uncertificated form.

As of February 25, 2022, the number of shares of our Class A common stock and Class B common stock outstanding as of February 25, 2022 was 23,898,043 and 22,987,908 shares, respectively, and the number of shares of our Convertible Preferred outstanding was 200,000, which will be initially convertible into 11,111,111 shares of our Class A common stock.

Common Stock

Class A Common Stock

Holders of shares of our Class A common stock are entitled to one vote for each share held of record on all matters on which stockholders are entitled to vote generally, including the election or removal of directors. The holders of our Class A common stock do not have cumulative voting rights in the election of directors.

Holders of shares of our Class A common stock are entitled to receive dividends when and if declared by our board of directors out of funds legally available therefor, subject to any statutory or contractual restrictions on the payment of dividends and to any restrictions on the payment of dividends imposed by the terms of any outstanding preferred stock.

Upon our liquidation, dissolution or winding up and after payment in full of all amounts required to be paid to creditors and to the holders of preferred stock having liquidation preferences, if any, the holders of shares of our Class A common stock will be entitled to receive pro rata our remaining assets available for distribution.

Our Class A common stock will not be subject to further calls or assessments by us. The rights, powers and privileges of our Class A common stock will be subject to those of the holders of any shares of our preferred stock or any other series or class of stock we may authorize and issue in the future.

Class B Common Stock

Holders of shares of our Class B common stock are entitled to one vote for each share held of record on all matters on which stockholders are entitled to vote generally, including the election or removal of directors. The holders of our Class B common stock do not have cumulative voting rights in the election of directors.

Except for transfers to us pursuant to the limited liability company agreement of Xponential Holdings LLC (the “Amended LLC Agreement”) or to certain permitted transferees, the holders of the limited liability company units of Xponential Holdings LLC (the “LLC Units”) are not permitted to sell, transfer or otherwise dispose of any LLC Units or shares of Class B common stock. Holders of shares of our Class B common stock will vote together with holders of our Class A common stock as a single class on all matters on which stockholders are entitled to vote generally, except as otherwise required by law.

Holders of our Class B common stock do not have any right to receive dividends or to receive a distribution upon a liquidation or winding up of our company.

Preferred Stock

Unless required by law or any stock exchange, the authorized shares of preferred stock will be available for issuance without further action by holders of our common stock. Our board of directors is able to determine, with respect to any series of preferred stock, the powers (including voting powers), preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, including, without limitation:

- the designation of the series;

- the number of shares of the series, which our board of directors may, except where otherwise provided in the preferred stock designation, increase (but not above the total number of authorized share of the class) or decrease (but not below the number of shares then outstanding);

- whether dividends, if any, will be cumulative or non-cumulative and the dividend rate of the series;

- the dates at which dividends, if any, will be payable;

- the redemption rights and price or prices, if any, for shares of the series;

- the terms and amounts of any sinking fund provided for the purchase or redemption of shares of the series;

- the amounts payable on shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the affairs of our company;

- whether the shares of the series will be convertible into shares of any other class or series, or any other security, of our company or any other entity, and, if so, the specification of the other class or series or other security, the conversion price or prices or rate or rates, any rate adjustments, the date or dates as of which the shares will be convertible and all other terms and conditions upon which the conversion may be made;

- restrictions on the issuance of shares of the same series or of any other class or series; and

- the voting rights, if any, of the holders of the series.

We could issue a series of preferred stock that could, depending on the terms of the series, impede or discourage an acquisition attempt or other transaction that some, or a majority, of the holders of our common stock might believe to be in their best interests or in which the holders of our common stock might receive a premium over the market price of the shares of common stock. Additionally, the issuance of preferred stock may adversely affect the holders of our common stock by restricting dividends on the common stock, diluting the voting power of the common stock or subordinating the liquidation rights of the common stock. As a result of these or other factors, the issuance of preferred stock could have an adverse impact on the market price of our common stock.

Delaware law does not require stockholder approval for any issuance of authorized shares. However, the listing requirements of the New York Stock Exchange ("NYSE"), which would apply so long as the shares of Class A common stock remain listed on the NYSE, require stockholder approval of certain issuances equal to or exceeding 20% of the then outstanding voting power or the then outstanding number of shares of Class A common stock (we believe the position of the NYSE is that the calculation in this latter case treats as outstanding shares of Class A common stock issuable upon redemption or exchange of outstanding LLC Units not held by us). These additional shares of Class A common stock may be used for a variety of corporate purposes, including future public offerings, to raise additional capital or to facilitate acquisitions.

One of the effects of the existence of unissued and unreserved common stock or preferred stock may be to enable our board of directors to issue shares to persons friendly to current management, which could render more difficult or discourage an attempt to obtain control of our company by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of our management and possibly deprive the stockholders of opportunities to sell their shares at prices higher than prevailing market prices.

Convertible Preferred

Series A-1 preferred stock

Our Series A-1 preferred stock will be issued pursuant to and have the voting powers, designations, preferences and rights, and the qualifications, limitations and restrictions, set forth in the Series A-1 certificate of designations. The terms of our Series A-1 preferred stock are substantially identical to the terms of our Series A preferred stock, except that (i) our Series A preferred stock will vote together with our Class A common stock on an as-converted basis, but the Series A-1 preferred stock will not vote with the common stock on an as-converted basis and (ii) our Series A preferred stock will have certain board designation rights as described below, but our Series A-1 preferred stock will not have such board designation rights. When permitted under relevant antitrust restrictions, shares of our Series A-1 preferred stock will convert on a one-for-one basis to shares of voting Series A preferred stock.

Series A preferred stock

Our Series A preferred stock will be issued pursuant to and have the voting powers, designations, preferences and rights, and the qualifications, limitations and restrictions, set forth in the Series A certificate of designations. Capitalized terms used without definition under this heading “Series A preferred stock” have the meanings given to such terms under our Series A certificate of designations.

Coupons

Holders of our Series A preferred stock are entitled to quarterly coupon payments at the rate per annum of 6.50% of the Fixed Liquidation Preference per share, initially $1,000 per share, of our Series A preferred stock (the “preferential coupon”). In the event we do not pay any preferential coupons in cash, the Fixed Liquidation Preference of the Series A preferred stock shall automatically increase at the PIK Rate of 7.50%, on a compounding basis, on the applicable coupon payment date (the “PIK coupon” and, together with the preferential coupon, the “preferred coupons”). Thereafter, the preferential coupons shall accrue and be payable on such increased Fixed Liquidation Preference and such increased Fixed Liquidation Preference shall be Fixed Liquidation Preference with respect to such Series A preferred stock.

In addition, subject to certain exceptions set forth in the certificate of designations, no dividend or distribution shall be declared or paid on our common stock or any other class or series of Junior Securities, and none of our common stock or any other class or series of Junior Securities shall be purchased, redeemed or otherwise acquired for consideration by us, unless, in each case, (x) (1) after giving pro forma effect to any such dividend or distribution, purchase, redemption or other acquisition, our Total Leverage Ratio would not exceed 6.5x on a pro forma basis, (2) our Market Capitalization, minus the amount of such dividend or distribution, purchase, redemption or other acquisition, as of such date equals or exceeds $500.0 million and (3) no event of default under the Convertible Preferred shall have occurred and be continuing, (y) where, if holders of the Series A preferred stock participated in such dividend or distribution on an as-converted basis, such holders would receive an amount that exceeds the amount payable per annum in cash at the preferential coupon rate, such holders of Series A preferred stock participate in such dividend or distribution at an amount equal to such excess, and (z) all accumulated and unpaid preferred coupons (including any PIK coupons) for all preceding coupon periods and the then current coupon period have been and will be paid in full in cash, on all outstanding shares of Series A preferred stock.

Seniority and Liquidation Preference

Our Series A preferred stock, with respect to dividend rights and/or distribution rights upon the liquidation, winding-up or dissolution, as applicable, ranks (i) senior to each class or series of Junior Securities (including our common stock), (ii) on parity with each class or series of Parity Securities, (iii) junior to each class or series of Senior Securities and (iv) junior to our existing and future indebtedness and other liabilities. Our Series A preferred stock has a liquidation preference equal to the greater of (x) the Fixed Liquidation Preference per share of our Series A preferred stock, plus the applicable premium (as described below) and (y) the amount such holder would be entitled to receive on an as-converted to Class A common stock basis if such holder elected to convert its Series A preferred stock, as described below, on the date of such liquidation, winding-up or dissolution, plus an amount equal to accumulated and unpaid dividends on such share, whether or not declared, to, but excluding, the date fixed for liquidation, winding-up or dissolution to be paid out of our assets legally available for distribution to our stockholders, after satisfaction of debt and other liabilities owed to our creditors and holders of shares of any Senior Securities and before any payment or distribution is made to holders of any Junior Securities, including, without limitation, our common stock.

The “applicable premium” means (i) with respect to a redemption or liquidation occurring on or prior to the fifth anniversary of the initial issuance date of the Convertible Preferred, the sum of (1) all required and unpaid preferential coupons due on the Series A preferred stock payable at the preferential coupon rate from the applicable date of redemption through the date that is five years after the initial issuance date of the Convertible Preferred plus (2) 5.0% of the Fixed Liquidation Preference of the Series A preferred stock being so redeemed and (ii) with respect to a redemption or liquidation occurring after the fifth anniversary of the initial issuance date of the Convertible Preferred, but on or prior to the sixth anniversary of the initial issuance date of the Convertible Preferred, 5.0% of the Fixed Liquidation Preference.

Voting Rights; Consent Rights

Each holder of Series A preferred stock is entitled to the whole number of votes equal to the number of whole shares of Class A common stock into which such holder’s Series A preferred stock would be convertible and shall otherwise have voting rights and consent rights per share equal to the voting rights and consent rights of our Class A common stock to the fullest extent permitted by law. Each holder of Series A preferred stock shall vote as a class with the holders of our Class A common stock as if they were a single class of securities upon any matter submitted to a vote of our stockholders, except those matters required by law or by the terms of the certificate of designations to be submitted to a class vote of the Series A preferred stock, in which case the holders of Series A preferred stock only shall vote as a separate class.

Pursuant to the certificate of designations, we will not, without the affirmative vote or consent of the holders of a majority of the outstanding shares of our Convertible Preferred at the time outstanding and entitled to vote thereon, voting together as a single class (a “holder majority”), among other things: (i) amend our organizational documents so as to authorize or create, or increase the authorized number of, any class or series of Senior Securities or Parity Securities or adversely affect the special rights, preferences or voting powers of the shares of the Convertible Preferred or impose any additional obligations on the holders of the Convertible Preferred; (ii) issue any Parity Securities or Senior Securities; (iii) make any dividends or distributions, purchase, redeem or otherwise acquire any shares of capital stock or any securities convertible into, exercisable for or exchangeable into capital stock, except as permitted under “—Coupons” above, or cause any Spin-Off to occur; (iv) enter into certain transactions with our affiliates; (v) enter into merger or consolidation transactions where either we are not the surviving entity of such transaction or the surviving entity is not organized and existing under the laws of the United States or any state thereof, the District of Columbia or any territory thereof and does not assume the Convertible Preferred; or (vi) so long as the MSD Investor and the initial Preferred Investors continue to hold a specified amount of our Convertible Preferred, incur certain additional indebtedness or sell or dispose of any assets unless, among other things, our Total Leverage Ratio would not exceed 6.5x on a pro forma basis, our Market Capitalization equals or exceeds $500 million on a pro forma basis and no event of default under the Convertible Preferred (other than a default in our obligation to provide information rights) has occurred and is continuing, except for dispositions of assets not exceeding $40.0 million.

In addition, if the MSD Investors hold shares of our Series A preferred stock, then for so long as 50% of the shares of Convertible Preferred initially issued to the MSD Investors remains outstanding and held by the MSD Investors (including any shares of Series A preferred stock issued upon conversion of Series A-1 preferred stock as described below), the MSD Investors will be entitled to elect one director to our board of directors.

Redemption at our Option

At any time after the date that is five years after the initial issue date of the Convertible Preferred until the date that is six years after the initial issue date of the Convertible Preferred, we have the right to redeem all, but not less than all, of the Series A preferred stock at a redemption price in cash equal to the product of (x) the Fixed Liquidation Preference of the Series A preferred stock then outstanding and (y) 105%, plus accumulated and unpaid dividends to, but not including, the date of redemption. At any time after the date that is six years after the initial issue date of the Convertible Preferred, we have the right to redeem all, but not less than all, of the Series A preferred stock at a redemption price in cash equal to the Fixed Liquidation Preference of the Series A preferred stock then outstanding, plus accumulated and unpaid dividends to, but not including, the date of redemption.

Mandatory Redemption

At any time after the date that is eight years after the initial issue date of the Convertible Preferred, upon a Sale of the Company or at any time after the occurrence and continuance of an event of default of the Series A preferred stock, the holders of the Series A preferred stock have the right to require us to redeem all, but not less than all, of the Series A preferred stock then outstanding at a redemption price in cash equal to the greater of (i) the fair market value per share of Series A preferred stock (based on the average volume-weighted average price per share of our Class A Common Stock for the 10 consecutive trading day period ending on, and including, the trading day immediately preceding the mandatory redemption notice), calculated on an as-if converted basis and (ii) the Fixed Liquidation Preference, plus accrued and unpaid dividends to, but not including, the date of redemption; provided that if a Sale of the Company occurs prior to the date that is six years after the initial issue date of the Convertible Preferred, the amount in (ii) above would also include a cash amount equal to the applicable premium.

Optional Conversion

Each holder of shares of Series A preferred stock will have the option to convert its Series A preferred stock, in whole or in part at any time, into a number of shares of our Class A common stock equal to the Fixed Liquidation Preference for such shares of Series A preferred stock (plus any accrued and unpaid dividends to, but excluding, such conversion date) divided by the applicable conversion price as of the applicable conversion date.

Mandatory Conversion

If at any time, or from time to time, from and after the second anniversary, but on or prior to the third anniversary, of the initial issue date of the Convertible Preferred, the last reported sale price of our Class A common stock has equaled or exceeded 150% of the applicable conversion price for at least 20 out of any 30 consecutive trading days immediately preceding the mandatory conversion notice date, and certain conditions relating to the liquidity of our Class A commons stock are met, we have the right to require the holders of Series A preferred stock to convert all, or any portion, of the outstanding Series A preferred stock into a number of shares of our Class A common stock equal to the Fixed Liquidation Preference for such shares of Series A preferred stock (plus any accrued and unpaid dividends to, but excluding, such mandatory conversion date) divided by the applicable conversion price as of the applicable mandatory conversion date.

If at any time, or from time to time, after the third anniversary of the initial issue date of the Convertible Preferred, the last reported sale price of our Class A common stock has equaled or exceeded 125% of the applicable conversion price for at least 20 out of any 30 consecutive trading days immediately preceding the mandatory conversion notice date, and certain conditions relating to the liquidity of our Class A commons stock are met, we have the right to effect a mandatory conversion of the outstanding Series A preferred stock into a number of shares of our Class A common stock equal to the Fixed Liquidation Preference for such shares of Series A preferred stock (plus any accrued and unpaid dividends to, but excluding, such mandatory conversion date) divided by the applicable conversion price as of the applicable mandatory conversion date.

In addition, at such time as any transfer, other than to certain permitted transferees, of our Series A preferred stock by a Preferred Investor (or its permitted transferee) occurs, then all shares of the Series A preferred stock transferred by such Preferred Investors (or its permitted transferee) will immediately and automatically upon such transfer convert on a one-for-one basis to shares of our non-voting Series A-1 preferred stock.

Events of Default; Certain Remedies

If any of the following occurs, it will be an event of default under our Series A preferred stock:

• we fail to pay the mandatory redemption price when due and such breach continues for a period of three days after written notice from the holders of our Series A preferred stock;

• we fail to issue shares of our Class A common stock upon conversion of our Series A preferred stock and such breach continues for a period of three days after written notice from the holders of our Series A preferred stock;

• we or any of our affiliates default in the performance or compliance of any term contained in the Credit Agreement or any other indebtedness in excess of $5.0 million, which default results in an acceleration, and such acceleration shall continue unremedied after its applicable grace or cure period;

• we breach any covenant or other obligation to the holders of our Series A preferred stock contained in the certificate of designations or in any purchase agreement, subscription agreement or other agreement pursuant to which our Series A preferred stock was acquired from us, and such breach continues for a period of 20 days (or, in the case of a breach of our obligation to provide the Preferred Investors with certain information rights, 30 days) after written notice from the holders of our Series A preferred stock; or

• certain bankruptcy or insolvency events involving us occur.

Upon the occurrence and during the continuation of any event of default under our Series A preferred stock, (i) the preferential coupon rate applicable to our Series A preferred stock shall immediately be increased by 10.00% per annum, and (ii) we will be required, upon the demand of the holders of our Series A preferred stock, to redeem the issued and outstanding shares of our Series A preferred stock at the mandatory redemption price plus the applicable premium (if any) payable in cash.

In addition, with respect to our Series A preferred stock only, if we fail to complete a required mandatory redemption within 30 days of the date required for redemption, and so long as such event of default with respect to such mandatory redemption is continuing, the holder majority will have the right: (i) to immediately appoint one additional individual to our board of directors, (ii) to, after such event of default has continued for six months, appoint an additional number of individuals to our board of directors such that the holder majority have the right to appoint not less than 25% of the directors to our board of directors and (iii) after such event of default has been continuing for a year, appoint an additional number of individuals to our board of directors such that the holder majority have the right to appoint not less than a majority of the directors to our board of directors.

Preemptive Rights

If we intend to offer to sell newly issued equity or equity-linked securities to third parties, Preferred Investors holding at least 50% of the shares of the Convertible Preferred initially issued to such Preferred Investors on the initial issuance date of the Convertible Preferred will have the right to purchase such securities from us before we may offer them to other parties. Such preemptive rights would not apply, among other things, to issuances of securities by us in an underwritten public offering under the Securities Act or pursuant to a customary marketed Rule 144A offering under the Securities Act (or any successor rule thereto), including any related capped call, call spread or similar derivative security issued in connection therewith.

Information Rights

Each Preferred Investor who owns at least 50% of the Convertible Preferred initially issued to such Preferred Investor (including any shares of Series A preferred stock issued upon conversion of Series A-1 preferred stock) will be entitled to certain financial information from us.

Dividends

The Delaware General Corporation Law ("DGCL") permits a corporation to declare and pay dividends out of "surplus" or, if there is no "surplus," out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. "Surplus" is defined as the excess of the net assets of the corporation over the amount determined to be the capital of the corporation by its board of directors. The capital of the corporation is typically calculated to be (and cannot be less than) the aggregate par value of all issued shares of capital stock. Net assets equal the fair value of the total assets minus total liabilities. The DGCL also provides that dividends may not be paid out of net profits if, after the payment of the dividend, remaining capital would be less than the capital represented by the outstanding stock of all classes having a preference upon the distribution of assets. Declaration and payment of any dividend will be subject to the discretion of our board of directors and the rights and preferences of the Convertible Preferred under our certificate of designations.

Stockholder Meetings

Our amended and restated certificate of incorporation and our amended and restated bylaws will provide that annual stockholder meetings be held at a date, time and place, if any, as exclusively selected by our board of directors. Our amended and restated bylaws will provide that special stockholder meetings may be called only by or at the direction of our board of directors, the Chairman of our board of directors or Chief Executive officer. To the extent permitted under applicable law, we may conduct meetings by remote communications, including by webcast.

Transferability, Redemption and Exchange

Under the Amended LLC Agreement, the holders of LLC Units (other than us) will have the right to require Xponential Holdings LLC to redeem all or a portion of their LLC Units for, at our election, newly-issued shares of Class A common stock on a one-for-one basis or a cash payment equal to the volume-weighted average market price of one share of our Class A common stock for each LLC Unit redeemed (subject to customary adjustments, including for stock splits, stock dividends, and reclassifications) or the net proceeds from a substantially contemporaneous offering of our Class A common stock in accordance with the terms of the Amended LLC Agreement. Additionally, in the event of a redemption request from a holder of LLC Units, we may, at our option, effect a direct exchange of cash or Class A common stock for LLC Units in lieu of such a redemption. Shares of Class B common stock will be cancelled on a one-for-one basis if we, following a redemption request from a holder of LLC Units, redeem or exchange LLC Units of such holder pursuant to the terms of the Amended LLC Agreement.

The Amended LLC Agreement provides that, except for transfers: (i) to us, (ii) to certain permitted transferees, (iii) as a grant of a security interest in, or pledge of, LLC Units to J.P. Morgan Chase & Co. or an affiliated entity or other financial institution approved by us, or (iv) approved by us in writing, subject to certain limitations, the LLC Units may not be sold, transferred or otherwise disposed of.

Pursuant to the purchase agreement for the Convertible Preferred, the Preferred Investors may not transfer any Convertible Preferred without our consent, other than (i) to certain permitted transferees, (ii) from the eight month anniversary of the initial issuance date of the Convertible Preferred through the 18th month anniversary of the initial issuance date of the Convertible Preferred, each Preferred Investor may transfer up to 49.0% of its shares of Convertible Preferred and (iii) from and after the 18th month anniversary of the initial issuance date of the Convertible Preferred, each Preferred Investor may transfer all or any portion of its shares of Convertible Preferred. In addition, (x) no Preferred Investor may sell any shares of our Class A common stock it receives upon conversion of its shares of Convertible Preferred for the duration of any lock-up period (after giving effect to any releases granted thereunder) in connection with our initial public offering and (y) from the end of such lock-up period to the

12th month following our initial public offering, the Preferred Investors may sell such shares of our Class A common stock in an amount not to exceed, on a pro rata basis, the amount of shares transferred by our Chairman or Chief Executive Officer. Following the 12th month following our initial public offering, the Preferred Investors may sell all or any portion of such shares of our Class A common stock issued to it upon conversion of the Convertible Preferred. The Preferred Investors have also entered into lock-up agreements with BofA Securities in connection with our initial public offering.

Other Provisions

Neither our Class A common stock nor our Class B common stock has any preemptive or other subscription rights.

At such time when no LLC Units remain redeemable or exchangeable for shares of our Class A common stock, our Class B common stock will be cancelled.

Corporate Opportunity

Our amended and restated certificate of incorporation provide that, to the fullest extent permitted by law, the doctrine of "corporate opportunity" will not apply to directors, officers, stockholders and affiliates of the Preferred Investors and Snapdragon Capital Partners, an affiliate of Mr. Grabowski, a member of our board of directors.

Certain Certificate of Incorporation, Bylaws and Statutory Provisions

The provisions of our certificate of incorporation and bylaws and of the DGCL summarized below may have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that you might consider in your best interest, including an attempt that might result in your receipt of a premium over the market price for your shares of Class A common stock.

Anti-Takeover Effects of our Certificate of Incorporation and Bylaws

Our amended and restated certificate of incorporation and amended and restated bylaws contain certain provisions that are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and that may have the effect of delaying, deferring or preventing a future takeover or change in control of our company unless such takeover or change in control is approved by our board of directors. These provisions include:

Election of directors; no cumulative voting. Our board of directors consists of between three and seven directors. The exact number of directors will be fixed from time to time by resolution of our board of directors. Under Delaware law, the right to vote cumulatively does not exist unless the certificate of incorporation specifically authorizes cumulative voting. Our amended and restated certificate of incorporation does not authorize cumulative voting.

Removal of directors; vacancies. Our amended and restated certificate of incorporation provide that directors may only be removed for cause, and only by the affirmative vote of holders of at least two-thirds in voting power of all outstanding shares of common stock of our company entitled to vote thereon, voting together as a single class. Any vacancy occurring on our board of directors and any newly created directorship may be filled only by a majority of the remaining directors in office.

Staggered board. Our board of directors is divided into three classes serving staggered three-year terms. Class I, Class II and Class III directors will serve until our annual meetings of stockholders in 2022, 2023 and 2024 respectively. At each annual meeting of stockholders, directors will be elected to succeed the class of directors whose terms have expired. This classification of our board of directors could have the effect of increasing the length of time necessary to change the composition of a majority of our board of directors. In general, at least two annual meetings of stockholders will be necessary for stockholders to effect a change in a majority of the members of our board of directors.

Limits on written consents. Our amended and restated certificate of incorporation and our amended and restated bylaws provide that holders of our common stock will not be able to act by written consent without a meeting, unless such consent is unanimous.

Special stockholder meetings. Our amended and restated certificate of incorporation and our amended and restated bylaws provide that special meetings of our stockholders may be called only by the Chairman of our board of directors or a majority of our directors. Our amended and restated certificate of incorporation and our amended and restated bylaws will specifically deny any power of any other person to call a special meeting.

Amendment of certificate of incorporation. The provisions of our amended and restated certificate of incorporation described under "—Election of directors; no cumulative voting," "—Removal of directors; vacancies," "—Staggered board," "—Limits on written consents," "—Special stockholder meetings" and the voting thresholds described in this section may be amended, altered, repealed or rescinded only by the affirmative vote of the holders of at least two-thirds in voting power of all outstanding shares of stock of our company entitled to vote thereon, voting together as a single class. The affirmative vote of holders of at least a majority of the voting power of our outstanding shares of stock will generally be required to amend other provisions of our amended and restated certificate of incorporation.

Amendment of bylaws. Any amendment, alteration, rescission or repeal of certain provisions of our amended and restated bylaws will require either (i) the affirmative vote of a majority of directors present at any regular or special meeting of the board of directors called for that purpose, provided that any alteration, amendment or repeal of, or adoption of any bylaw inconsistent with, specified provisions of the bylaws, including those related to special and annual meetings of stockholders, action of stockholders by written consent, classification of our board of directors, nomination of directors, special meetings of directors, removal of directors, committees of our board of directors and indemnification of directors and officers, requires the affirmative vote of at least two-thirds of all directors in office at a meeting called for that purpose; or (ii) the affirmative vote of the holders of two-thirds of the voting power of our outstanding shares of voting stock, voting together as a single class.

Authorized but unissued shares. The authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval, subject to any limitations imposed by the listing rules of the NYSE. The existence of authorized but unissued and unreserved common stock and preferred stock could make more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise. See "—Preferred Stock" and "—Anti-Takeover Effects of our Certificate of Incorporation and Bylaws—Authorized but unissued shares" above.

Business combinations with interested stockholders. In general, Section 203 of the DGCL prohibits a publicly held Delaware corporation from engaging in a business combination, such as a merger, with a person or group owning 15% or more of the corporation's voting stock for a period of three years following the date the person became an interested stockholder, unless (with certain exceptions) the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. We have expressly elected not to be governed by the "business combination" provisions of Section 203 of the DGCL.

Exclusive forum. Our amended and restated certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, to the fullest extent permitted by applicable law, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for certain types of actions or proceedings under Delaware statutory or common law. The provisions of this Article 14 do not apply to claims arising under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended. These exclusive forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, employees or agents, which may discourage such lawsuits against us and such persons.

Directors' Liability; Indemnification of Directors and Officers

Our amended and restated certificate of incorporation limits the liability of our directors to the fullest extent permitted by the DCGL and provides that we will provide them with customary indemnification. We expect to enter into customary indemnification agreements with each of our executive officers and directors that provide them, in general, with customary indemnification in connection with their service to us or on our behalf.

Transfer Agent and Registrar

The transfer agent and registrar for our Class A common stock is Computershare Trust Company, N.A.

Securities Exchange

Our Class A common stock is listed on the NYSE under the symbol “XPOF.”

Exhibit 10.16

Cyclebar Holdco, LLC

First Amended and Restated

Phantom Equity Plan

1.
Purposes

The purposes of the Plan are to foster and promote the long-term financial success of the Company and the Subsidiaries and materially increase member value by (a) motivating superior performance by Participants by means of performance-related incentives and (b) enabling the Company and the Subsidiaries to attract and retain the services of an outstanding management team upon whose judgment, interest and special effort the successful conduct of its operations is largely dependent. This Plan amends and restates that certain Phantom Equity Plan of Cyclebar Holdco, LLC adopted on or about February 27, 2018 (the "Prior Plan") in its entirety. To the extent there are any inconsistences or conflicts between the Plan and the Prior Plan, the Plan will govern and control.

2.
Definitions, Etc.

a. *Certain Definitions.* Whenever used herein, the following terms shall have the respective meanings set forth below.

"***Adjustment Event***" means any dividend or other distribution (whether in the form of cash, additional interests, other securities, or other property, and excluding any tax distributions made under the LLC Agreement), any capital contributions, any recapitalization, reclassification, reorganization, change to corporate form, merger, consolidation, split-up, spinoff, combination, repurchase, liquidation, dissolution, sale, transfer, exchange or other disposition of all or substantially all of the assets of the Company or exchange of shares or other securities of the Company, issuance of warrants or other rights to purchase shares or other securities of the Company, or other similar transaction or event.

"***Affiliate***" means, when used with reference to a specified Person, (a) any Person that directly or indirectly, through one or more intermediaries, controls (alone or through an affiliated group), is controlled by, or is under common control with, such specified Person, including any investment vehicle under common management of such Person, (b) any Person that is an officer, director, manager, member, partner, or trustee of, or serves in a similar capacity with respect to, such specified Person (or an Affiliate of such Person) or of which such specified Person is an officer, director, member, manager, partner or trustee, or with respect to which such Person serves in a similar capacity or (c) any Person who is a spouse or descendant (whether natural or adopted) of such specified Person.

"***Award Letter***" means the letter evidencing a grant of Phantom Units to a Participant, substantially in the form attached hereto as Annex A, or such other form as the Committee shall approve.

“***Base Amount***” means an amount per Phantom Unit determined by the Committee on each grant date of Phantom Units, which shall not be less than the Fair Market Value per Unit on such date.

“***Cause***” means, with respect to any Participant, if the Participant has an employment agreement with the Company or an Affiliate thereof, the meaning assigned to such term in such employment agreement; provided, that if the Participant does not have an employment agreement or such term is not defined in such employment agreement, the term “**Cause**” means the following events or conditions, as determined by the Member in its reasonable judgment: (a) any failure by the Participant to substantially perform the Participant’s duties to the Company or any of its Affiliates (other than any such breach or failure due to the Participant’s physical or mental illness) and the continuance of such failure for more than 30 days following the Participant’s receipt of written notice from the Company, which notice shall set forth in reasonable detail the facts or circumstances constituting such failure; (b) any failure by the Participant to cooperate, if reasonably requested by the Company, with any investigation or inquiry into the Participant’s or the Company’s business practices, whether internal or external, including, but not limited to, the Participant’s refusal to be deposed or to provide testimony at any trial or inquiry and the continuance of such failure for more than 30 days following the Participant’s receipt of written notice from the Company, which notice shall set forth in reasonable detail the facts or circumstances constituting such failure; (c) the Participant’s engaging in fraud, willful misconduct, or dishonesty that has caused or is reasonably expected to result in material injury to the Company; (d) any material breach by the Participant of any fiduciary duty owed to the Company; (e) the Participant’s conviction of, or entering a plea of guilty or nolo contendere to, a crime that constitutes a felony (other than a DUI or similar felony); or (f) any material breach by the Participant of any of the Participant’s obligations hereunder or under any other written agreement or covenant with the Company or any of its Affiliates and the continuance of such failure for more than 30 days following the Participant’s receipt of written notice from the Company, which notice shall set forth in reasonable detail the facts or circumstances constituting such failure. A termination for Cause shall include a reasonable determination by the Company within 60 days following the termination of the Participant’s services to the Company that circumstances existed during the Participant’s employment that would have justified a termination by the Company for fraud.

“***Change of Control***” means:

i. a sale or transfer of all or substantially all of the assets of any entity within the Company Group in any transaction or series of related transactions to an Independent Third Party;

ii. any merger, consolidation or reorganization to which any entity within the Company Group and an Independent Third Party are parties, except for a merger, consolidation or reorganization in which, after giving effect to such merger, consolidation or reorganization, the holders of such entity within the Company Group’s outstanding Equity Securities (on a fully-diluted basis) immediately prior to the merger, consolidation or reorganization will own directly or indirectly, immediately following the merger, consolidation or reorganization, Equity Securities holding a majority of the voting power of such entity within the Company Group; or iii.any sale, transfer or issuance or series of sales, transfers and/or issuances of the Equity Securities of any entity within the Company Group, which results in any Independent Third Party owning more than fifty percent (50%) of the Equity Securities of such entity within the Company Group.

"***Code***" means the Internal Revenue Code of 1986, as amended from time to time.

"***Committee***" means the Compensation Committee of the Company (or such other committee of the Company as the Member shall designate) or, if there shall not be any such committee then serving, the Member.

"***Company***" means Cyclebar Holdco, LLC, a Delaware limited liability company, and any successor thereto.

"***Company Group***" means (x) the Company, (y) its Subsidiaries and (z) the chain of Subsidiary entities owned, directly and indirectly, by H&W INVESTCO LP that ends with the direct parent of the Company.

"***Convertible Securities***" means securities convertible into or exchangeable for Units.

"***Equity Securities***" means equity securities of the Company Group, whether now or hereafter issued, and any Convertible Securities.

"***Fair Market Value***" means, as of any date, with respect to the Units, the per Unit fair market value on such date as determined by the Committee. The determination of Fair Market Value shall not give effect to any control premiums or discounts, restrictions on the Units or that such Units would represent a minority interest in the Company. Notwithstanding anything to the contrary contained in this Plan or any applicable Award Letter, as of any date, Fair Market Value shall not be less than the fair market value of one Unit, as determined under section 409A of the Code.

"***Fully-Diluted Basis***" means, as of any determination date, the sum of (i) the number of Units of the Company that would be outstanding as of such date if, immediately prior to such date, all warrants, Convertible Securities or other similar rights then outstanding that are exercisable or convertible at such time were exercised for or converted into Units of the Company, but only to the extent that such warrants and securities are "in the money" and (ii) the aggregate number of outstanding Phantom Units.

"***Good Reason***" means, with respect to any Participant, if the Participant has an employment agreement with the Company or an Affiliate thereof, the meaning assigned to such term in such employment agreement; *provided*, that if the Participant does not have an employment agreement or such term is not defined in such employment agreement, the term "Good Reason" means the termination by a Participant of the Participant's engagement with the Company if (a) any of the following events occur without the Participant's express prior written consent; (b) within 60 days after the Participant learns of the occurrence of such event, the Participant gives written notice to the Company describing such event and demanding cure; (c) such event is not fully cured within 30 days after such notice is given; and (d) the Participant actually terminates his or her engagement with the Company within 30 days of the Company's failure to so cure: (i) a material diminution in the Participant's base salary or (ii) the assignment to the Participant of duties that are significantly different from, and that result in a substantial diminution of, the Participant's duties or authority.

"***Independent Third Party***" means any Person who immediately prior to the contemplated transaction does not, directly or indirectly, own in excess of five percent (5%) of the issued and outstanding Units and is not an Affiliate of any such owner.

"***LLC Agreement***" means the Third Amended and Restated Limited Liability Operating Agreement of the Company, dated as of February 27, 2018, as amended from time to time.

"***Member***" means Xponential Fitness LLC, a Delaware limited liability company.

"***Participant***" means any manager, officer or key employee of, or consultant to, the Company or any Subsidiary who is designated by the Committee to receive a grant of Phantom Units under the Plan and who executes an Award Letter pursuant to the provisions of Section 5.02.

"***Phantom Unit***" means, with respect to Units of the Company, the right to receive a payment from the Company under Section 5.03.

"***Per Unit Change of Control Price***" means, as determined by the Committee in its sole discretion as of the date of a Change of Control, the net aggregate proceeds payable or to be payable in respect of one Unit in connection with the transaction (or series of transactions) resulting in such Change of Control (as determined by the Committee if any part of such proceeds are payable other than in cash), including, without limitation, any and all escrowed amounts and earnouts, determined on a Fully-Diluted Basis and before giving effect to the payment of any amounts in respect of Phantom Units.

"***Person***" means any individual, sole proprietorship, general partnership, limited partnership, corporation, business trust, trust, joint venture, limited liability company, association, joint stock company, bank, unincorporated organization or any other form of entity.

"***Plan***" means this First Amended and Restated Cyclebar Holdco, LLC Phantom Equity Plan, as amended from time to time.

"***Subsidiary***" means, with respect to any Person, any corporation, limited liability company, partnership, association or other business entity of which (a) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof, or (b) if a limited liability company, partnership, association or other business entity, a majority of the partnership or other similar ownership interests thereof entitled to control the board of managers, general partner or similar governing body of such entity is at the time owned or controlled, directly or indirectly, by any Person or one or more Subsidiaries of that Person or a combination thereof. For purposes hereof, a Person or Persons shall be deemed to have a majority ownership interest in a limited liability company, partnership, association or other business entity if such Person or Persons shall be allocated a majority of limited liability company, partnership, association or other business entity gains or losses or shall be or control any manager, managing director or general partner of such limited liability company, partnership, association or other business entity.

"***Unit***" means a Unit (as defined in the LLC Agreement), having such rights and obligations as are described in the LLC Agreement, or such other class or kind of units, shares or other securities resulting from the application of Section 4.03, or such other class or kind of units, shares or other securities resulting from the application of Section 4.03.

b. *Gender and Number*. Except when otherwise indicated by the context, words in the masculine gender used in the Plan shall include the feminine gender, the singular shall include the plural and the plural shall include the singular.

3.
Administration

The Committee shall be responsible for the administration of the Plan. The Committee shall have discretionary authority, subject to the provisions of the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan, to provide for conditions deemed necessary or advisable to protect the interests of the Company and its Affiliates, to interpret the Plan and to make all other determinations necessary or advisable for the administration and interpretation of the Plan and to carry out its provisions and purposes. Any determination, interpretation or other action made or taken (including, but not limited to, any failure to make any determination or interpretation, or failure to make or take any other action) by the Committee pursuant to the provisions of the Plan shall be final, binding and conclusive for all purposes and upon all persons, and shall be given deference in any proceeding with respect thereto. The Committee may consult with legal counsel, who may be counsel to the Company, and shall not incur any liability for any action taken in reliance upon the advice of counsel. It is intended that the Phantom Units comply with the application of section 409A of the Code and shall be construed as such.

4.
Phantom Units Subject to Plan

a. *Number*. Subject to Section 4.03, the number of Phantom Units granted under the Plan may not exceed 1,000 Phantom Units.

b. *Cancelled, Terminated or Forfeited Phantom Units*. Any Phantom Units that for any reason expire or are cancelled, terminated, forfeited, substituted for, repurchased by the Company or otherwise settled without consideration shall again be available for award under the Plan.

c. *Adjustments in Capitalization*. The number of Phantom Units available for grant under Section 4.01 shall be proportionately adjusted to reflect, as deemed equitable and appropriate by the Committee, each Adjustment Event. To the extent deemed equitable and appropriate by the Committee, and subject to any required action by Unit holders, in any reorganization, merger, consolidation, split-up, spin-off, combination, exchange of Units or other similar event, Phantom Units shall pertain to the securities or other property to which a holder of one Unit would have been entitled to receive in connection with such event.

5.
Phantom Units

a. *Power to Grant.* The Committee shall have the discretionary authority, subject to the terms of the Plan, to determine (i) the managers, officers or key employees of, or consultants to, the Company or any Subsidiary who shall become Participants and to whom Phantom Units shall be granted; (ii) the date or dates on which Phantom Units shall be granted; (iii) the number of Phantom Units granted to each Participant; (iv) the Base Amount of the Phantom Unit; (v) the conditions upon which the Phantom Units or any portion thereof shall become and remain vested, if any, including, without limitation, upon the performance of a minimum period of service or the satisfaction of performance goals; (vi) the treatment of the Phantom Units upon any termination of the Participant's services to the Company and the Subsidiaries, and upon any Change of Control; and (vii) the other terms and conditions of such Phantom Units.

b. *Award Letter*. Each grant of Phantom Units shall be evidenced by an Award Letter, which shall specify the items described in clauses (ii) through (vii) of Section 5.01, and such other provisions not inconsistent with the Plan as the Committee shall determine.

c. *Payment*. Subject to the continuous active engagement of a Participant by the Company or a Subsidiary through a Change of Control (except as provided in Section 5.06), upon such Change of Control, the Company shall pay to such Participant an amount in respect of each Phantom Unit then held by such Participant equal to the excess, if any, of the Per Unit Change of Control Price over the Base Amount of each such Phantom Unit. Any payments made by the Company in respect of any Phantom Units in accordance with this Section 5.03 shall be paid to Participants in the same proportion of cash or securities or other property received by the Company or its Unit holders, as applicable, in connection with such Change of Control; *provided*, that, in the event any portion of the Per Unit Change of Control Price is paid to the Company or its Unit holders at a date later than the date that is 30 days following the Change of Control (e.g., any escrowed amounts or earnouts), a corresponding pro rata portion of the payments made by the Company in respect of any Phantom Units shall be paid to the applicable Participant within 30 days of receipt of such portion of the Per Unit Change of Control Price by the Company or its Unit holders, as applicable (provided that unless otherwise permitted by section 409A of the Code, no portion of the payments made by the Company in respect of any Phantom Units shall be payable after the fifth anniversary of the Change of Control). In the event any portion of the Per Unit Change of Control Price is subject to a purchase price adjustment, indemnification obligation or other contingency, the payments made by the Company in respect of any Phantom Units shall be treated in a substantially similar manner as payments to Unit holders in respect of Units. Prior to the occurrence of a Change of Control, no payments or distributions shall be made in respect of any Phantom Units except as may be provided by Section 5.06.

d. *Cancelation of Phantom Units*. Immediately following the final payment to a Participant under Section 5.03, the Phantom Unit pursuant to which such payment was made shall automatically be canceled without any further payment therefor.

e. *Termination of Engagement.* Notwithstanding anything to the contrary in this Plan or any Award Letter, if a Participant's engagement is terminated by the Company for Cause, or by the Participant for any reason, or if a Participant breaches any restrictive covenant between the

Company or its Affiliates and such Participant, all Phantom Units held by such Participant shall be immediately forfeited without payment therefor.

f. *Repurchase Right*.

i. *Generally*. In the event of the termination of a Participant's engagement with the Company for any reason, any vested Phantom Units held by the Participant will be subject to purchase by the Company pursuant to this Section 5.06 (the "***Purchase Right***").

ii. *Notice*. The Company may elect to purchase all or any portion of the vested Phantom Units by delivering written notice (the "Purchase Notice") to the Participant within 180 days after the termination of the Participant's active engagement with the Company. The Purchase Notice will set forth the number of vested Phantom Units to be acquired from the Participant, the aggregate consideration to be paid for such vested Phantom Units and the time and place for the closing of the transaction. The purchase price for the vested Phantom Units shall be equal to their Fair Market Value as of the Participant's termination as determined in the reasonable judgment of the Member; provided, that upon the termination of the Participant's active engagement with the Company or any if its Affiliates for Cause or Good Reason, the purchase price for such vested Phantom Units shall be equal to the lower of cost and Fair Market Value (the "***Purchase Price***"). The number of vested Phantom Units to be purchased by the Company shall first be satisfied to the extent possible from the vested Phantom Units held by the Participant at the time of delivery of the Purchase Notice.

iii. *Closing*. The closing of the purchase of vested Phantom Units pursuant to the Purchase Right shall take place on the date designated by the Company in the Purchase Notice, which date shall not be more than 30 days nor less than five days after the delivery of the Purchase Notice. The Company shall pay for the vested Phantom Units to be purchased by it pursuant to the Purchase Right by (x) cash payable by delivery of a check; (y) by a wire transfer of funds or (z) by a promissory note that is payable in three equal annual installments (which accelerates upon a Change of Control) and accrues interest at the then applicable short-term applicable federal rate (compounded annually), in each case, in the amount of the aggregate Purchase Price of the vested Phantom Units being purchased by the Company. The purchasers of vested Phantom Units hereunder will be entitled to receive customary representations and warranties from the sellers regarding such sale.

iv. *Attorney-In-Fact*. Upon the delivery of the cash payment described herein by the Company (or its designee), the Participant shall take all actions necessary, and execute all related documents specified by the Company as being reasonably necessary to consummate the sale of the vested Phantom Units to the Company (or its designee), and the Participant shall appoint the Company's Secretary as the Participant's true and lawful attorney-in-fact to exercise and deliver all such instruments, documents and writings, and to take all such actions as shall be required to consummate the sale of the vested Phantom Units to the Company (or its designee) as contemplated in this Section 5.06. Such power is a special Power of Attorney coupled with an interest, is irrevocable, and shall run with the vested Phantom Units to any subsequent owners thereof.

v. *Other Matters*. All repurchases of vested Phantom Units pursuant to this Section 5.06 shall be subject to all applicable restrictions under law and the Company's and its Subsidiaries' financing agreements. If any such restrictions prohibit the closing described in Section 5.06(c) above, the Company shall promptly give written notice to the Participant of such restriction. The Company's rights under this Section 5.06 shall be preserved and time periods governing such rights or obligations shall be tolled for the duration of such restriction, and the Company may make such purchases as soon as (and to the extent that) it is permitted to do so by law and such financing agreements; *provided*, that when payment eventually takes place as contemplated by this Section 5.06(e), the Purchase Price shall be the Fair Market Value of the vested Phantom Units as of the date the Company consummates such purchases.

g. *Limitation on Benefits*. Notwithstanding anything to the contrary contained in the Plan, to the extent that any of the payments and benefits provided under the Plan or any other agreement, or arrangement between the Company and its Subsidiaries and a Participant (collectively, the "***Payments***") would constitute a "parachute payment" within the meaning of section 280G of the Code, the amount of such Payments shall be reduced to the amount that would result in no portion of the Payments being subject to the excise tax imposed pursuant to section 4999 of the Code. If any Payments that would be reduced or eliminated, as the case may be, pursuant to the immediately preceding sentence, but would not be reduced if the stockholder approval requirements of section 280G(b)(5) of the Code are satisfied, the Company shall use its reasonable best efforts to cause such payments to be submitted for such approval prior to the transaction giving rise to such payments.

6.
Effective Date, Amendment and Termination

The Plan shall be effective upon adoption by the Board of Managers of the Company, or such later date as the Member shall specify, and shall automatically expire on the tenth anniversary thereof (except as to outstanding Phantom Units), unless sooner terminated pursuant to this Article VI. The Member may at any time terminate or suspend the Plan, and from time to time may amend or modify the Plan and, except as expressly set forth in an Award Letter, any Phantom Units and Award Letter. Unit holder approval of any such termination, suspension, amendment or modification shall be obtained to the extent mandated by applicable law, or if otherwise deemed appropriate by the Member.

7.
General Provisions

a. *Beneficiary Designation*. Each Participant may from time to time name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid or by whom any right under the Plan is to be exercised in case of his death. Each designation will revoke all prior designations by the same Participant, shall be in a form prescribed by the Committee and will be effective only when filed by the Participant in writing with the Committee during the Participant's lifetime. In the absence of any such designation, benefits outstanding that remain unpaid at the Participant's death shall be paid to the Participant's surviving spouse, if any, or otherwise to his estate.

b. *Nontransferability of Phantom Units*. No Phantom Unit may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution.

c. *Tax Withholding*. All payments and benefits provided under the Plan and any Award Letter shall be subject to any and all applicable taxes, as required by applicable Federal, state, local and foreign law and regulations.

d. *Requirements of Law*. Phantom Units shall be subject to all applicable laws, rules and regulations, and to such approvals as may be appropriate or required, as determined by the Committee. Notwithstanding any other provision of the Plan, no Phantom Units shall be granted, and no payments in respect of any Phantom Unit shall be made, if such grant or payment would result in a violation of applicable law. Neither the Company nor any of its Affiliates nor any of their respective managers, directors or officers shall have any obligation or liability to a Participant with respect to any Phantom Units for any failure to comply with the requirements of any applicable law, rules or regulations, including, but not limited to, any failure to comply with the requirements of section 409A of the Code.

e. *No Guarantee of Service or Participation*. Nothing in the Plan shall interfere with or limit in any way the right of the Company or any Affiliate thereof to terminate any Participant's services at any time and for any reason, nor confer upon any Participant any right to continue in the service of the Company or any Affiliate thereof. In addition, if any Participant's services to the Company or any of its Affiliates shall be terminated for any reason, such Participant shall not be eligible for any compensation or remuneration with respect to such termination (except as otherwise expressly provided in this Plan or any applicable Award Letter) to compensate such Participant for the loss of any rights under the Plan. No member, officer or key employee of, or consultant to, the Company or any Subsidiary shall have a right to be selected as a Participant or, having been so selected, to receive any Phantom Units. The Committee may establish different terms and conditions for different Participants receiving Phantom Units and for the same Participant for each grant of Phantom Units such Participant may receive, whether or not granted at different times. The grant of any Phantom Units to any member, officer or key employee of, or consultant to, the Company or any Subsidiary shall neither entitle such Person to, nor disqualify that Person from, the grant of any other Phantom Units. The Committee's selection of a member, officer or key employee of, or consultant to, the Company or any Subsidiary as a Participant shall neither entitle such Person to, nor disqualify such Person from, participation in any other incentive plan of the Company or any of its Affiliates.

f. *No Limitation on Compensation*. Nothing in the Plan shall be construed to limit the right of the Company or any of its Affiliates to establish other plans or to pay compensation to its employees in cash or property.

g. *No Right to Particular Assets*. Nothing contained in the Plan and no action taken pursuant to the Plan shall create or be construed to create a trust of any kind or any fiduciary relationship between the Company and any Affiliate thereof, on the one hand, and any Participant or executor, administrator or other personal representative or designated beneficiary of such Participant, on the other hand, or any other Persons. Any reserves that may be established by the Company or any Affiliate thereof in connection with the Plan shall continue to be held as part of the general funds of the Company or such Affiliate, and no individual or entity other than the Company or such Affiliate shall have any interest in such funds until paid to a Participant. To the extent that any Participant or his executor, administrator or other personal representative, as the case may be, acquires a right to receive any payment from the Company or any Affiliate thereof pursuant to the Plan, such right shall be no greater than the right of an unsecured general creditor of the Company or such Affiliate.

h. *No Impact on Benefits*. Phantom Units shall not be treated as compensation for purposes of calculating a Participant's rights under any employee benefit plan.

i. *No Rights as a Unit Holder*. No Participant shall have any rights as a Unit holder of the Company (including, but not limited to, voting rights or the right to receive distributions) with respect to any Phantom Units.

j. *Freedom of Action*. Subject to Article VI, nothing in the Plan or any Award Letter shall be construed as limiting or preventing the Company or any of its Affiliates from taking any action with respect to the operation or conduct of its business that it deems appropriate or in its best interest, and no Participant, beneficiary or other person shall have any claim against the Company as a result of any such action.

k. *Governing Law*. The Plan and the Phantom Units shall be governed in all respects, including as to validity, interpretation and effect, by the internal laws of the State of Delaware, without giving effect to the choice of law principles thereof.

l. *Severability*. In the event that any one or more of the provisions of the Plan or any Award Letter shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein or therein shall not be affected thereby.

m. *Exculpation*. Neither the Member nor any member of the Committee nor any other officer or employee of the Company or any Subsidiary acting on behalf of the Company or any Subsidiary with respect to the Plan shall be directly or indirectly responsible or otherwise liable by reason of any action or default as a Member, member of the Committee, or other officer or employee of the Company or any Subsidiary acting on behalf of the Company or any Subsidiary with respect to this Plan, or by reason of the exercise of or failure to exercise any power or discretion as such person, except for any action, default, exercise or failure to exercise resulting from such person's gross negligence, breach of fiduciary duty or willful misconduct. Neither the Member nor any member of the Committee shall be liable in any way for the acts or defaults of the Member or any other member of the Committee, as the case may be, or any of their respective advisors, agents or representatives.

n. *Indemnification*. The Member and each individual who is or shall have been a member of the Committee shall be indemnified and held harmless by the Company to the fullest extent permitted by the LLC Agreement against and from any loss, cost liability or expense (including any related attorney's fees and advances thereof) that may be imposed upon or reasonably incurred by it or him in connection with, based upon or arising or resulting from any claim, action, suit or proceeding to which it or he may be made a party or in which it or he may be involved by reason of any action taken or failure to act under or in connection with the Plan or any Award Letter and against and from any and all amounts paid by him in settlement thereof, with the Company's approval, or paid by it or him in satisfaction of any judgment in any such action, suit or proceeding against it or him; *provided*, that the Member or such individual shall give the Company an opportunity, at its own expense, to handle and defend the same before it or he undertakes to handle and defend it on it's or his own behalf. The foregoing right of indemnification shall not be exclusive and shall be independent of any other rights of indemnification to which the Member or such individuals may be entitled under the Company's certificate of formation, by contract, as a matter of law or otherwise.

o. *Notices*. Each Participant shall be responsible for furnishing the Company with the current and proper address for the mailing of notices and delivery of agreements, if applicable. Any notices required or permitted to be given shall be deemed given if directed to the addressee at such address and mailed by regular United States mail, first-class and prepaid or by overnight courier. If any item mailed to such address is returned as undeliverable to the addressee, mailing will be suspended until the intended recipient furnishes the proper address (but such suspension shall not toll any specified time periods).

p. *Incapacity*. Any benefit payable to or for the benefit of a minor, an incompetent person or other person incapable of receiving such benefit shall be deemed paid when paid to such person's guardian or to the party providing or reasonably appearing to provide for the care of such person, and such payment shall fully discharge the Member, the Committee, the Company and its Affiliates, and the other parties with respect thereto.

q. *Rights Cumulative; Waiver*. The rights and remedies of Participants and the Company under this Plan shall be cumulative and not exclusive of any rights or remedies which either would otherwise have hereunder or at law or in equity or by statute, and no failure or delay by either party in exercising any right or remedy shall impair any such right or remedy or operate as a waiver of such right or remedy, nor shall any single or partial exercise of any power or right preclude such party's other or further exercise or the exercise of any other power or right. The waiver by any Participant or by the Member, the Committee or the Company of any provision of the Plan shall not operate or be construed as a waiver of any preceding or succeeding breach, and no failure by any such party to exercise any right or privilege hereunder shall be deemed a waiver of such party's rights or privileges hereunder or shall be deemed a waiver of such party's rights to exercise the same any subsequent time or times hereunder

r. *Headings and Captions*. The headings and captions herein are provided for reference and convenience only, shall not be considered part of the Plan and shall not be employed in the construction of the Plan.

Exhibit 10.19

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

EXECUTION VERSION

ASSET PURCHASE AGREEMENT BY

AND AMONG

BFT FRANCHISE HOLDINGS, LLC, AS BUYER, GRPX

LIVE PTY LTD,

BODY FIT TRAINING COMPANY PTY LTD, AND BODY

FIT TRAINING USA, INC.

AS

SELLERS,

AND

THE SHAREHOLDERS PARTY HERETO,

AND

CAMERON FALLOON, AS THE SELLERS' REPRESENTATIVE DATED AS OF

OCTOBER 13, 2021

TABLE OF CONTENTS

Page

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

TABLE OF CONTENTS continued

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (this "Agreement"), dated as of October 13, 2021, is entered into by and among (i) **BFT FRANCHISE HOLDINGS, LLC**, a Delaware limited liability company ("Buyer") wholly-owned by Xponential Fitness Inc., a Delaware corporation, on the one hand, and (ii) **GRPX LIVE PTY LTD**, an Australian corporation (ACN 614 817 962), as Trustee for GRPX Live Unit Trust ("GRPX Live"), **BODY FIT TRAINING COMPANY PTY LTD**, an Australian corporation (ACN 622 444 008), as Trustee for the Body Fit Training Unit ("Body Fit Training"), and **BODY FIT TRAINING USA, INC.**, a Delaware corporation ("BFT USA" and collectively with GRPX Live and Body Fit Training, "Sellers," and each a "Seller"), and all of the shareholders and/or equity holders of each of Sellers that are a party hereto (the "Shareholders"), and **CAMERON FALLOON**, an individual, as the Sellers' Representative (the "Sellers' Representative"), on the other hand. Appendix A hereto contains definitions of certain initially capitalized terms used in this Agreement.

RECITALS

WHEREAS, the Sellers own, license and franchise that certain concept and brand known as Body Fit Training™, BFT™ and certain derivatives thereof throughout the world, including ownership of certain intellectual property rights therein and certain rights to license and franchise such concept and brand globally (collectively, the "Business");

WHEREAS, as part of the Business, Sellers have developed a franchise system for the Body Fit Training™ and BFT™ concept and brand (the "Franchise System"), which has been licensed to and franchised (i) by Body Fit Training in Australia, New Zealand, Canada and Singapore and (ii)

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

by BFT USA in the United States of America at the locations set forth on Schedule I;

WHEREAS, Sellers wish to sell and assign to Buyer, and Buyer wishes to purchase and assume from Sellers, certain of the assets, and certain specified liabilities, of the Business, on the terms and subject to the conditions set forth herein; and

WHEREAS, in consideration of the direct and indirect benefits accruing to the Shareholders, and to induce Buyer to enter into this Agreement, the Shareholders agree to be party to this Agreement and to make certain representations and warranties, and agree to certain covenants, as set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

Article

1 PURCHASE AND SALE

1.1 Purchase and Sale of Assets. On the terms and subject to the conditions set forth herein, at the Closing, Sellers shall sell, assign, transfer, convey and deliver to Buyer, and Buyer shall purchase from Sellers, free and clear of any Encumbrances, all of Sellers' right, title and interest in, to and under all of the assets, properties and rights of every kind and nature, whether

real, personal or mixed, tangible or intangible (including goodwill), wherever located and whether now existing or hereafter acquired (other than the Excluded Assets), which relate to, or are used or held for use in connection with, the Business as set forth below (collectively, the "Purchased Assets"):

1.1.1 all Owned IP (including corporate and tradenames);

1.1.2all of Sellers' rights, title and interest to manage, license and operate the Franchise System (such rights in the United States and Canada are being assigned in their entirety by GRPX Live);

1.1.3all rights to any Actions of any nature available to or being pursued by Sellers to the extent related to the Purchased Assets or the Assumed Liabilities, whether arising by way of counterclaim or otherwise;

1.1.4all prepaid expenses, credits, advance payments, claims, security, refunds, rights of recovery, rights of set-off, rights of recoupment, deposits, charges, sums and fees in relation to the Purchased Assets (including any such item relating to the payment of Taxes);

1.1.5all of Sellers' rights under warranties, indemnities and all similar rights against third parties to the extent related to the Purchased Assets;

1.1.6all marketing and advertising materials and the use of any websites or other internet and social media content and handles useable in the operation of the Business;

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

1.1.7 all rights to the Franchise Agreements for territories other than Australia, New Zealand and Singapore (the "Assigned Contracts");

1.1.8All of GRPX's rights under that certain Amended and Re-Stated Intellectual Property Licence Deed (Amendment), by and between GRPX and Body Fit Training, as amended;

1.1.9all customer information, vendor information and all other information to the extent related to the Purchased Assets;

1.1.10 all Intellectual Property relating to the Business' heart rate monitor;

1.1.11all goodwill of the Sellers as a going concern to the extent related to the Purchased Assets; and

1.1.12originals, or where not available, copies, of all books and records, including, but not limited to, books of account, ledgers and general, financial and accounting records, machinery and equipment maintenance files, customer lists, customer purchasing histories, price lists, distribution lists, supplier lists, quality control records and procedures, complaint and inquiry files, research and development files, records and data (including all correspondence with any Governmental Authority), enrollment material and records (including pricing history, total enrollment, terms and conditions of enrollment, enrollment and pricing

policies and practices), strategic plans, marketing and promotional surveys, material and research and files relating to Owned IP ("Books and Records").

Without limiting the provisions of Article 1 hereof, each Seller hereby assigns to the Buyer, with respect to the period from and after the Closing Date, any and all rights of indemnification from, or other rights against, any Person with respect to any of the Purchased Assets or Assumed Liabilities (other than the Excluded Assets or Excluded Liabilities), to the extent that such indemnification and/or rights are assignable. To the extent not assignable, in the event an indemnifiable claim arises with respect to any of the Purchased Assets or Assumed Liabilities for the period from and after the Closing Date, each Seller will, on behalf of Buyer and its successors and assigns and at Buyer's direction, pursue such indemnification and/or rights in the name of such Seller, at Sellers' expense.

1.2 Excluded Assets. Notwithstanding the foregoing, the Purchased Assets shall not include the following assets (collectively, the "Excluded Assets"):

1.2.1 all cash and cash equivalents;

1.2.2all accounts or notes receivable held by Sellers, and any security, claim, remedy or other right related to any of the foregoing ("Accounts Receivable");

1.2.3 all bank accounts and safe deposit boxes;

1.2.4all furniture, fixtures, equipment, machinery, tools, vehicles, office equipment, supplies, computers, telephones and other tangible personal property;

1.2.5 all Permits which are held by Sellers and required for the ownership of the Purchased Assets;

1.2.6 all real property leases;

1.2.7 except as provided in Section 1.1.7 and Section 1.1.8, all Contracts that are not Assigned Contracts (the "Excluded Contracts");

1.2.8 the corporate seals, organizational documents, minute books, stock books, Tax Returns, books of account or other records having to do with the corporate organization of Sellers;

1.2.9 all employee benefit plans and assets attributable thereto;

1.2.10 all personnel records and other records that each Seller required by Law to retain in its possession (provided, that to the extent permitted by Law, such Seller shall make copies thereof available to Buyer upon its request);

1.2.11 all Tax Returns;

1.2.12 all claims for refund of Taxes, to the extent that such Tax would be an Excluded Liability if such Tax were not refundable;

1.2.13 any equity interest in any Subsidiary held by each Seller;

1.2.14 the assets, properties and rights specifically set forth on Section 1.2.14 of the Disclosure Schedule;

1.2.15 the right to receive and retain mail and other communications relating to the Business;

1.2.16 all books and records of the Business that are not Books and Records included in the Purchase Assets (including, without limitation, books of account, ledgers and general, financial and accounting records, machinery and equipment maintenance files, and internal financial statements); and

1.2.17 the rights which accrue or will accrue to each Seller under this Agreement or any Transaction Document.

1.3 Assumed Liabilities. At the Closing, Buyer shall assume and agree to pay, perform and discharge only the following Liabilities of Sellers (collectively, the "Assumed Liabilities"), and no other Liabilities:

1.3.1 all Liabilities in respect of the Assigned Contracts and only to the extent that such Liabilities thereunder are required to be performed after the Closing Date, were incurred

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

in the Ordinary Course of Business and do not relate to any (i) a breach of or default under an Assigned Contract, (ii) the occurrence of an event that with the passage of time or the giving of notice or both would constitute a breach of or default under any Assigned Contract, or (iii) the occurrence of an event that with or without the passage of time or the giving of notice or both would give rise to a right of termination, renegotiation or acceleration under an Assigned Contract; and

1.3.2 those Liabilities of Sellers referenced in Section 9.11 and/or set forth on Section 1.3.2 of the Disclosure Schedule.

Nothing contained in this Section 1.3 or in any instrument of assumption executed by Buyer at the Closing shall release or relieve each Seller from its representations, warranties, covenants and agreements contained herein. Without limiting the foregoing, in no event shall Buyer be deemed to have assumed any liability that is inconsistent with or constitutes an inaccuracy in, or that arises or exists by virtue of any breach of, (x) any representation or warranty made by each Seller contained herein, or (y) any covenant or obligation of each Seller contained herein.

1.4 Excluded Liabilities. Notwithstanding the provisions of Section 1.3 or any other provision in this Agreement to the contrary, Buyer shall not assume and shall not be responsible to pay, perform or discharge any Liabilities of any Seller or any of its Affiliates of any kind or nature whatsoever other than the Assumed Liabilities (the "Excluded Liabilities"). Each Seller shall, and shall cause each of its Affiliates to, pay and satisfy in due course all Excluded Liabilities which they are obligated to pay and satisfy. Without limiting the generality of the foregoing, except as set forth on Section 1.3.2 of the Disclosure Schedule, the Excluded Liabilities shall include, but not be limited to, the following:

1.4.1 any Indebtedness of Sellers;

1.4.2 any Liabilities of Sellers arising or incurred in connection with the negotiation, preparation, investigation and performance of this Agreement, the other Transaction Documents and the Transactions, including fees and expenses of counsel, accountants, consultants, advisers and others;

1.4.3 any Liability for (i) Taxes of each Seller (or any stockholder, shareholder, equity holder or Affiliate of such Seller) or relating to the Business, the Purchased Assets or the Assumed Liabilities for any Pre-Closing Tax Period; or (ii) other Taxes of each Seller (or any equity holder or Affiliate of such Seller) of any kind or description, including any Liability for Taxes of each Seller (or any stockholder, shareholder, equity holder or Affiliate of such Seller) that becomes a Liability of Buyer under any common law doctrine of de facto merger or transferee or successor liability or otherwise by operation of contract or Law;

1.4.4 any Liabilities relating to or arising out of the Excluded Assets;

1.4.5 subject to Section 9.5.2, any Liabilities in respect of any pending or threatened Action arising out of, relating to or otherwise in respect of the operation of the Business or the Purchased Assets to the extent such Action relates to such operation on or prior to the Closing Date;

1.4.6 any Liabilities of each Seller arising under or in connection with any employee benefit plan providing benefits to any present or former employee of each Seller;

1.4.7any Liabilities of each Seller for any present or former employees, officers, directors, retirees, independent contractors or consultants of such Seller, including any Liabilities associated with any claims for wages or other benefits, bonuses, accrued vacation, workers' compensation, severance, retention, termination or other payments;

1.4.8any claims or Liabilities under Environmental Laws, to the extent arising out of or relating to facts, circumstances or conditions existing on or prior to the Closing or otherwise to the extent arising out of any actions or omissions of each Seller;

1.4.9 any trade accounts payable of each Seller to the extent not accounted for in the calculation of Closing Working Capital;

1.4.10any Liabilities to indemnify, reimburse or advance amounts to any present or former officer, director, employee or agent of each Seller (including with respect to any breach of fiduciary obligations by same), except for indemnification of same pursuant to Section 9.3 in their capacity as Seller Indemnitees;

1.4.11 any Liabilities under the Excluded Contracts or any other Contracts, including Contracts relating to Owned IP or Licensed IP, (i) which are not validly and effectively assigned to Buyer pursuant to this Agreement, (ii) which do not conform to the representations and warranties with respect thereto contained in this Agreement or (iii) to the extent such Liabilities arise out of or relate to a breach by each Seller of such Contracts;

1.4.12any Liabilities associated with debt, loans or credit facilities of each Seller and/or the Business owing to financial institutions or any other Person;

1.4.13 any Liability owed to each Seller or any of its Affiliates or any inter- company Indebtedness, Liabilities or other obligations, including any accrued dividends, distributions or other obligations;

1.4.14any Liabilities arising out of, in respect of or in connection with the failure by each Seller or any of its Affiliates to comply with any Law or Governmental Order; and

1.4.15any and all other Liabilities and obligations that are not expressly included in the Assumed Liabilities.

1.5 Purchase Price.

1.5.1 Purchase Price Components. The purchase price for the Purchased Assets, and for the covenants and agreements of Sellers and the Shareholders hereunder shall be Sixty Million Australian Dollars (AUD $60,000,000) (the "Purchase Price") plus the Sale Bonus Payments.

1.5.2Sale Bonus Payments. As additional incentive to GRPX Live, provided that certain Master Franchise Agreement (in the form attached hereto as Exhibit 1.5.2) is executed by

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

Body Fit Training and delivered to Buyer in accordance with Australian law and Body Fit Training does not thereafter revoke or otherwise terminate such Master Franchise Agreement, Buyer shall promptly pay GRPX the Sale Bonus Payments. The "Sale Bonus Payments" shall consist of quarterly cash payments payable to GRPX Live in the amount of (i) [*] for each invoiced license and/or franchise sale of the Franchise System in the United States or Canada;
(ii) [*] for each invoiced Franchise System equipment package Buyer sells in the United States or Canada; and (iii) [*] of all Franchise System royalties due and owing to Buyer from United States or Canada-based franchisees, provided, that aggregate minimum payments of $AUD
$5,000,000 will be paid for the two year period ended December 31, 2023 regardless of the number of franchises sold, and that the aggregate amount of such Sale Bonus Payment shall not exceed Fourteen Million Australian Dollars (AUD $14,000,000). Each Sale Bonus Payment shall accrue starting the Closing Date and shall be payable quarterly within thirty (30) days of the end of each applicable calendar quarter (provided, subject to the terms and conditions of such Master Franchise Agreement, no further Sales Bonus Payments shall accrue on the earlier of (i) the date of the expiration or termination of such Master Franchise Agreement or (ii) after the termination of such Master Franchise Agreement pursuant to Article 13 thereof).

Article 2 CLOSING

1.1 Closing. The consummation of the sale of the Purchased Assets pursuant to Article 1 (the "Closing") shall occur at the offices of Buchalter, 1000 Wilshire Blvd, Suite 1500, Los Angeles, CA 90017-1730 at 10:00 a.m. local time on the date hereof after the last of the conditions set forth in Article 8 have been satisfied or waived (other than conditions which, by their nature, are to be satisfied on the Closing Date), or at such other place and time as shall be agreed upon in writing by Buyer and Sellers. The date on which the Closing is actually held is referred to herein as the "Closing Date." The Closing shall be deemed to be effective at 11:59 p.m. Los Angeles time on the Closing Date (the "Effective Time") for all purposes, except as may otherwise be expressly provided herein.

1.2 Seller Parties' Closing Deliverables. At or prior to the Closing, the Seller Parties shall deliver to Buyer the following (the "Seller Parties Deliverables"):

1.2.1 a bill of sale in the form of Exhibit A hereto (the "Bill of Sale") and duly executed by each Seller, transferring the Purchased Assets to Buyer;

1.2.2 an assignment and assumption agreement in the form of Exhibit B hereto (the "Assignment and Assumption Agreement") and duly executed by each Seller, effecting the assignment to and assumption by Buyer of the Purchased Assets and the Assumed Liabilities;

1.2.3 an assignment in the form of Exhibit C hereto (the "IP Assignment") and duly executed by each Seller, transferring all of such Seller's right, title and interest in and to the Owned IP and Licensed IP included in the Purchased Assets to Buyer;

1.2.4 a certificate of the Secretary or an Assistant Secretary (or equivalent officer) of each Seller certifying (i) that attached thereto are true and complete copies of all resolutions adopted by the board of directors or manager(s), as applicable, of such Seller authorizing the execution, delivery and performance of this Agreement and the Transaction

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

Documents and the consummation of the Transactions, (ii) that all such resolutions are in full force and effect and are all the resolutions adopted in connection with the Transactions, and (iii) the names and signatures of the officers of such Seller authorized to sign this Agreement and the Transaction Documents;

1.2.5a good standing certificate for BFT USA from the secretary of state of Delaware;

1.2.6a duly executed IRS Form W-9 for BFT USA; and

1.2.7a compact disc, zip drive or similar device (which shall be permanent and accessible, without the need for any password, with readily and commercially available software) containing, in electronic format, the true and correct contents of the Dataroom as of the date hereof and as of the Closing Date.

1.3 Buyer' Closing Deliverables. At the Closing, Buyer shall do the following (the "Buyer Deliverables"):

1.3.1 deliver the Bill of Sale to Sellers, duly executed by Buyer;

1.3.2deliver the Assignment and Assumption Agreement to Sellers, duly executed by Buyer;

1.3.3 deliver the IP Assignment to Sellers, duly executed by Buyer; and

1.3.4 pay Sellers an amount equal to the Purchase Price.

1.4Manner of Payment. All amounts to be paid by Buyer pursuant to this Article 2 shall be paid to the applicable Person by wire transfer of immediately available funds to the account designated in writing by such Person for such purposes.

1.5 Withholding. Buyer shall be entitled to deduct and withhold from the consideration or other amounts otherwise payable pursuant to this Agreement to any Person such amounts as they are required to deduct and withhold with respect to such payment under the Code, or any provision of state, local or foreign law. To the extent that amounts are so withheld by any Buyer, such withheld amounts shall be (a) paid to the appropriate Tax authority and (b) treated for all purposes of this Agreement as having been paid to the appropriate recipient in respect of which such deduction and withholding was made by Buyer.

1.6Possession. Promptly following the Closing, each Seller shall take such steps as may be necessary to provide Buyer with actual possession and operating control of the Purchased Assets.

Article 3 [Intentionally Omitted]

Article 4
Representations And Warranties Of Shareholders

The Shareholders, jointly and severally, represent and warrant to Buyer that the statements contained in this Article 4 are true and correct as to each Shareholder on the date hereof and shall be true and correct on the Closing Date as if made thereon.

1.1 Organization and Capacity.

1.1.1 For a Shareholder which is an entity other than a trust, such Shareholder (i) is an entity duly organized, validly existing and in good standing under the laws of the state of its formation and (ii) has all necessary corporate power and corporate authority to carry on its business, and to own or use the properties and assets that it purports to own or use.

1.1.2 For a Shareholder which holds shares as a trustee of a trust, such trust (i) is in full force and effect, (ii) has not taken, and no other Person has taken, any action to effect a termination, liquidation, or bankruptcy of such trust and (iii) has only the trustee listed on the signature page hereto, which trustee has been duly appointed.

1.1.3For a Shareholder which is an individual, such Shareholder (i) is mentally competent and in all respects of sound mind, (ii) has not been deprived of his civil rights, (iii) is over the age of twenty-one (21), (iv) is used to managing his financial affairs, (v) has not had a conservator or guardian appointed for him pursuant to a court order, and (vi) is familiar with and fully understands the nature, purpose and effect of this Agreement and each Transaction Document and the Transactions.

1.2Authority and Enforceability. Such Shareholder has all requisite power and authority, and has taken all action necessary, to execute and deliver this Agreement and each Transaction Document and to perform its obligations hereunder and thereunder. This Agreement has been, and each Transaction Document will be prior to the Closing, duly authorized, executed and delivered by such Shareholder, and this Agreement constitutes, and each Transaction Document when so executed and delivered will constitute, the legal, valid and binding obligations of such Shareholder, enforceable against such Shareholder in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, or moratorium Laws, other similar Laws affecting creditors' rights and general principles of equity affecting the availability of specific performance and other equitable remedies (the "Enforceability Exceptions").

1.3 No Conflict. The execution and delivery by such Shareholder of this Agreement and each Transaction Document, and the performance by it of any actions contemplated hereunder or thereunder, does not and will not, directly or indirectly (with or without notice or lapse of time):

1.3.1 Conflict with or violate any provision of the Governing Documents of such Shareholder;

1.3.2Require notice, consent or approval under, conflict with, violate, result in a breach of, result in the acceleration of obligations, loss of a benefit or increase in Liabilities or fees under, create in any Person the right to terminate, cancel or modify, or cause a default under or give rise to any rights or penalties under
(i) any provision of Law relating to such Shareholder,
(ii) any provision of any Governmental Order to which such Shareholder or any of his properties

are subject, (iii) any provision of any Contract to which such Shareholder or its properties are bound, or (iv) any other restriction of any kind or character to which such Shareholder or its properties are subject;

1.3.3 Violate the terms and conditions of any existing exclusivity or other similar agreement or arrangement with any other potential acquirer of all or any portion of the Purchased Assets, Business, the Franchise Systems or any Sellers' or Shareholders' equity in a Seller; or

1.3.4 Require a registration, filing, application, notice, consent, approval, order, qualification or waiver with, to or from any Governmental Authority.

1.4Legal Proceedings. Other than as referenced in Section 5.21 and Section 9.11, there are no Actions pending or, to such Shareholder's knowledge, threatened against or by such Shareholder or any of his Affiliates or Related Persons that challenge or seek to prevent, enjoin or otherwise delay the Transactions.

Article 5
Representations And Warranties Of Sellers And Shareholders

Each Seller and each Shareholder hereby, jointly and severally, represents and warrants to Buyer that the statements contained in this Article 5 are true and correct on the date hereof and shall be true and correct on the Closing Date as if made thereon:

1.1 Organization and Qualification of Seller. Each Seller is an entity duly incorporated or formed, validly existing and in good standing under the Laws of the state or jurisdiction of incorporation or formation, has all limited liability company power and authority required to own, lease and operate its assets and property and to carry on its business as presently conducted, and is duly qualified to transact business as a foreign entity and is in good standing as a foreign entity authorized to transact business in each jurisdiction in which the nature of the business conducted by it requires such qualification, except where the failure to be so qualified or in good standing would not, individually or in the aggregate, have a Material Adverse Effect. Each Seller has full corporate power and authority to own, operate or lease the assets now owned, operated or leased by it and to carry on its business as it has been and is currently conducted. Section 5.1 of the Disclosure Schedule sets forth each jurisdiction in which each Seller is licensed or qualified to do business, and each Seller is duly licensed or qualified to do business and is in good standing in each jurisdiction in which the properties owned or leased by it or the operation of its business as currently conducted makes such licensing or qualification necessary.

1.2Authority; Board Approval. Each Seller has full corporate power and authority to enter into and perform its obligations under this Agreement and the Transaction Documents to which it is a party and to consummate the Transactions. The execution, delivery and performance by each Seller of this Agreement and the Transaction Documents and the consummation by each Seller of the Transactions have been duly authorized by all requisite corporate action on the part of such Seller and no other corporate proceedings on the part of such Seller are necessary to authorize the execution, delivery and performance of this Agreement or to consummate the Transactions. This Agreement has been duly executed and delivered by each Seller, and (assuming due authorization, execution and delivery by each other party) this Agreement constitutes a legal, valid and binding obligation of each Seller enforceable against such Seller in accordance with its terms, except as enforceability may be limited by the Enforceability Exceptions. When each Transaction Document to which each Seller is or will be a party has been duly executed and delivered by such Seller (assuming due authorization, execution and delivery by each other party thereto), such Transaction Document will constitute a legal and binding obligation of such Seller enforceable against it in accordance with its terms, except as enforceability may be limited by the Enforceability Exceptions.

1.3 No Conflicts; Consents. Except as provided in Section 5.3 of the Disclosure Schedule, the execution and delivery by each Seller of this Agreement and each Transaction Document, and the performance by it of any actions contemplated hereunder or thereunder, does not and will not, directly or indirectly (with or without notice or lapse of time):

1.3.1 Conflict with or violate any provision of the Governing Documents of such Seller;

1.3.2 Require notice (other than the notice required by section 17(3) of the Australian *Franchising Code of Conduct*) , consent or approval under, conflict with, violate, result in a breach of, result in the acceleration of obligations, loss of a benefit or increase in Liabilities or fees under, create in any Person the right to terminate, cancel or modify, or cause a default under or give rise to any rights or penalties under (a) any provision of Law relating to such Seller, (ii) any provision of any Governmental Order to which such Seller or any of its properties are subject, or (iii) any provision of any material Contract to which such Seller is bound or to which its assets are affected;

1.3.3 Cause any of the assets of each Seller to be reassessed or revalued by any Governmental Authority or subject to an Encumbrance;

1.3.4 Violate the terms and conditions of any existing exclusivity or other similar agreement or arrangement with any other potential acquirer of all or any portion of the Purchased Assets, Business, the Franchise Systems or any Sellers' or Shareholders' equity in a Seller; or

1.3.5 Require a registration, filing, application, notice, consent, approval, order, qualification or waiver with, to or from any Governmental Authority.

1.4 Capitalization and Subsidiaries.

1.4.1Capitalization. As of the date hereof, (a) the outstanding equity capitalization of each Seller and all of their Subsidiaries is as set forth on Section 5.4.1 of the Disclosure Schedule, (b) all of the issued and outstanding equity securities of each Seller and each of their Subsidiaries are owned by the record and beneficial owners as set forth on Section 5.4.1 of the Disclosure Schedule, free and clear of all Encumbrances, (c) all outstanding equity securities of each Seller and each of their Subsidiaries are duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights created by statute, the Organizational Documents, or contract, (iv) all outstanding equity securities of each Seller and their Subsidiaries have been issued in compliance with all relevant securities Laws, and (v) there are no declared or accrued but unpaid dividends with respect to such equity securities.

1.5 Financial Statements.

1.5.1 Section 5.5.1 of the Disclosure Schedule contains true and complete copies of the following financial statements (collectively, the "Financial Statements"):

(a) The audited consolidated balance sheet of each Seller as of June 30, 2020 and June 30, 2021, (the "Year-End Balance Sheets" and such latter date, the "Year-End Balance Sheet Date") and the related consolidated audited statements of income, cash flows and members' equity for the periods then ended, and the related notes thereto; and

(b) The unaudited consolidated balance sheet of each Seller as of August 31, 2021 (the "Most Recent Balance Sheet" and such date, the "Most Recent Balance Sheet Date") and the related unaudited statement of income, cash flows and members' equity for the two (2)-month period then ended.

1.5.2 Each of the Financial Statements (i) are correct and complete, (ii) presents fairly, in all material respects, the financial position of Sellers on a consolidated basis as of the dates thereof, and (iii) has been prepared on a consistent basis, except (A) as may be stated in the notes thereto; (B) that the Most Recent Balance Sheet and related unaudited statement of operations for the two (2)-month period ended on the Most Recent Balance Sheet Date are subject to normal year-end adjustments that will not individually or in the aggregate, be material; and (C) as set forth on Section 5.5.2 of the Disclosure Schedule.

1.6 No Undisclosed Liabilities. No Seller has Liabilities with respect to the Business, except (a) those which are adequately reflected or reserved against in the Year-End Balance Sheets and/or the Most Recent balance Sheet, and (b) those which have been incurred in the Ordinary Course of Business since the Year-End Balance Sheet Date.

1.7 Absence of Certain Changes, Events and Conditions. Since the Year-End Balance Sheet Date, there has not been, with respect to any Seller, any:

1.7.1 event, occurrence or development that has had, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect;

1.7.2 transfer, assignment or grant of any license or sublicense of any material rights under or with respect to any Owned IP or Licensed IP; or

1.7.3 any Contract to do any of the foregoing, or any action or omission that would result in any of the foregoing.

1.8 [Intentionally Omitted].

1.9 [Intentionally Omitted].

1.10 Title. The Sellers have good and marketable title to, or a valid and binding leasehold or license interest in, all of the Purchased Assets, free and clear of all Encumbrances other than Permitted Encumbrances.

1.11 Condition and Sufficiency of Assets. The Purchased Assets are sufficient for the continued conduct of the Business after the Closing in the same manner in which they are intended to be used by the Buyer immediately following the Closing. None of the Excluded Assets are material to the Business.

1.12 Intellectual Property.

1.12.1 Section 5.12.1 of the Disclosure Schedule contains a complete and accurate list of all Intellectual Property that is (i) owned, (ii) purported to be owned, and/or (iii) necessary for the operation of the Business as currently conducted and as contemplated to be conducted, in whole or in part, by Seller anywhere in the world (collectively "Owned IP"). Section 1.1.1 includes, but is not limited to, (i) patents, patent applications, and any reissue, continuation, continuation-in-part, division, revision, extension or reexamination thereof; (ii) registrations and applications for registration of Trademarks; (iii) Internet domain names and social media identifiers and handles; and (iv) registrations and applications for registration of copyrights (collectively "Registered Intellectual Property"). All of the Owned IP is valid and enforceable. All necessary registration, maintenance and renewal fees due for payment prior to or as of the Closing Date in connection with the Registered Intellectual Property have been made or paid. There are no oppositions, cancellations, invalidity proceedings, interferences or re-examination proceedings pending with respect to the Registered Intellectual Property.

1.1.2 Seller owns, exclusively and free and clear of all Encumbrances (other than Permitted Encumbrances), the entire right, title and interest to, or has the right to use, all Owned IP and other Intellectual Property necessary for the operation of the Business as currently conducted and as contemplated to be conducted. The Intellectual Property licensed to Seller ("Licensed IP") shall be available for use by Buyer immediately after the Closing Date on identical terms and conditions to those under which Seller used such Licensed IP immediately prior to the Closing Date.

1.1.3 Section 5.12.3 of the Disclosure Schedule contains a correct and complete list as of the date hereof of all agreements pursuant to which Intellectual Property is (i) licensed to Seller (excluding generally commercially available, non-negotiated, off the shelf software program licenses with an annual license fee not to exceed $10,000), (ii) licensed by Seller to any third party (excluding non-exclusive licenses granted in the Ordinary Course of Business); or (iii) the subject of a coexistence agreement, non-assertion covenant or covenant not to sue granted to or by Seller (collectively, the "IP Agreements"). Seller has made available to the Buyer a correct and complete copy of each IP Agreement. To the Knowledge of Seller each such IP Agreement is valid, enforceable, and is in full force and effect. Seller has not breached its obligations under any IP Agreement and, to the Knowledge of Seller, no other party to any IP Agreement is in material breach of such IP Agreement.

1.1.4 Section 5.12.4 of the Disclosure Schedule contains a complete list of all of Seller's material information technology projects currently in progress and provides, for each such project, a reasonably detailed description of (i) the scope of the project, (ii) the budget for the project, (iii) the material milestones for completing the project (including the anticipated date of completion) and (iv) the current status of the project.

1.1.5 Section 5.12.5 of the Disclosure Schedule contains a complete list of all third party Intellectual Property licensed to Seller, providing Seller with sufficient number of licenses necessary for Seller to use the Intellectual Property without violating or breaching any provision of such license agreement, including the number of licensed seats, users, systems, or platforms.

1.1.6 Except as set forth on Schedule 5.12.6 of the Disclosure Schedule, no software used in connection with the Business of Sellers will require Buyer to pay a license or transfer fee in excess of one thousand Australian Dollars (AUD $1,000).

1.1.7 Except as set forth on Schedule 5.12.7 of the Disclosure Schedule (i) neither Seller nor the conduct of the businesses of Seller as currently conducted, and as contemplated to be conducted is infringing, misappropriating, misusing, diluting or otherwise violating any Intellectual Property of any other Person, and (ii) no other Person is infringing, misappropriating or otherwise violating any Owned IP. Except as set forth on Schedule 5.12.7 of the Disclosure Schedule, no Action is, as of the date of this Agreement or was in the six (6) year preceding the date hereof, (x) initiated, is pending or to the Knowledge of Seller, threatened in writing, against Seller alleging that Seller is infringing, misappropriating, misusing, diluting or otherwise violating any Person's Intellectual Property or (y) pending or threatened, in writing, by any of Seller, that any Person is infringing, misusing, misappropriating, diluting or otherwise violating any Owned IP.

1.1.8 Seller owns or has a valid right to access and use all computer systems, programs, networks, hardware, software, software engines, database, operating systems, schematics, websites, website content and links and equipment used to process, store, maintain and operate data, information and functions owned, used or provided by Seller (the "Seller IT Systems"). The Seller IT Systems that are currently used by Sellers constitute all the information and communications technology reasonably necessary and sufficient to carry on the business of Sellers and their Subsidiaries. The consummation of the transactions will not impair or interrupt in any material respect: (i) Seller's access to and use of, or their respective right to access and use, the Seller IT Systems or any third party databases or third party data used in connection with the Business of Seller as currently conducted; and (ii) to the extent applicable, Seller's customers' access to and use of the Seller IT Systems, to the extent that any such use currently exists. Seller has implemented firewall protections, implemented virus scans and taken commercially reasonable steps in accordance with then-current industry standards to secure the Seller IT Systems from unauthorized access or use by any Person and to ensure the continued, uninterrupted and error-free operation of the Seller IT Systems. Seller has in effect industry standard disaster recovery plans and procedures in the event of any material malfunction of or unauthorized access to any of the Seller IT Systems. All the Seller IT Systems have been available and continuously operating in a materially error free manner during the three (3) years immediately preceding the date of this Agreement. To the Knowledge of Seller, there: (x) have been no unauthorized intrusions or breaches of security with respect to the Seller IT Systems; (y) has not been any material malfunction of Seller IT Systems that has not been remedied or replaced in all material respects; and (z) has been no material unplanned downtime or service interruption with respect to any of the Seller IT Systems. At the time of Closing, all data will be readily available, downloadable and in usable format.

1.1.9 Seller maintains and has at all times maintained a policy requiring that all employees and independent contractors who are involved in the creation of Intellectual Property enter into non-disclosure and invention assignment agreements pursuant to Seller's standard forms or policies. All current and former employees, consultants and independent contractors of Seller who contributed to the creation, invention or development of any Intellectual Property for or on behalf of Seller have executed and delivered non-disclosure and invention assignment agreements to Seller, pursuant to which each current and former employee, consultant and independent contractor has irrevocably assigned (and waived all Moral Rights in) all such Intellectual Property to Seller. No current or former employee, consultant or independent contractor of Seller has asserted an ownership interest in or other rights with respect to any Owned IP.

1.1.10 Seller is not under any obligation, whether written or otherwise, to develop for or license to any third party any derivative works of or improvements to Owned IP.

1.1.11 No Governmental Entity, consortium, university or educational institution has sponsored research and development in connection with the business of Sellers under an agreement or arrangement that would provide such Governmental Entity, consortium, university or educational institution with any claim of ownership to any Owned IP.

1.1.12 To the extent that Sellers owns any Software, such Software is not subject to any agreement with any Person pursuant to which Seller has deposited, or could be required to deposit, into escrow the source code of such software and no such source code has been released to any Person, or is entitled to be released to any Person, by any escrow agent and (ii) no source code to any software included in the Owned IP has been disclosed to any Person. The execution, delivery, and performance by Buyer of this Agreement or any Ancillary Document to which it is a party and the consummation of the transactions contemplated hereby shall not trigger the release of any such software source code to an escrow agent or other Person.

1.1.13 No open source software or other subject matter that is distributed under an open source license requiring that any Owned IP, in particular source code belonging to Seller or its Subsidiaries, be disclosed, licensed or distributed to others, such as (by way of example only) the GNU General Public License or other 'copyleft' licenses is or has been incorporated into any Owned IP. Seller is and has been in compliance with all applicable licenses with respect any third Person software that constitute open source software, and Seller has not received any requests from any Person for disclosure of proprietary software contained within Owned IP.

1.1.14 Seller has taken all actions reasonably necessary, and all actions common in the industry, to maintain, protect, monitor and enforce all of the Owned IP, including the secrecy, confidentiality, and value of Trade Secrets and other confidential information of Seller and the goodwill and value of all Trademarks included in the Owned IP. Seller has not disclosed any material confidential Owned IP to any third party other than pursuant to a customary written confidentiality agreement pursuant to which such third party agrees to protect and not disclose such confidential information. Seller has not granted a license for any Trademarks included in the Owned IP that does not include a termination right in favor of Seller.

1.1.15 Seller has complied in all material respects with (i) all privacy policies and procedures promulgated by Seller as required by Information Privacy Laws, and (ii) all applicable Laws and guidelines from authorities relating to privacy, data security, data protection, sending solicited or unsolicited electronic mail and text messages, cookies, trackers and Data Handling of

Personal Data, including U.S. federal and state Laws, in particular the California Consumer Privacy Act of 2018; and the Canadian Personal Information Protection and Electronic Documents Act governing Sensitive Data and Data Handling ("Information Privacy Laws").

1.1.16 Seller (i) does not have any establishment in the European Union; (ii) does not target the European market by offering products to Persons who are in the European Union and, (iii) does not monitor the behavior of Persons who are in the European Union and represent that the European General Data Protection Regulation of April 27, 2016 (Regulation (EU) 2016/679) does not apply to their activities.

1.1.17 Seller has not been and is not currently charged with a violation, received written notice or otherwise had Knowledge of any notifications, claims, demand, audit, or action in relation to Personal Data by any Person or third party. No claim or investigation initiated by any authority has occurred or is pending or, threatened against Seller with respect to Personal Data.

1.1.18 To the Knowledge of Seller, Seller has not suffered an unauthorized intrusion or security breach with respect to any Personal Data. As of the date hereof, Seller has not been notified and has not been required under applicable Information Privacy Laws to notify, any Person or authority of any information security breach involving Personal Data.

1.1.19 The performance of this Agreement will not violate (a) any Information Privacy Laws, or (b) any other privacy or data security requirements or obligations imposed under any contracts on Seller. Upon execution of this Agreement, Seller shall continue to have the right to use and process any Personal Data collected, processed or used by it before the signature date of this Agreement in order to be able to conduct business in the Ordinary Course.

1.13 [Intentionally Omitted].

1.14 Legal Proceedings; Governmental Orders.

1.14.1 Section 5.14.1 of the Disclosure Schedule identifies and provides a summary of the status and material claims involved in each Action that is currently or the past five years was pending, or, to Seller's Knowledge, threatened against or by any Seller (or any of their Subsidiaries or Representatives with respect to their business activities on behalf of any Seller) relating to or affecting the Business or the Purchased Assets.

1.14.2 There are no Actions pending or, to Seller's Knowledge, threatened against or by any Seller that challenges or seeks to prevent, enjoin or otherwise delay the Transactions. No event has occurred, or circumstances exist that may give rise to, or serve as a basis for, any such Action.

1.14.3 There are no, nor in the past five (5) years have there been, any outstanding Governmental Orders and no unsatisfied judgments, penalties or awards against or affecting any Seller (or any of Seller's Subsidiaries or Representatives with respect to their business activities on behalf of any Seller) relating to or affecting the Business or the Purchased Assets. No event has occurred, or circumstances exist that may constitute or result in (with or without notice or lapse of time) a violation of any such Governmental Order.

1.15 Compliance with Laws; Permits.

1.15.1Each Seller has been in compliance with all Law. No Seller has been charged with and, to the Knowledge of Seller, is not now under investigation with respect to, a violation of any Law. No Seller has received any communication during the past five (5) years from a Governmental Authority that alleges that such Seller is not in compliance with any Law.

1.15.2Each Seller (a) holds, and is in compliance with the terms of, all Permits necessary for the conduct of the Business or the ownership, lease, operation or use of the Purchased Assets, all of which are listed on Section 5.15.2 of the Disclosure Schedule, (b) has not received any notice of the institution of any Action to revoke any such Permits or alleging that such Seller fails to hold such Permits, (c) has not received any notice that any loss or expiration of any Permit is pending, other than expiration in accordance with the terms thereof, and (d) has no Knowledge of any threatened or reasonably foreseeable loss or expiration of any Permit, other than expiration in accordance with the terms thereof. The Permits are valid and in full force and effect and none of the Permits will be terminated or impaired or become terminable as a result of the Transactions.

1.16 [Intentionally Omitted].

1.17 Tax. Except as set forth on Section 5.17 of the Disclosure Schedule:

1.17.1All Tax Returns required to be filed by any Seller (with respect to the Business) for any Pre-Closing Tax Period have been, or will be, timely filed. Such Tax Returns are, or will be, true, complete and correct in all material respects. All Taxes due and owing by any Seller (whether or not shown on any Tax Return) have been, or will be, timely paid or are being contested in good faith.

1.17.2Each Seller has withheld and paid all material Taxes required to have been withheld and paid in connection with amounts paid or owing to any Employee, independent contractor, creditor, customer, shareholder or other party, and complied with all information reporting and backup withholding provisions of applicable Law. No claim has ever been made by an authority in a jurisdiction where any Seller does not file Tax Returns that such Seller is or may be subject to taxation by that jurisdiction.

1.17.3No Seller is a party to any Action by any taxing authority. There are no pending or, to Seller's Knowledge, threatened Actions by any taxing authority.

1.17.4There are no Encumbrances for Taxes upon any of the Purchased Assets, nor, to Sellers' Knowledge, is any taxing authority in the process of imposing any Encumbrances for Taxes on any of the Purchased Assets (other than for current Taxes not yet due and payable).

1.18 [Intentionally Omitted].

1.19 [Intentionally Omitted].

1.20Certain Payments. Each Seller is in material compliance with all applicable foreign, federal, state and local anti-bribery, anticorruption and anti-money laundering Laws, including the

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

U.S. Foreign Corrupt Practices Act, as amended. None of any Seller nor any Representative thereof or any other Person authorized to act for or on behalf of any Seller, has directly or indirectly, (a) made any contribution, gift, bribe, rebate, payoff, influence payment, kickback or other payment to any Person, public or private, regardless of form, whether in money, property or services (i) to obtain favorable treatment in securing business; (ii) to pay for favorable treatment of business secured; (iii) to obtain special concessions or for special concessions already obtained; or (iv) in violation of any Law, or (b) established or maintained any fund or asset that has not been recorded in the books and records of any Seller.

1.21 No Lawsuits. Except as set forth on Section 5.21 the Disclosure Schedule, and as provided in Section 9.5.2, (A) there are no and there have not been for the past five (5) years: any (i) material lawsuits pending or, to Sellers' Knowledge, threatened against or affecting Sellers in regards to their actions as such, including with respect to any matter arising from or related to Covid-19 or Covid-19 Measures (whether regarding contractual, labor, employment, benefits or other matters), (ii) to Seller's Knowledge, basis for any such Suit; or (iii) Order outstanding to which Sellers or the Business is subject; and (B) there are no lawsuits pending or, to Sellers' Knowledge, threatened seeking to prevent, hinder, modify, delay or challenge the transactions contemplated by this Agreement or the Ancillary Documents.

1.22 Suppliers.

1.22.1 In the last twelve (12) months, no material supplier has reduced or changed in a manner adverse to the Business the terms of its business with the Business, and no Seller has received written notice (or, to the Knowledge of Sellers verbal notice), from any material supplier of any termination or material reduction in such material supplier's relationship with the Business, or that such material supplier intends to, and Seller has no Knowledge that any material supplier will, terminate, materially reduce or materially alter (in a manner adverse to Business) its relationship with the Business.

1.23 Transactions with Related Persons. Except as set forth in Section 5.23 of the Disclosure Schedule (the items so disclosed, the "Related Party Transactions and Relationships"), neither any Shareholder or any Affiliate of any Seller, nor any Affiliate thereof, nor any of their respective Representatives:

1.23.1 owns any direct or indirect interest of any kind in, or controls or has controlled, or is a manager, officer, director, shareholder, member or partner of, or consultant to, or lender to or borrower from or has the right to participate in the profits of, any Person which is a competitor, supplier, vendor, customer, landlord, tenant, creditor or debtor of any Seller;

1.23.2 owns or has an interest in, directly or indirectly, any Purchased Asset or Assigned Contract;

1.23.3 provides goods or services to any Seller (other than the employees of a Seller);

1.23.4 has pledged any assets, posted any letters of credit or guaranteed any obligations on behalf of any Seller (nor has any Seller pledged any assets, posted any letters of credit or guaranteed any obligations on behalf of any such Person); or

1.23.5 has any claim or cause of action against any Seller.

1.24 Franchise Matters.

1.24.1 Since January 1, 2017, Sellers and their Affiliates are the only Persons that have operated a "Body Fit Training" and/or "BFT" franchise system or offered or sold "Body Fit Training" and/or "BFT" franchises. The Franchise System is the only franchise system that the Sellers and their Affiliates have operated. Except as set forth on Section 5.24.1 of the Disclosure Schedule, neither Body Fit Training, the Sellers nor any Subsidiary or Affiliate of Sellers, have offered or sold or otherwise granted rights to any Person conferring upon that Person any area development, area representative, master franchise, sub-franchise or other multi-unit or multilevel rights with respect to the "Body Fit Training" and/or "BFT" brands. Only Sellers have entered into franchise agreements for the Body Fit Training and BFT brands and Franchise System (each a "Franchise Agreement"). All Franchise Agreements entered into by Sellers remain binding on the parties and their assignee(s).

1.24.2 Section 5.24.2 of the Disclosure Schedule contains a complete and accurate list of all currently effective Franchise Agreements between Body Fit Training and any franchisee (each a "Franchisee"), including the following information for each such Franchise Agreement, which information reflects the provisions of each such Franchise Agreement currently in effect after taking into account all waivers, alterations, amendments or other modifications thereof (including those responsive to clause (viii) below): (i) the business address of each "Body Fit Training" location operated by such Franchisee, (ii) the name, address and telephone number of the Franchisee, (iii) the royalty rate required to be paid by the Franchisee, (iv) the required marketing fund contribution rate, (v) the required minimum monthly royalty, (vi) the required minimum, (vii) the stated effective date, (viii) the renewal date, and (ix) whether or not there have been any material waivers, alterations, amendments or other material modifications of any Franchise Agreement (including changes related to any fees, costs, expenses, defaults, covenants, term, termination, renewal or transfer rights, or other material obligations of a Franchisee) since the execution of such Franchise Agreement to which Body Fit Training has agreed to, entered into or acquiesced. Sellers have made available to Buyer copies of each Franchise Agreement.

1.24.3 Except as set forth in Section 5.24.3 of the Disclosure Schedule, to the Knowledge of Sellers, no Franchisee is in, or has received written notice of, any material violation or material default of (including any condition that with the passage of time or the giving of notice, or both, would cause such a material violation or material default under) any Franchise Agreement. Except as set forth in Section 5.24.3 of the Disclosure Schedule, neither Body Fit Training nor the Sellers are in, or have received written notice of any, violation of or default under (including any condition that with the passage of time or the giving of notice, or both, would cause such a violation or default under) any Franchise Agreement or that would permit termination or rescission of any such Franchise Agreement. Except as set forth in Section 5.24.3 of the Disclosure Schedule, neither any of Body Fit Training, the Sellers nor any of their Subsidiaries has received any written demand by any Franchisee for rescission of any Franchise Agreement. To the Knowledge of Sellers, there is no basis for any claim by any Franchisee for rescission of any Franchise Agreement, and no Franchisee is entitled to any set-off or reduction in any payment required under any Franchise Agreement. Each Franchise Agreement is a valid and binding agreement with Body Fit Training, and is in full force and effect, subject to the Enforceability Exceptions. Except as set forth in

Section 5.24.3 of the Disclosure Schedule, neither the execution of this Agreement nor the consummation of the transactions contemplated by this Agreement requires the consent of any party to a Franchise Agreement or will result in the termination, modification or acceleration of any Franchise Agreement.

1.24.4Section 5.24.4 of the Disclosure Schedule sets forth a list of all forms of Franchise Disclosure Documents that Body Fit Training has ever used to offer or sell Franchises. Sellers have made available to Buyer accurate and complete copies of each such form of Franchise Disclosure Documents.

1.24.5Except as set forth Section 5.24.5 of the Disclosure Schedule and except for such noncompliance as would not either individually or in the aggregate reasonably be expected to be material, Body Fit Training is and has been, in material compliance with all franchise laws governing the Franchise System in any and all jurisdictions where the Business is operated (the "Franchise Laws") in connection with the offer and sale of Franchises, the ongoing relationships with current and former Franchisees, the termination, non-renewal and transfers of Franchises, and the operation and administration of the Franchise System.

1.24.6Except as set forth Section 5.24.6 of the Disclosure Schedule, no current or former Franchisee, or any Governmental Authority, has alleged that Body Fit Training or any of their Subsidiaries failed to comply with any applicable Laws or Franchise Laws during the offer and sale of a Franchise or the operation of the Franchise System.

1.24.7 Section 5.24.7 of the Disclosure Schedule contains a summary of all (i) Franchise-related or Franchisee-related proceedings, Orders, material complaints or disputes raised since the inception of the Franchise System, (ii) proceedings or Orders required to be disclosed in Franchise Disclosure Documents under applicable Franchise Laws, or (iii) other proceedings or complaints that are pending or, to the Knowledge of Sellers, have been threatened against Sellers or any other Subsidiary of Sellers since the inception of the Franchise System
(A) from any existing or former Franchisee, or (B) or any association purporting to represent a group of Franchisees, except where such proceeding, either individually or in the aggregate, would not reasonably be expected to be material. There are no stop orders or other proceedings in effect or, to the Knowledge of Sellers, threatened that would prohibit Sellers and their Subsidiaries' ability to offer or sell Franchises or enter into Franchise Agreements immediately following the date hereof, except for any pending renewal filings, and any amendment filings and changes to the Franchise Disclosure Documents that might be required to describe the transactions contemplated by this Agreement.

1.24.8There are no Contracts with Franchisees that create or otherwise utilize a marketing fund or similar marketing fee or reimbursement.

1.24.9Except as set forth in Section 5.24.9 of the Disclosure Schedule, neither Body Fit Training, the Sellers nor any of their Subsidiaries have engaged or hired an agent, broker, third party, Franchisee or licensee to provide material services, assistance or support to any Franchisee or to identify, offer or sell to potential Franchisees.

1.24.10Except as set forth in Section 5.24.10 of the Disclosure Schedule, Body Fit

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

Training has not received notice that any franchise association or other organization is acting as a representative of any group of two or more Franchisees, and, to the Knowledge of Sellers, no franchise association or other organization is so acting.

1.24.11 Any franchise council or advisory group presently in place (whether independently formed or sponsored by Sellers) is purely advisory in nature. Except as set forth in <u>Section 5.24.11 of the Disclosure Schedule</u>, neither Body Fit Training, the Sellers nor any of their Subsidiaries have granted any enforceable right of first refusal, option or other right or arrangement to sign any Franchise Agreement or acquire any Franchise Agreement.

1.24.12Except as set forth in <u>Section 5.24.12 of the Disclosure Schedule</u>, none of Body Fit Training, the Sellers nor any of their Subsidiaries has received, or been a party to any Contract under which any of such entities has the right to receive, material rebates, other material payments or material consideration from suppliers or other third parties, including the ability to purchase products, goods and services at lower prices than those charged to Franchisees, on account of direct or indirect Franchisees' purchases from those suppliers or third parties. None of Body Fit Training, the Sellers nor any of their Subsidiaries has made any offer, promise or Contract with respect to any future or contingent rebates or other payments from suppliers or other third parties to or for the benefit of a Franchisee or another Person. There are no Contracts or special arrangements with any Franchisee that are prohibited by the applicable Franchise Agreement or that have not been properly disclosed in accordance with applicable Franchise Laws.

1.24.13Neither the execution of this Agreement nor the consummation of the transactions contemplated by this Agreement will result in a violation of or a default under, or give rise to a right of termination, modification, cancellation, rescission or acceleration of any obligation or loss of material benefits under, any Franchise Agreement.

1.25 <u>Brokers</u>. Except as set forth in <u>Section 5.25 of the Disclosure Schedule</u>, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the Transactions or any other Transaction Document based upon arrangements made by or on behalf of Body Fit Training, any Seller or any Shareholder.

Article 6
Representations and Warranties of Buyer

Buyer represents and warrants to the Seller Parties that the statements contained in this Article 6 are true and correct as of the date hereof and as of the Closing.

1.1<u>Organization and Authority of Buyer</u>. Buyer is a limited liability company duly organized, validly existing and in good standing under the Laws of the State of Delaware. Buyer is a limited liability company duly organized, validly existing and in good standing under the Laws of the State of Delaware. Buyer has full power and authority to enter into this Agreement and the other Transaction Documents to which such Buyer is a party, to carry out its obligations hereunder and thereunder and to consummate the Transactions. The execution and delivery by Buyer of this Agreement and any other Transaction Document to which Buyer is a party, the performance by Buyer of its obligations hereunder and thereunder and the consummation by Buyer of the Transactions have been duly authorized by all requisite action on the part of Buyer. This Agreement has been duly executed and delivered by Buyer, and (assuming due authorization, execution and delivery by the Shareholders and the Seller Parties) this Agreement constitutes a legal, valid and binding obligation of Buyer enforceable against Buyer in accordance with its terms, except as enforceability may be limited by the Enforceability Exceptions. When each other Transaction Document to which Buyer is or will be a party has been duly executed and delivered by Buyer (assuming due authorization, execution and delivery by each other party thereto), such Transaction Document will constitute a legal and binding obligation of Buyer enforceable against it in accordance with its terms, except as enforceability may be limited by the Enforceability Exceptions.

1.2 No Conflicts; Consents. The execution and delivery by Buyer of this Agreement and each Transaction Document, and the performance by it of any actions contemplated hereunder or thereunder, does not and will not, directly or indirectly (with or without notice or lapse of time)
(a) conflict with or violate any provision of the Governing Documents of Buyer or (b) conflict with, violate, result in a breach of, result in the acceleration of material obligations, loss of a benefit or increase in Liabilities or fees under, create in any Person the right to terminate, cancel or modify, or cause a default under or give rise to any rights or penalties under any provision of any Governmental Order to which Buyer is subject or any provision of any Contract to which Buyer is a party or by which Buyer is subject.

1.3Sufficiency of Funds. Buyer will have prior to the Closing sufficient cash on hand or other sources of immediately available funds to enable it to make payment of the Purchase Price and consummate the Transactions.

1.4Legal Proceedings. There are no Actions pending or, to Buyer' knowledge, threatened against or by any Buyer or any Affiliate thereof that challenge or seek to prevent, enjoin or otherwise delay the Transactions.

1.5Brokers. Except for such amounts as Buyer shall pay, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the Transactions or any other Transaction Document based upon arrangements made by or on behalf of Buyer.

Article 7
COVENANTS

1.1 Undertaking. Buyer will cause its affiliate (Xponential Fitness Brands International, LLC) to execute the Master Franchise Agreement if the Seller party designated therein executes and returns it to Buyer within two (2) days following the date it is able under Australian law to do so.

1.2 [Intentionally Omitted].

1.3 [Intentionally Omitted].

1.4 [Intentionally Omitted].

1.5Confidentiality. From and after the Closing, each Seller shall, and shall cause its

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

Affiliates to, hold, and shall use its reasonable best efforts to cause its or their respective Representatives to hold, in confidence any and all information, whether written or oral, concerning the Business, except to the extent that such Seller can show that such information (a) is generally available to and known by the public through no fault of any Seller, any of its Affiliates or their respective Representatives; or (b) is lawfully acquired by any Seller, any of its Affiliates or their respective Representatives from and after the Closing from sources which are not prohibited from disclosing such information by a legal, contractual or fiduciary obligation (such information, "Confidential Information"). If any Seller or any of its Affiliates or their respective Representatives is compelled to disclose any Confidential Information by judicial or administrative process or by other requirements of Law, such Seller shall promptly notify Buyer in writing and shall disclose only that portion of such Confidential Information which such Seller is advised by its counsel in writing is legally required to be disclosed, provided that such Seller shall use reasonable best efforts to obtain an appropriate protective order or other reasonable assurance that confidential treatment will be accorded such Confidential Information.

1.6Trading. Each Shareholder and Seller confirms that he, she or it is (i) aware that the United States federal securities laws prohibit any Person in possession of material non-public information about a company (including Buyer and its Affiliates) from purchasing or selling securities of such company, and from communicating such information to any other Person under circumstances in which it is reasonably foreseeable that such Person may purchase or sell such securities and (ii) familiar with the Exchange Act, as amended, and that he she or it agree that he, she or it will not, and cause any one affiliated with the such party not to, use any information received pursuant to this Agreement in violation of the Exchange Act or rules or regulations, including without limitation Rule l0b-5 thereunder.

1.7 Approvals and Consents.

1.7.1 Sellers shall (i) use commercially reasonable efforts to file, make or obtain, as applicable, all registrations, filings, applications, notices, consents, approvals, orders, qualifications and waivers listed on Section 8.2.4 of the Disclosure Schedule, and (ii) be responsible for, and make any payments required to, accomplish the foregoing.

1.7.2 Each of the parties shall use all commercially reasonable efforts to:

(a)respond to any inquiries by any Governmental Authority regarding antitrust or other matters with respect to the Transactions or any agreement or document contemplated hereby;

(b)avoid the imposition of any order or the taking of any action that would restrain, alter or enjoin the Transactions or any agreement or document contemplated hereby; and

(c)in the event any Governmental Order adversely affecting the ability of the parties to consummate the Transactions or any agreement or document contemplated hereby has been issued, to have such Governmental Order vacated or lifted.

1.8 [Intentionally Omitted].

1.9No Disclosure. Unless otherwise required by applicable Law (based upon the

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

reasonable advice of counsel), no party shall make any disclosure in respect of this Agreement or the Transactions (other than to its Representatives on a need to know basis) without the prior written consent of the other parties (which consent shall not be unreasonably withheld or delayed; provided, however, that following the Closing Date, the provisions of this Section 7.9 shall not apply to Buyer to the extent required by Law or the rules or regulations of any U.S. securities exchange.

1.10 Litigation Support. Following the Closing, in the event and for so long as Buyer is actively contesting or defending against any Action in connection with any fact, situation, circumstance, action, failure to act, or transaction on or prior to the Closing Date involving the Seller Parties, each of the Shareholders and each Seller will cooperate at Buyer's cost and expense with Buyer and Buyer's counsel in the contest or defense and at Buyer's cost and expense provide such testimony and access to such Shareholders' and Sellers' books and records as shall be necessary in connection with the contest or defense, all at the sole cost and expense of Buyer (unless Buyer is entitled to indemnification therefor hereunder).

1.11 Restrictive Covenants.

1.11.1 Each Seller and Shareholder hereby agrees that for the [*] year period from and after the date hereof (the "Restricted Period") such Seller and Shareholder shall not, directly or indirectly, through an Affiliate or otherwise, either for his, her or its own benefit or for the benefit of any other Person, without the prior written consent of Buyer which consent may be withheld by Buyer in its sole and absolute discretion, compete with the Business or, directly or indirectly, own, operate, invest or work for any fitness gym or other similar businesses offering fitness classes (whether at a dedicated physical location, or by e-commerce or other at home media) after the Closing in any manner or capacity (e.g., through any form of ownership, lending relationship, or as an advisor, principal, agent, partner, officer, director, employee, employer, consultant, member of any association or otherwise), in each case, anywhere in the world. Notwithstanding the foregoing, none of following shall constitute a breach of this Section 7.11.1:
(x) any Seller's or Shareholder's services approved in writing by Buyer or the discharge of any obligations of any Seller and/or Shareholder (or any of their Affiliates) under any agreement with the Buyer or any Affiliate of the Buyer, or (y) ownership by a Seller or Shareholder, as a passive investment, in the aggregate of less than [*] of the outstanding shares or other equity interests of capital stock of any corporation or other entity listed on a national securities exchange or publicly traded on any nationally recognized over-the-counter market.

1.11.2 Each Seller or Shareholder agrees that during the Restricted Period such Seller or Shareholder shall not disparage the Business, Buyer or any of its Affiliates or their respective officers, directors, shareholders, members or employee in any matter likely to be harmful to such Person or his, her or its personal or business reputation; provided that the foregoing shall not prohibit any Person from responding accurately and fully to any question, inquiry, or request for information required by legal or administrative process or to the extent related to any litigation proceeding.

1.11.3 During the Restricted Period, no Seller or Shareholder shall (or shall direct its Affiliate to) directly or indirectly solicit any franchisee of the Business, Buyer or any of its Affiliates; provided, however, that the foregoing restriction shall not prohibit any solicitation of

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

any such franchisee in connection with any franchise agreement with Buyer.

1.11.4The parties acknowledge and agree that the amount of actual damages suffered by a non-breaching party(s) in the event of an actual or threatened breach of this Section 7.11 may be difficult or impossible to accurately calculate and there may not be an adequate remedy at law available to the non-breaching party to fully compensate the non-breaching party(s) in the event of such an actual or threatened breach. Consequently, the parties agree that in addition to any other remedy or relief to which it may be entitled, in the event of a breach or threatened breach of this Section 7.11, the non-breaching party and its successors and assigns shall be entitled to specific performance and/or injunctive or other equitable relief from a court of competent jurisdiction in order to enforce, or prevent any violations of, the provisions hereof (without posting a bond or other security), and neither the breaching party nor any of their affiliates will oppose the granting of any such relief on the ground(s) that the non-breaching party has an adequate remedy at Law, has not proven irreparable harm, and/or should be required to post a bond or other security.

1.11.5If any provision contained in this Section 7.11, will for any reason be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Section 7.11, but this Section 7.11 will be construed as if such invalid, illegal or unenforceable provision had never been contained herein. It is the intention of the parties that if any of the restrictions or covenants contained in this Section 7.11 is held to cover a geographic area or to be of a length of time that is not permitted by applicable Law, or in any way construed to be too broad or to any extent invalid, such provision will not be construed to be null, void and of no effect; instead, the parties agree that a court of competent jurisdiction will construe, interpret, reform or judicially modify this Section 7.11 to provide for a covenant having the maximum enforceable geographic area, time period and other provisions (not greater than those contained herein) as will be valid and enforceable under such applicable law.

1.11.6Each Seller and Shareholder expressly acknowledges and agrees that (i) each of the restrictions contained in this Section 7.11 is reasonable in all respects (including with respect to subject matter, time period and geographical area) and such restrictions are necessary to protect Buyer's interest in, and value of, the Business (including the goodwill inherent therein),
(ii) the Seller and Shareholders are primarily responsible for the creation of such value, and (iii) Buyer would not have entered into this Agreement or consummated the Transactions without the restrictions contained in this Section 7.11.

1.12Transfer Taxes. All transfer, documentary, sales, use, stamp, registration, value added and other such Taxes and fees (including any penalties and interest) incurred in connection with this Agreement and the other Transaction Documents (including any real property transfer Tax and any other similar Tax) shall be borne and paid [*] by Sellers and [*] by Buyer when due (except when such returns are required to be filed by Buyer as the party with title to a Purchased Asset). Sellers shall, at their own expense, timely file any Tax Return or other document with respect to such Taxes or fees, except that Seller shall at its expense, timely file any Tax Return of other documents required to be filed by Buyer as the party with title to a Purchase Asset (and Buyer shall cooperate with respect thereto as necessary).

1.12.1Tax Clearance Certificates. If requested by Buyer, each Seller shall notify all of the taxing authorities in the jurisdictions that impose Taxes on such Seller or where such Seller has a duty to file Tax Returns of the Transactions in the form and manner required by such

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

taxing authorities, if the failure to make such notifications or receive any available tax clearance certificate (a "Tax Clearance Certificate") could subject Buyer to any Taxes of such Seller. If any taxing authority asserts that any Seller is liable for any Tax, such Seller shall promptly pay or contest in good faith any and all such amounts and shall provide evidence to Buyer that such liabilities have been paid in full or otherwise satisfied.

1.12.2 Allocation of Purchase Price. Sellers and Buyer agree that the Purchase Price and the Assumed Liabilities (plus other relevant items) shall be allocated among the Purchased Assets (and among the Sellers) for all purposes (including Tax and financial accounting) as shown on the allocation schedule (the "Allocation Schedule"). A draft of the Allocation Schedule shall be prepared by Buyer and delivered to Sellers within sixty (60) days following the Closing Date. Such Allocation Schedule will be prepared in accordance with applicable law. If Sellers notify Buyer in writing that Sellers object to one or more items reflected in the Allocation Schedule, Sellers and Buyer shall negotiate in good faith to resolve such dispute; provided, however, that if Sellers and Buyer are unable to resolve any dispute with respect to the Allocation Schedule within ninety (90) days following the Closing Date, such dispute shall be resolved by the Accountant. The fees and expenses of the Accountant shall be borne equally by Sellers, on the one hand, and Buyer, on the other hand. Buyer and Sellers shall file all Tax Returns (including amended returns and claims for refund) and information reports in a manner consistent with the Allocation Schedule.

1.12.3 Straddle Period Allocation. For all purposes of this Agreement, all real property Taxes, personal property Taxes and similar ad valorem obligations levied with respect to the Business or the Purchased Assets for a taxable period which includes (but does not end on) the Closing Date (a "Straddle Period") shall be apportioned between Buyer, on the one hand, and Sellers, on the other hand, as of the Closing Date based on the number of days of such taxable period ending on the Closing Date and the number days of such taxable period beginning from the day after the Closing Date through the end of such taxable period, and Sellers shall be liable for the portion attributable to the period ending on the Closing Date. The amount of any Taxes based on or measured by income, receipts, payments, sales, use or payroll attributable to the Pre-Closing portion of a Straddle Period shall be determined based on an interim closing of the books as of the close of business on the Closing Date.

1.13 Insurance Proceeds. Each Seller shall assign, to the extent assignable, to Buyer any proceeds of such Seller's third party insurance policies to the extent related to any Assumed Liabilities. Each Seller agrees to use reasonable efforts to obtain any necessary consents or approvals of any insurance company or other third party relating to any such assignment. If such proceeds are not assignable, each Seller agrees to pay any such proceeds received by either it or any of its members or other Affiliates to Buyer promptly upon the receipt thereof.

1.14 Mail. Each Seller will promptly deliver to Buyer the original of any mail or other communication received by such Seller after the Closing that relates to the Purchased Assets and/or the Assumed Liabilities.

1.15 Payment of Excluded Liabilities. Each Seller shall timely pay in full all of the Excluded Liabilities. If any Excluded Liabilities are not so paid, or if Buyer reasonably determines that failure to make any payments would impair Buyer's use or enjoyment of the Purchased Assets or conduct of the Business, then Buyer may, at any time after the Closing Date, elect to make all such payments directly (but shall have no obligation to do so) and obtain reimbursement or indemnification hereunder.

1.16Reports and Returns. Each Seller shall promptly after the Closing prepare and file all reports and returns required by applicable Law relating to the Business or the Purchased Assets, through and including the Closing Date.

1.17 Access to Records. After the Closing, each Seller shall provide Buyer and their Representatives reasonable access to books and records that are Excluded Assets, during normal business hours and on at least three (3) days' prior written notice, for any reasonable business purpose specified by Buyer in such notice.

1.18Seller Covenants. The Shareholders shall cause each Seller to comply with each of their covenants and agreements set forth herein.

1.19Relationships. After the Closing, Sellers will cooperate with Buyer in their efforts to continue and maintain for the benefit of Buyer those business relationships of Sellers existing prior to the Closing and relating to the Business, including relationships with suppliers, franchisees, regulatory authorities, licensors, and others, and Sellers will satisfy the Excluded Liabilities in a manner that is not detrimental to any of such relationships. After the Closing, Sellers will, and will cause its Affiliates to, refer to Buyer all inquiries relating to the Business. Neither Sellers nor any of their Affiliates shall take any action that would tend to diminish the value of the Purchased Assets after the Closing or that would interfere with the business of Buyer to be engaged in after the Closing, including disparaging the name or business of Buyer or its Affiliates.

1.20 Further Assurances. Following the Closing, each of the parties shall, and shall cause their respective Affiliates to, execute and deliver such additional documents, instruments, conveyances and assurances and take such further actions as may be reasonably required to carry out the provisions hereof and give effect to the Transactions and the other Transaction Documents.

Article

8 CONDITIONS TO CLOSING

1.1 Conditions to Obligations of All Parties. The obligations of each party to consummate the Transactions shall be subject to the fulfillment, at or prior to the Closing, of each of the following conditions

1.1.1 No Governmental Authority shall have enacted, issued, promulgated, enforced or entered any Governmental Order which is in effect and has the effect of making the Transactions illegal, otherwise restraining or prohibiting consummation of such transactions or causing any of the transactions contemplated hereunder to be rescinded following completion thereof.

1.1.2No Action shall have been commenced against Buyer, the Shareholders or any Seller, which would reasonably be likely to prevent the Closing.

1.2Conditions to Obligations of Buyer. The obligations of Buyer to consummate the Transactions shall be subject to the fulfillment or Buyer' waiver, at or prior to the Closing, of each of the following conditions:

1.2.1Other than the representations and warranties contained in Article 4, Section 5.1 and Section 5.2, the representations and warranties of the Shareholders and the Seller Parties contained in this Agreement, the other Transaction Documents and any certificate or other writing delivered pursuant hereto shall be true and correct in all respects (in the case of any representation or warranty qualified by materiality or Material Adverse Effect) or in all material respects (in the case of any representation or warranty not qualified by materiality or Material Adverse Effect) on and as of the date hereof and on and as of the Closing Date with the same effect as though made at and as of such date (except those representations and warranties that address matters only as of a specified date, the accuracy of which shall be determined as of that specified date in all respects). The representations and warranties of contained in Article 4, Section 5.1 and Section 5.2 shall be true and correct in all respects on and as of the date hereof and on and as of the Closing Date with the same effect as though made at and as of such date (except those representations and warranties that address matters only as of a specified date, the accuracy of which shall be determined as of that specified date in all respects).

1.2.2Sellers and the Shareholders shall have duly performed and complied in all material respects with all agreements, covenants and conditions required by this Agreement.

1.2.3At or prior to the Closing, the Seller Parties shall have delivered to Buyer the Seller Parties Deliverables set forth in Section 2.2.

1.2.4 All registrations, filings, applications, notices, consents, approvals, orders, qualifications and waivers listed on Section 8.2.4 of the Disclosure Schedule shall have been filed, made or obtained, as applicable.

1.2.5From the date of this Agreement, there shall not have occurred any Material Adverse Effect.

1.3Conditions to Obligations of the Seller Parties and the Shareholders. The obligations of the Seller Parties and the Shareholders to consummate the Transactions shall be subject to the fulfillment or such parties' waiver, at or prior to the Closing, of each of the following conditions:

1.3.1At or prior to the Closing, the Buyer (i) shall deliver to the Seller Parties the Buyer Deliverables and (ii) shall have duly performed and complied in all material respects with all agreements, covenants and conditions required by this Agreement and each of the other Transaction Documents to be performed or complied with by it prior to or on the Closing Date.

Article 9
INDEMNIFICATION

1.1Survival. Subject to the limitations and other provisions of this Agreement, the representations and warranties contained herein shall survive the Closing and shall remain in full force and effect until the [*] anniversary of the Closing Date; provided, that the representations and warranties in Article 4, Section 5.1, Section 5.2, Section 5.3, Section 5.4, Section 5.10, Section 6.1, and Section 6.2, and any representation in the case of fraud, shall survive indefinitely and the representations and warranties in the first sentence of Section 5.12.2, Section 5.12.7, Section 5.17,

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

Section 5.23 and Section 5.25 shall survive for the full period of all applicable statutes of limitations (giving effect to any waiver, mitigation or extension thereof) plus sixty (60) days. All covenants and agreements of the parties contained herein shall survive the Closing indefinitely or for the period explicitly specified therein. Notwithstanding the foregoing, any claims asserted in good faith with reasonable specificity (to the extent known at such time) and in writing by notice from the non-breaching party to the breaching party prior to the expiration date of the applicable survival period shall not thereafter be barred by the expiration of the relevant representation or warranty and such claims shall survive until finally resolved. For the avoidance of doubt, the references in this Section 9.1 to the "statutes of limitations" shall refer to the statute of limitations applicable to the particular matter that gave rise to a breach of the representation or warranty in question, and not to the statute of limitations applicable to a breach of this Agreement.

1.2 Indemnification by Sellers and the Shareholders. Subject to the other terms and conditions of this Article 9, Sellers and the Shareholders, jointly and severally, shall indemnify and defend each of Buyer and their Affiliates and their respective Representatives (collectively, the "Buyer Indemnitees") against, and shall hold each of them harmless from and against, and shall pay and reimburse each of them for, any and all Losses that are or may be incurred or sustained by, or imposed upon, the Buyer Indemnitees based upon, arising out of, with respect to or by reason of:

1.2.1 any inaccuracy in or breach of any of the representations or warranties of the Shareholders or the Seller Parties contained in this Agreement or in any certificate or instrument delivered by or on behalf of the Shareholders or the Seller Parties pursuant to this Agreement, as of the date such representation or warranty was made or as if such representation or warranty was made on and as of the Closing Date (except for representations and warranties that expressly relate to a specified date, the inaccuracy in or breach of which will be determined with reference to such specified date);

1.2.2 any breach or non-fulfillment of any covenant, agreement or obligation to be performed by the Shareholders or the Seller Parties pursuant to this Agreement;

1.2.3any misstatements contained in any certificates delivered pursuant to this Agreement at or prior to the Closing by a party (other than Buyer);

1.2.4 any Excluded Asset or any Excluded Liability; and

1.2.5 any Pre-Closing Taxes.

1.3 Indemnification by Buyer. Subject to the other terms and conditions of this Article 9, Buyer, through its parent corporation Xponential Fitness Inc., shall, jointly and severally, indemnify and defend each Seller and its Affiliates and their respective Representatives (collectively, the "Seller Indemnitees") against, and shall hold each of them harmless from and against, and shall pay and reimburse each of them for, any and all Losses incurred or sustained by, or imposed upon, the Seller Indemnitees based upon, arising out of, with respect to or by reason of:

1.3.1 any inaccuracy in or breach of any of the representations or warranties of Buyer contained in this Agreement or in any certificate or instrument delivered by or on behalf of

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

Buyer pursuant to this Agreement, as of the date such representation or warranty was made or as if such representation or warranty was made on and as of the Closing Date (except for representations and warranties that expressly relate to a specified date, the inaccuracy in or breach of which will be determined with reference to such specified date);

1.3.2 any breach or non-fulfillment of any covenant, agreement or obligation to be performed by Buyer pursuant to this Agreement; or

1.3.3 any Assumed Liability.

1.4 Certain Limitations. The indemnification provided for in Section 9.2 and Section 9.3 shall be subject to the following limitations:

1.4.1 The Shareholders and Sellers shall not be liable to the Buyer Indemnitees for indemnification under Section 9.2.1 until the aggregate amount of all Losses in respect of indemnification under Section 9.2.1 exceeds [*] (the "Basket"), in which event the Shareholders and Sellers shall be liable for all Losses in respect of indemnification under Section 9.2.1. The aggregate amount of all Losses for which the Shareholders and Sellers shall be liable pursuant to Section 9.2.1 shall not exceed [*] (the "Cap"), provided, with respect to Fundamental Representations aggregate amount of all Losses for which the Shareholders and Sellers shall be liable pursuant to Section 9.2.1 shall not exceed [*].

1.4.2Buyer shall not be liable to the Seller Indemnitees for indemnification under Section 9.3.1 until the aggregate amount of all Losses in respect of indemnification under Section 9.3.1 exceeds the Basket, in which event Buyer shall be liable for all Losses in respect of indemnification under Section 9.3.1 in excess of the Basket. The aggregate amount of all Losses for which Buyer shall be liable pursuant to Section 9.3.1 shall not exceed the Cap.

1.5 Indemnification Procedures. The party making a claim under this Article 9 is referred to as the "Indemnified Person", and the party against whom such claims are asserted under this Article 9 is referred to as the "Indemnifying Person".

1.5.1 Third Party Claims.

(a) Notice. If any Indemnified Person receives notice of the assertion or commencement of any Action made or brought by any Person who is not a party or an Affiliate of a party or a Representative of the foregoing (a "Third Party Claim") against such Indemnified Person with respect to which the Indemnifying Person is obligated to provide indemnification under this Agreement, the Indemnified Person shall give the Indemnifying Person reasonably prompt written notice thereof, but in any event not later than thirty (30) days after receipt of such notice of such Third Party Claim. The failure to give such prompt written notice shall not, however, relieve the Indemnifying Person of its indemnification obligations, except and only to the extent that the Indemnifying Person forfeits rights or defenses by reason of such failure. Such notice by the Indemnified Person shall describe the Third Party Claim in reasonable detail, shall include copies of all material written evidence thereof and shall indicate the estimated amount, if reasonably practicable, of the Loss that has been or may be sustained by the Indemnified Person.

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

(b) Right to Defend. Upon receipt of the notice, the Indemnifying Person will have the right to defend the Indemnified Person against the Third Party Claim with counsel reasonably satisfactory to the Indemnified Person, provided, that (i) within thirty (30) days after the Indemnified Person has given notice of the Third Party Claim the Indemnifying Person acknowledges in writing to the Indemnified Person its unqualified obligation to indemnify the Indemnified Person as provided hereunder, (ii) the Indemnifying Person provides the Indemnified Person with evidence reasonably acceptable to the Indemnified Person that the Indemnifying Person will have the financial resources to defend against the Third Party Claim and fulfill its indemnification obligations hereunder, (iii) the Third-Party Claim involves only money damages, and does not seek statutory, enhanced or treble damages or an injunction or other equitable relief,
(iv) the Third Party Claim has a reasonable likelihood of resulting in indemnifiable Losses that would result in the Cap being exceeded or does not have a reasonable likelihood of resulting in indemnifiable Losses that would result in the Basket being exceeded; (v) settlement of, or an adverse judgment with respect to, the Third Party Claim is not, in the good faith judgment of the Indemnified Person, likely to establish a precedential custom or practice adverse to the continuing business interests or the reputation of the Indemnified Person or have a material adverse effect on the Indemnified Person; (vi) the Third-Party Claim does not involve a supplier, customer, distributor, licensor, licensee, lessor or insurer of Buyer or any Affiliate thereof or a Governmental Authority, (viii) the Third-Party Claim does not involve a class action lawsuit and (ix) the Indemnifying Person conducts the defense of the Third Party Claim actively and diligently. The Indemnifying Person will keep the Indemnified Person apprised of all material developments, including settlement offers, with respect to the Third Party Claim and permit the Indemnified Person to participate in the defense of the Third-Party Claim with counsel selected by it subject to the Indemnifying Person's right to control the defense thereof. The fees and disbursements of such counsel shall be at the expense of the Indemnified Person, provided, that if in the reasonable opinion of counsel to the Indemnified Person, (A) there are legal defenses available to an Indemnified Person that are different from or additional to those available to the Indemnifying Person; or (B) there exists a conflict of interest between the Indemnifying Person and the Indemnified Person that cannot be waived, the Indemnifying Person shall be liable for the reasonable fees and expenses of counsel to the Indemnified Person in each jurisdiction for which the Indemnified Person determines counsel is required. If the Indemnifying Person elects not to or is not entitled to defend such Third Party Claim, fails to promptly notify the Indemnified Person in writing of its election to defend as provided in this Agreement, or fails to diligently prosecute the defense of such Third Party Claim, the Indemnified Person may, subject to Section 9.5.2, pay, compromise, defend such Third Party Claim and seek indemnification for any and all Losses based upon, arising from or relating to such Third Party Claim. The Shareholders and Sellers, on the one hand, and Buyer, on the other hand, shall cooperate with each other in all reasonable respects in connection with the defense of any Third Party Claim.

(c) Cooperation. With respect to any Third Party Claim, both the Indemnified Person and the Indemnifying Person, as the case may be, shall keep the other Person fully informed of the status of such Third Party Claim and any related Proceedings at all stages thereof where such Person is not represented by its own counsel. The parties agree to provide reasonable access to the other parties to such documents and information as may be reasonably requested in connection with the defense, negotiation or settlement of any such Third Party Claim; provided, however, that the parties shall cooperate in such a manner as to preserve in full (to the extent possible) the confidentiality of all Confidential Information and the attorney-client and work-product privileges of the other party. In connection therewith, each party agrees that: (i) it will use commercially reasonable efforts, in respect of any Third Party Claim in which it has assumed or participated in the defense, to avoid production of Confidential Information (consistent with applicable Law and rules of procedure); and (ii) all communications between any party and counsel responsible for or participating in the defense of any Third Party Claim shall, to the extent possible, be made so as to preserve any applicable attorney-client or work-product privilege.

(d) Settlement. The Indemnifying Person shall not enter into settlement or compromise of any Third-Party Claim or permit a default or consent to entry of any judgment or admit any liability with respect thereto, if it is not defending such Third-Party Claim. If the Indemnifying Person is defending such Third-Party Claim, it shall not enter into settlement or compromise of any Third-Party Claim or permit a default or consent to entry of any judgment or admit any liability with respect thereto without the prior written consent of the Indemnified Person unless such settlement, compromise or judgment (A) does not involve liability or the creation of a financial or other obligation on the part of the Indemnified Person, does not involve any finding or admission of any violation of Law or any violation of the rights of any Person or the admission of wrongdoing and would not have any adverse effect on other claims that may have been made against the Indemnified Person, (B) does not involve any relief other than monetary damages that are paid in full by the Indemnifying Person, and (C) provides, for the complete, final and unconditional release of each Indemnified Person and its Affiliates from all liabilities and obligations in connection with such Third-Party Claim and would not otherwise adversely affect the Indemnified Person.

1.5.2 Direct Claims. Any Action by an Indemnified Person on account of a Loss which does not result from a Third Party Claim (a "Direct Claim") shall be asserted by the Indemnified Person giving the Indemnifying Person reasonably prompt written notice thereof, but in any event not later than thirty (30) days after the Indemnified Person becomes aware of such Direct Claim. The failure to give such prompt written notice shall not, however, relieve the Indemnifying Person of its indemnification obligations, except and only to the extent that the Indemnifying Person forfeits rights or defenses by reason of such failure. Such notice by the Indemnified Person shall describe the Direct Claim in reasonable detail, shall include copies of all material written evidence thereof and shall indicate the estimated amount, if reasonably practicable, of the Loss that has been or may be sustained by the Indemnified Person. The Indemnifying Person shall have thirty (30) days after its receipt of such notice to respond in writing to such Direct Claim. The Indemnified Person shall allow the Indemnifying Person and its professional advisors to investigate the matter or circumstance alleged to give rise to the Direct Claim, and whether and to what extent any amount is payable in respect of the Direct Claim and the Indemnified Person shall assist the Indemnifying Person's investigation by giving such information and assistance (including access to Sellers' premises and personnel and the right to examine and copy any accounts, documents or records) as the Indemnifying Person or any of its professional advisors may reasonably request. If the Indemnifying Person does not so respond within such thirty (30) day period, the Indemnifying Person shall be deemed to have rejected such claim, in which case the Indemnified Person shall be free to pursue such remedies as may be available to the Indemnified Person on the terms and subject to the provisions of this Agreement.

1.6Offset. For any Loss for which Sellers and the Shareholders are obligated to indemnify the Buyer Indemnitees, the Buyer Indemnitees shall seek reimbursement for such Loss on a joint and several basis, directly from the Sellers and the Shareholders. Notwithstanding any other provision in this Agreement, Buyer may, in good faith, withhold and set off against any

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

amounts due to Sellers or the Shareholders, or any Affiliate thereof, the amount as to which Sellers or the Shareholders are obligated to indemnify the Buyer Indemnitees. If Buyer believe in good faith that any Buyer has a claim against any Seller or Shareholder, Buyer may defer making payment of amounts otherwise due to Sellers or the Shareholders, up to the amount of the applicable Buyer's claim, until the resolution of such claim. Neither the exercise of nor the failure to exercise such right of set-off will constitute an election of remedies or limit Buyer in any manner in the enforcement of any other remedies that may be available to it.

1.7 Materiality. For the purpose of determining indemnification rights hereunder, including the existence of a breach and the amount of Losses resulting therefrom, any inaccuracy in or breach of any representation or warranty shall be determined without regard to any materiality, Material Adverse Effect or other similar qualification contained in or otherwise applicable to such representation or warranty.

1.8 Tax Treatment of Indemnification Payments. All indemnification payments made under this Agreement shall be treated for Tax purposes by the parties as an adjustment to the Purchase Price, unless otherwise required by Law.

1.9Effect of Investigation and Waiver. Each party hereby agrees that its representations, warranties and covenants (and any related conditions to Closing) shall not be affected or deemed waived by reason of the fact that any other party knew or should have known that such representations, warranties and covenants may be inaccurate or may have been breached, unless the other party expressly agreed in a writing delivered prior to Closing to waive such inaccuracy or breach.

1.10Exclusive Remedies. Subject to Section 11.11, the parties acknowledge and agree that their sole and exclusive remedy with respect to any and all claims (other than claims arising from fraud, criminal activity or willful misconduct on the part of a party in connection with the Transactions) for any breach of any representation, warranty, covenant, agreement or obligation set forth herein shall be pursuant to the indemnification provisions set forth in this Article 9. Nothing in this Section 9.10 shall limit any Person's right to seek and obtain any equitable relief to which any Person shall be entitled or to seek any remedy on account of any party's fraudulent, criminal or intentional misconduct.

1.11 [*] Indemnity.

1.11.1Seller Action Indemnitee; Claims. The Buyer shall, through its parent corporation Xponential Fitness Inc., jointly and severally, indemnify the Seller and all other Seller entities named in the following pending lawsuits (individually and collectively "Seller Action Indemnitees"): (i) [*] v [*], Case No. [*]; (ii) [*] v. [*], Case No. [*]; (iii) [*] v. [*], Case No. [*]; and (iv) [*] v. [*], Cancellation No. [*] and associated license negotiations with [*]; and Seller and all other Seller entities that are the subject of the letters in demand sent by [*] in connection with [*]'s alleged failure to comply with its disclosure obligations under the Australian Franchising Code of Conduct (individually and collectively, "Seller Actions"), from, and shall hold each of them harmless against, and shall pay and reimburse each of them for, any and all Losses which any Seller Action Indemnitees may suffer or incur by reason of such Seller Actions including, but not limited to, the defense of any Seller Actions, any award of damages (whether at law or equity),

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

or any adverse award of fees or costs associated with any Seller Actions. Notwithstanding the foregoing, such indemnification obligations stated above are limited to the claims made against the Seller Action Indemnitees in the current filings made as of the date of this Agreement. The Sellers and Buyer acknowledge and agree that [*], shall be, for purposes of this provision, individually and collectively, a third party beneficiary of this Agreement.

1.11.2 Cooperation. With respect to any Claim, both the Seller Indemnitees and the Buyer, as the case may be, shall keep the other Person fully informed of the status of such Claim and any related Proceedings at all stages thereof where such Person is not represented by its own counsel. Buyer shall be entitled to select outside counsel of its choosing, subject to written consent from the Sellers' Representative, which shall not be unreasonably withheld, conditioned, or delayed) to for the defense of each Action. The Seller Indemnitees shall be entitled to have counsel of its choosing participate in such matter at its sole cost and expense. The parties agree to provide reasonable access to the other parties to such documents and information as may be reasonably requested in connection with the defense, negotiation or settlement of any such Claim; provided, however, that the parties shall cooperate in such a manner as to preserve in full (to the extent possible) the confidentiality of all Confidential Information and the attorney-client and work-product privileges of the other party. In connection therewith, each party agrees that: (i) it will use commercially reasonable efforts, in respect of any Claim in which it has assumed or participated in the defense, to avoid production of Confidential Information (consistent with applicable Law and rules of procedure); and (ii) all communications between any party and counsel responsible for or participating in the defense of any Claim shall, to the extent possible, be made so as to preserve any applicable attorney-client or work-product privilege.

1.11.3 Settlement. The Buyer shall not enter into settlement or compromise of any Party Claim or permit a default or consent to entry of any judgment or admit any liability with respect thereto without the prior written consent of the Sellers' Representative unless such settlement, compromise or judgment (A) does not involve any relief other than monetary damages, and (B) provides, for the complete, final and unconditional release of Seller Indemnitees from all liabilities and obligations in connection with such Claim.

9.11.5 Proceeds from Actions. In the event that any of the Seller Actions results in proceeds payable to one or more Seller Action Indemnitees, any such proceeds shall be disbursed in the following order and manner: (i) repayment to the Buyer for all amounts reimbursed to Seller Action Indemnitees for Losses pursuant to Section 9.11.4; (ii) repayment to Seller Action Indemnitees for all amounts paid in connection with the defense of such Actions and the lawsuit filed against [*] in the U.S. District Court, Central District of California (Case No. [*]), as evidenced by written documentation; and (iii) payment [*] between the Buyer and Seller Action Indemnitees of any proceeds remaining.

Article 10 [INTENTIONALLY OMITTED]

Article 11
MISCELLANEOUS

1.1 Sellers' Representative.

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

1.1.1 Sellers and the Shareholders hereby designate Cameron Falloon (the "Sellers' Representative") to serve as the sole and exclusive representative of Sellers and the Shareholders with respect to those provisions of this Agreement and any Transaction Document that contemplate or permit action by the Representative.

1.1.2 In addition to the other rights and authority granted to the Representative elsewhere in this Agreement, Sellers and the Shareholders collectively and irrevocably constitute and appoint the Representative as their agent, attorney-in-fact and representative with full powers of substitution to act in the name, place and stead of such Sellers and Shareholders to act from and after the date hereof and to do any and all things and execute any and all documents which may be necessary, convenient or appropriate to facilitate the consummation of the Transactions and the Transaction Documents, including: (i) execution of the documents and certificates pursuant to this Agreement and the Transaction Documents; (ii) receipt and forwarding of notices and communications pursuant to this Agreement and the Transaction Documents; (iii) administration of the provisions of this Agreement and the Transaction Documents; (iv) giving or agreeing to, on behalf of all or any of Sellers and the Shareholders, any and all consents, waivers, amendments or modifications deemed by the Representative to be necessary or appropriate under this Agreement or the Transaction Documents and the execution or delivery of any documents that may be necessary or appropriate in connection therewith; (v) amending this Agreement or any Transaction Documents; (vi) defending and prosecuting, and agreeing to, negotiating, entering into settlements and compromises of, matters subject to indemnification hereunder; (vii) negotiating and compromising, on behalf of each Seller and Shareholder, any dispute that may arise under, and exercising or refraining from exercising any remedies available under, this Agreement or any other Transaction Document; (viii) engaging, and paying fees relating to, attorneys, accountants, agents or consultants on behalf of such Sellers and Shareholders in connection with this Agreement or any Transaction Document; and (ix) taking all actions necessary or appropriate in the judgment of the Representative for the accomplishment of any of the foregoing.

1.1.3 A decision, act, consent or instruction of the Sellers' Representative shall constitute a decision of all Sellers and Shareholders and shall be final, binding and conclusive upon each Seller and Shareholder, and Buyer may rely upon any decision, act, consent or instruction of the Sellers' Representative as being the decision, act, consent or instruction of each and every Seller and Shareholder. Buyer are hereby relieved from any liability to any Person (including Sellers and the Shareholders and their respective Affiliates) for any acts done by it in accordance with such decision, act, consent or instruction of the Sellers' Representative. Notices or communications to or from the Sellers' Representative shall constitute notice to or from each Seller and Shareholders for purposes of this Agreement.

1.1.4 The appointment of the Sellers' Representative for Sellers and the Shareholders hereunder shall be irrevocable by any Seller or Shareholder in any manner or for any reason. This authority granted to the Sellers' Representative shall not be affected by the death, illness, dissolution, disability, incapacity or other inability to act of any Seller or Shareholder pursuant to any Law.

1.1.5 All acts of the Sellers' Representative hereunder in his capacity as such shall be deemed to be acts on behalf of Sellers and the Shareholders and not of the Sellers' Representative individually.

1.1.6 The service by the Sellers' Representative shall be without compensation.

1.2 Expenses. Except as otherwise expressly provided herein, all costs and expenses, including fees and disbursements of counsel, financial advisors and accountants, incurred in connection with this Agreement and the Transactions shall be paid by the party incurring such costs and expenses, whether or not the Closing shall have occurred.

1.3 Notices. All notices, requests, consents, claims, demands, waivers and other communications hereunder shall be in writing and shall be deemed to have been given (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by facsimile or e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient or (d) on the third (3rd) day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 11.3):

If to Sellers, the Sellers' Representative or the Shareholders:

c/o MinterEllison 165 Varsity Parade,
Varsity Lakes QLD 4227 PO Box 11
Attn: Steve Latham
Email: steve.latham@minterellison.com

with a copy (which shall not constitute notice) to:

Buchalter, a Professional Corporation
18400 Von Karman Avenue, Suite 800
Irvine, CA 92612-0514
Attention: J. Rick Taché
Facsimile: (949) 720-0182
Email: rtache@buchalter.com

If to Buyer:

BFT Franchise Holdings, LLC
17877 Von Karman Avenue, Suite 100
Irvine, CA 92614
Attention: Anthony Geisler, John Meloun
Email: anthony@xponential.com; john.meloun@xponential.com

with a copy (which shall not constitute notice) to:

Buchalter, a Professional Corporation
1000 Wilshire Blvd., Suite 1500
Los Angeles CA, 90017
Attention: Jeremy Weitz

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

Facsimile: (213) 896-0400
Email: jweitz@buchalter.com

1.4Construction. Unless the express context otherwise requires: (a) the words "hereof", "herein", and "hereunder" and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole and not to any particular provision of this Agreement;

(b) the terms defined in the singular have a comparable meaning when used in the plural, and vice versa; (c) the terms "Dollars" and "$" mean Australian Dollars; (d) references herein to a specific Article, Section, clause, Schedule or Exhibit shall refer, respectively, to the Articles, Sections and clauses of, and Schedules and Exhibits to, this Agreement; (e) wherever the word "include," "includes," or "including" is used in this Agreement, it shall be deemed to be followed by the words "without limitation"; (f) any reference to the masculine, feminine or neuter gender shall include each other gender; (g) when reference is made herein to "the business of" a Person, such reference shall be deemed to include the business of all direct and indirect Subsidiaries of such Person, (h) all accounting and financial terms shall be deemed to have the meanings assigned thereto under GAAP unless expressly stated otherwise, (i) when this Agreement states that the Seller Parties have "made available," "delivered" or "provided" (or terms of similar import) a particular document or other item, it shall mean that the Seller Parties have made a true, correct and complete copy of such document or item (together with all amendments, supplements or other modifications thereto or waivers thereof) available for viewing (and properly labeled, including both as to its location within the index to the electronic dataroom for the Transaction on the Project Chimera dataroom run by Ansarada (the "Dataroom") and the description of the file containing such document or information) in the Dataroom, as such materials were posted to the Dataroom at least three (3) Business Days prior to the date hereof and not removed on or prior to the date hereof, and, if any such document or information has not been continuously available to each of Buyer' representatives who have access to the Dataroom since the initial date such representatives were granted access, a notification that such document or information was added to the Dataroom has been sent to each representative of Buyer who has access to the Dataroom prior to the fifth (5th) Business Day preceding the Closing Date, (j) any reference to any applicable Law in this Agreement refers to such applicable Law as in effect at the date of this Agreement and the Closing Date, (k) in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each mean "to but excluding" and if the last day of any such period is not a Business Day, such period will end on the next Business Day, (l) the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect or be utilized in construing or interpreting this Agreement, (m) references to "day" means calendar days unless Business Days are expressly specified, (n) references to any Person includes such Person's predecessors, successors and assigns to the extent, in the case of successors and assigns, such successors and assigns are permitted by the terms of any applicable agreement, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually and (o) references to a party means a party to this Agreement. All Exhibits and Schedules annexed hereto or referred to herein are incorporated in and made a part of this Agreement as if set forth in full herein. The parties agree that they have been represented by counsel during the negotiation and execution of this Agreement and, therefore, waive the application of any applicable Law or rule of construction providing that ambiguities in an agreement or other document will be construed against the party or parties drafting such agreement or document.

1.5Severability. If any term or provision of this Agreement is invalid, illegal or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the Transactions be consummated as originally contemplated to the greatest extent possible.

1.6 Entire Agreement. This Agreement and the Transaction Documents contain the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior oral or written agreements, negotiations, understandings, statements or proposals with respect to the subject matter hereof and thereof. In the event of any inconsistency between the statements in the body of this Agreement and those in the other Transaction Documents and Disclosure Schedule (other than an exception expressly set forth as such in the Disclosure Schedule), the statements in the body of this Agreement will control.

1.7Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors and permitted assigns. No party may assign its rights or delegate any of its obligations hereunder without the prior written consent of the other parties, which consent shall not be unreasonably withheld or delayed; provided, that any Buyer shall be entitled to assign or delegate this Agreement or all or any part of its rights or obligations hereunder to any one or more of its Affiliates, provided further that such assignment shall not relieve Buyer of any of its obligations hereunder. No assignment or delegation shall relieve the assigning party of any of its obligations hereunder.

1.8No Third-party Beneficiaries. Except as provided in Article 9, this Agreement is for the sole benefit of the parties and their respective successors and permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other Person or entity any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

1.9 Amendment and Modification; Waiver. This Agreement may only be amended, modified or supplemented by an agreement in writing signed by each party. No waiver by any party of any of the provisions hereof shall be effective unless explicitly set forth in writing and signed by the party so waiving. No waiver by any party shall operate or be construed as a waiver in respect of any failure, breach or default not expressly identified by such written waiver, whether of a similar or different character, and whether occurring before or after that waiver. No failure to exercise, or delay in exercising, any right, remedy, power or privilege arising from this Agreement shall operate or be construed as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

1.10 Governing Law; Submission to Jurisdiction; Waiver of Jury Trial.

1.10.1 This Agreement and the exhibits and Schedules hereto shall be governed by and interpreted and enforced in accordance with the Laws of Delaware, without giving effect to any choice of Law or conflict of Laws rules or provisions that would cause the application of the Laws of any jurisdiction other than Delaware.

1.10.2Each of the parties irrevocably agrees that any legal action or proceeding arising out of or relating to this Agreement brought by any party or its successors or assigns against the other party shall be brought and determined in State or Federal Court located in the State of Delaware, and each of the parties hereby irrevocably submits to the exclusive jurisdiction of the aforesaid courts for itself and with respect to its property, generally and unconditionally, with regard to any such action or proceeding arising out of or relating to this Agreement and the transactions contemplated hereby. Each of the parties agrees not to commence any action, suit or proceeding relating thereto except in the courts described above in Delaware, other than actions in any court of competent jurisdiction to enforce any judgment, decree or award rendered by any such court in Delaware as described herein. Each of the parties further agrees that notice as provided herein shall constitute sufficient service of process and the parties further waive any argument that such service is insufficient. Each of the parties hereby irrevocably and unconditionally waives, and agrees not to assert, by way of motion or as a defense, counterclaim or otherwise, in any action or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby,
(a) any claim that it is not personally subject to the jurisdiction of the courts in Delaware as described herein for any reason, (b) that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise) and (c) that (i) the suit, action or proceeding in any such court is brought in an inconvenient forum, (ii) the venue of such suit, action or proceeding is improper or (iii) this Agreement, or the subject matter hereof, may not be enforced in or by such courts. Notwithstanding the foregoing, the parties agree that disputes with respect to the matters referenced in Section 7.12.2.

1.10.3EACH OF THE PARTIES TO THIS AGREEMENT HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (INCLUDING ANY ACTION, PROCEEDING OR COUNTERCLAIM INVOLVING ANY OF THE FINANCING SOURCE PARTIES) ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE DEBT FINANCING COMMITMENTS, THE DEBT FINANCING OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

1.11Specific Performance. The parties agree that irreparable damage would occur if any provision of this Agreement were not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy to which they are entitled at law or in equity.

1.12Counterparts; Effectiveness. This Agreement may be executed in several counterparts (including facsimile or other electronic transmission), each of which shall be deemed an original and all of which shall together constitute one and the same instrument. This Agreement shall become effective when each Party shall have received a counterpart hereof signed by all of the other Parties. Until and unless each Party has received a counterpart hereof signed by the other Parties, this Agreement shall have no effect and no Party shall have any right or obligation hereunder (whether by virtue of any other oral or written agreement or other communication).

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, each party has duly executed and delivered this Asset Purchase Agreement as of the date first above written.

SELLERS:

GRPX LIVE PTY LTD, an Australian corporation (ACN 614 817 962), as Trustee for GRPX Live Unit Trust in accordance with section 127(1) of the Corporations Act

By: ___
Name: Cameron Falloon
Title: Founder and Joint-CEO

BODY FIT TRAINING COMPANY PTY LTD, an Australian corporation (ACN 622 444 008), as Trustee for Body Fit Training Unit Trust in accordance with section 127(1) of the Corporations Act

By: ___
Name: Cameron Falloon
Title: Founder and Joint-CEO

BODY FIT TRAINING USA INC., a Delaware corporation

By: ___
Name: Cameron Falloon
Title: Founder and Joint-CEO

IN WITNESS WHEREOF, each party has duly executed and delivered this Asset Purchase Agreement as of the date first above written.

SHAREHOLDERS:

THREE SPOUTS PTY LTD, an Australian corporation (ACN 603 434 108), as Trustee for Jurien Family Trust in accordance with section 127(1) of the Corporations Act

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

By: ___
Name: Cameron Falloon
Title: Founder and Joint-CEO

THE BURNET FAMILY TRUST

By: ___
Name: Richard Langham Burnett
Title: Trustee

TEN GOALS PARTY LTD, an Australian corporation (ACN 096 421 555) as Trustee for the Hamish McLachlan Family Trust in accordance with section 127(1) of the Corporations Act

By:_ Name: Hamish McLachlan
Title:

SELLERS' REPRESENTATIVE:

___
CAMERON FALLOON

IN WITNESS WHEREOF, each party has duly executed and delivered this Asset Purchase Agreement as of the date first above written.

BUYER:

BFT FRANCHISE HOLDINGS, LLC

By:_ Name: Anthony Geisler
Title: President

APPENDIX

A

DEFINITIONS

In this Appendix, and in the Agreement and the other Appendices and Schedules thereto, unless the context otherwise requires, the following terms shall have the meanings assigned below

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

and the terms listed in the chart below shall have the meanings assigned to them in the Section set forth opposite to such term (unless otherwise specified, section references in this Appendix are to Sections of this Agreement):

Term:

Accounts Receivable 1.2.2
Agreement Preamble
Allocation Schedule 7.12.2
Assigned Contracts 1.1.7
Assignment and Assumption Agreement 2.2.2
Assumed Liabilities 1.3
Basket 9.4.1
Bill of Sale 2.2.1
Books and Records 1.1.11
Business Recitals
Buyer Preamble
Buyer Deliverables 2.3
Buyer Indemnitees 9.2
Cap 9.4.1
Closing 2.1
Closing Date 2.1
Confidential Information 7.5
Dataroom 11.4
Direct Claim 9.5.2
Effective Time 2.1
Enforceability Exceptions 4.2
Excluded Assets 1.2
Excluded Contracts 1.2.7
Excluded Liabilities 1.4
Financial Statements 5.5.1
Franchise Agreement 5.24.1
Franchise Laws 5.24.5
Franchise System Recitals
Franchisee 5.24.2
Indemnified Person 9.5
Indemnifying Person 9.5
Information Privacy Laws 5.12.15
IP Agreements 5.12.3
IP Assignment 2.2.3
Licensed IP 5.12.2
Most Recent Balance Sheet 5.5.1(b)
Owned IP 5.12.1
Purchase Price 1.5.1
Purchased Assets 1.1
Registered Intellectual Property 5.12.1
Related Party Transactions and Relationships 5.23
Restricted Period 7.11.1

"Action(s)" means any governmental, judicial, administrative or adversarial proceeding (public or private), any action, complaint, claim, lawsuit, legal proceeding, whistleblower complaint, litigation, arbitration or mediation, any hearing, investigation (internal or otherwise), audit, probe or inquiry by any Governmental Authority or any other dispute, including any adversarial proceeding arising out of this Agreement.

"Accountant" means a certified public accountant, mutually agreed upon by Buyer and Sellers' Representative, licensed and located in both the United States and Australia and qualified to conduct intellectual property asset valuations in accordance with applicable United States and Australian tax laws and related regulations.

"Affiliate" means, with respect to any Person, any other Person who, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. The term "control" (including, with correlative meanings, the terms "under common control with" and "controlled by"), as used in the preceding sentence, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"Business Day" means any day except Saturday, Sunday or any other day on which commercial banks located in the State of California are authorized or required by Law to be closed for business.

"Code" means the Internal Revenue Code of 1986, as amended.

"Contracts" means all contracts, purchase orders, leases, deeds, mortgages, licenses, instruments, notes, commitments, undertakings, indentures, joint ventures and all other agreements, commitments and legally binding arrangements, whether written or oral.

"Covid-19" means SARS-CoV-2 (severe acute respiratory syndrome coronavirus 2), coronavirus disease or COVID-19.

"COVID-19 Measures" means any quarantine, "shelter in place", "stay at home", workforce reduction, shut down, closure, sequester or any other Law, Order, directive, guidelines or recommendations by any Governmental Authority in connection with or in response to Covid- 19.

"Disclosure Schedule" means that certain document identified as the Disclosure Schedule, dated as of the date hereof (as the same may be modified from time to time in accordance with the terms hereof), delivered by the Seller Parties and the Shareholders to Buyer in connection with this Agreement. Each Section in the Disclosure Schedule shall be deemed to qualify only the corresponding Section of this Agreement and any other Section of this Agreement to which such disclosure makes express reference.

"Encumbrance" means any charge, claim, community property interest, pledge, condition, equitable interest, lien (statutory or other), option, security interest, mortgage, easement, encroachment, right of way, right of first refusal, or restriction of any kind, including any restriction on use, voting, transfer, receipt of income or exercise of any other attribute of ownership. For purposes of this Agreement, a Person will be deemed to own a property or asset subject to an Encumbrance if it holds such property or asset subject to the interest of a vendor or a lessor under any conditional sale agreement, capital lease, or other title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such property or asset.

"Environmental Law(s)" means any Law relating to, regulating, or imposing an obligation or standards of conduct concerning (i) releases or threatened releases of Hazardous Substances or materials containing Hazardous Substances; (ii) the manufacture, handling, transport, use, treatment, storage or disposal of Hazardous Substances or materials containing Hazardous Substances; or (iii) pollution or protection of the environment, worker health and safety and/or natural resources.

"EBITDA" means earnings before deduction of interest, taxes, depreciation and amortization, without giving effect to any other adjustments.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder.

"Exchange Act" means the Securities Exchange Act of 1934, as amended

"Family" means, with respect to a particular individual, (a) the individual, (b) the individual's spouse and former spouse(s), (c) any other natural person who is related to the individual or the individual's spouse within the second degree, and (d) any other natural person who resides with such individual.

"Fundamental Representations" means Article 4, Section 5.1, Section 5.2, Section 5.3, Section 5.4, Section 5.10, the first sentence of Section 5.12.2, Section 5.12.7, Section 5.23, Section 5.25, Section 6.1, and Section 6.2.

"Governing Documents" means with respect to any Person: (a) if a corporation, the articles or certificate of incorporation and the bylaws; (b) if a general partnership, the partnership agreement and any statement of partnership; (c) if a limited partnership, the limited partnership agreement and the certificate of limited partnership; (d) if a limited liability company, the articles

[*] = Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

of organization and operating agreement; (e) if a trust, the instrument governing the trust, (f) if another type of Person, any other charter or similar document adopted or filed in connection with the creation, formation or organization of the Person; (g) all equity holders' agreements, voting agreements, voting trust agreements, joint venture agreements, registration rights agreements or other agreements or documents relating to the organization, management or operation of any Person or relating to the rights, duties and obligations of the equity holders of any Person; and
(h) any amendment or supplement to any of the foregoing.

"Governmental Authority" means any federal, state, local or foreign government or political subdivision thereof, or any agency or instrumentality of such government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that the rules, regulations or orders of such organization or authority have the force of Law), or any arbitrator, court or tribunal of competent jurisdiction.

"Governmental Order" means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

"Hazardous Substances" means (i) any waste or substance that forms the basis for liability or is regulated under any Environmental Law; and (ii) any substance, material or waste that is defined or classified pursuant to any Environmental Law as a "hazardous waste," "hazardous material," "hazardous substance," "extremely hazardous waste," "pollutant," "restricted hazardous waste," "contaminant," "toxic waste," or "toxic substance" or any similar term under any provision of Environmental Law, including, without limitation, petroleum, or any fraction or derivative thereof, asbestos or asbestos-containing material, urea formaldehyde, per- and polyfluoroalkyl substances, or polychlorinated biphenyls (PCBs).

"Indebtedness" means the following obligations: (a) all indebtedness or other obligations of any Seller for borrowed money, whether current, short-term or long-term, secured or unsecured, including all overdrafts and negative cash balances; (b) all indebtedness of any Seller for the deferred purchase price for purchases of property or services with respect to which any Seller is liable, contingently or otherwise, as obligor or otherwise (whether earn-outs, indemnity payments, non-compete payments, consulting payments, retention bonuses, severance payments or other similar payments, or otherwise; in each case whether contingent or not and valued at the maximum amount thereof) except any trade payable incurred in the Ordinary Course of Business; (c) all lease obligations of any Seller under leases that have been or should be capitalized; (d) the aggregate face amount of all outstanding letters of credit issued on behalf of any Seller; (e) all obligations of any Seller arising under acceptance facilities; (f) all guaranties, endorsements and other contingent obligations of any Seller to purchase, to provide funds for payment, to supply funds to invest in any other Person, or otherwise to assure a creditor against loss; (g) all obligations of any Seller under any interest rate protection, foreign currency exchange, or other interest or exchange rate swap or hedging agreement or arrangement, or other derivative product; (h) all obligations secured by an Encumbrance upon any assets or properties of any Seller; (i) all outstanding or held checks, money orders or similar instruments of any Seller as of the Closing; (j) all Liabilities of any Seller pursuant to any phantom equity plan or Liabilities with respect stock appreciation or similar rights or arising from non-qualified deferred compensation arrangements, plans or policies or other forms of deferred compensation arrangements; (k) all trade payable and current liabilities of any Seller not incurred in the Ordinary Course of Business or more than sixty (60) days past invoice or sixty

(60) days past due; (l) any other Liabilities, contingent or otherwise, that, should be classified upon the balance sheet of any Seller as indebtedness; (m) all "withdrawal liability" of any Seller to a "multiemployer plan" as such terms are defined under ERISA; (n) all indebtedness referred to in clauses (a) through (n) above of any Person other than a Seller that is guaranteed by a Seller; and
(o) accrued and unpaid interest on, and prepayment premiums, penalties or similar contractual charges arising as a result of the discharge of, any such foregoing obligation.

"Intellectual Property" and "IP" means all rights in intellectual property of any type throughout the world, including, but not limited to, the following: (i) any U.S. patent, patent application, divisional, continuation, reissue, renewal, registration, confirmation, re-examination, certificate of inventorship, extension, and the like, and any provisional application of any such patents or patent applications, and any foreign or international equivalent of any of the foregoing (collectively, "Patents"), (ii) any U.S. trademark, service mark, service name, brand name, trade dress, logo, domain name, social media identifiers or handles, trade name, corporate name, business symbol, and other source identifiers, whether or not registered, including, but not limited to, all common-law rights thereto, and registrations, and applications for registration thereof, and any foreign or international equivalent of any of the foregoing and all goodwill associated therewith (collectively, "Trademarks"); (iii) any works, whether or not registered in the U.S. or elsewhere, including, without limitation, mechanical and electronic design drawings (including, without limitation, computer-aided design files), specifications, software (including, without limitation, documentation and object and source code), data, databases, application programming interfaces, computerized databases, algorithms, routines, processes, whether registered or unregistered, and registrations and applications for registration thereof, and moral rights, (collectively, "Copyrights"); and (iv) technical, scientific, business and other know-how and information, trade secrets, knowledge, technology, means, methods, processed, practices, formulas, assembly procedures, specifications, books, records, reports, manuals, data and results, in written, electronic, or any other form not known or hereafter developed (collectively, "Trade Secrets").

"Knowledge of Seller" or any other similar knowledge qualification, means the knowledge of any of the following persons: Cameron Falloon, Brandon Evans or Hamish McLachlan. Any such person shall be deemed to have "knowledge" of a particular fact or other matter if such person
(a) is actually aware of such fact or other matter or (b) could be reasonably expected to be aware of such fact or other matter.

"Law" means (a) any federal, state, local, municipal, foreign, international, multinational or other administrative law, constitution, common law principle, ordinance, code, statute, judgment, injunction, decree, order, rule, statute or governmental regulation, or "fair price," "moratorium," "control share acquisition" or other similar anti-takeover statute or regulation,
(b) any binding judicial or administrative interpretation of any of the foregoing, (c) the terms and conditions of any agreement with a Governmental Authority, (d) the terms and conditions of any certification to any Governmental Authority, (e) any governmental requirements or restrictions of any kind, or any rule, regulation or order promulgated thereunder, (f) any rules, regulations, orders, decrees, consents, or judgments of any regulatory agency, stock exchange or similar self- regulatory organization, court or other Person, or (g) any applicable requirements associated with any Permits.

"Liability" means, with respect to any Person, any liability or obligation of such Person of any kind, character or description, whether known or unknown, absolute or contingent, secured or unsecured, joint or several, due or to become due, vested or unvested, executory, determined, determinable or otherwise and whether or not the same is required to be accrued on the financial statements of such Person.

"Losses" mean any and all claims, damages, decline in value, judgements, liabilities, losses, lost profits, penalties, settlement payments, arbitration awards, taxes and costs and expenses (including reasonable attorneys', consultants' and experts' fees and expenses and other costs of defending, investigating or settling claims or enforcing rights to indemnification hereunder) and the cost of pursuing any insurance providers in each case whether or not arising out of Third Party Claims; provided, however, that "Losses" shall not include punitive damages, except in the case of fraud or to the extent actually awarded to a Governmental Authority or other third party.

"Master Franchise Agreement" means that certain Master Franchise Agreement in the form of Exhibit D attached hereto.

"Material Adverse Effect" means any event, occurrence, fact, condition or change that is, or could reasonably be expected to become, individually or in the aggregate, materially adverse to (a) the business, results of operations, condition (financial or otherwise), or assets of the Business or the Seller Parties, (b) the value of the Purchased Assets, or (c) the ability of the Seller Parties to consummate the Transactions on a timely basis; provided, however, that "Material Adverse Effect" shall not include any event, occurrence, fact, condition or change, directly or indirectly, arising out of or attributable to: (i) general economic or political conditions; (ii) conditions generally affecting the industries in which Business operates; (iii) any changes in financial or securities markets in general; or (iv) acts of war (whether or not declared), armed hostilities or terrorism, or the escalation or worsening thereof; provided further, however, that any event, occurrence, fact, condition or change referred to in clauses (i) through (iv) immediately above shall be taken into account in determining whether a Material Adverse Effect has occurred or could reasonably be expected to occur to the extent that such event, occurrence, fact, condition or change has a disproportionate effect on the Business compared to other participants in the industries in which the Business operates.

"Ordinary Course of Business" of a Person means an action taken by such Person if that action is consistent in nature, scope and magnitude with the past practices of such Person and is taken in the ordinary course of the normal, day-to-day operations of such Person.

"Permits" means all permits, certificates, licenses, approvals, governmental notifications, franchises, certificates, approvals, exemptions, classifications, registrations and other similar authorizations (and applications therefor) from Governmental Authorities.

"Permitted Encumbrances" means (a) liens for Taxes not yet due and payable or being contested in good faith by appropriate procedures and for which there are adequate accruals or reserves on the Year-End Balance Sheets; (b) mechanics, carriers', workmen's, repairmen's or other like liens arising or incurred in the Ordinary Course of Business or amounts that are not delinquent and which are not, individually or in the aggregate, material to the Business; or (c) easements, rights of way, zoning ordinances and other similar encumbrances affecting Real Property which are not, individually or in the aggregate, material to the Business.

"Person" means an individual, corporation, partnership, joint venture, limited liability company, Governmental Authority, unincorporated organization, trust, association or other entity.

"Pre-Closing Taxes" means (i) Taxes of the Seller Parties for all Pre-Closing Tax Periods (including the portion of the Straddle Period ending on and including the Closing Date), including, for the avoidance of doubt, any Taxes attributable to an imputed underpayment for a reviewed year that is a Pre-Closing Tax Period, (ii) any and all Taxes of any member of an affiliated, consolidated, combined or unitary group of which any Seller (or any predecessor thereof) is or was a member on or prior to the Closing Date, including pursuant to Treasury Regulations Section 1.1502-6 or any analogous or similar Law, (iii) any and all Taxes of any Person imposed on any Seller as a transferee or successor, by contract or pursuant to any Law, which Taxes are imposed on any Seller as a result of an event or transaction occurring on or prior to the Closing Date.

"Pre-Closing Tax Period" means any taxable period ending on or before the Closing Date and, with respect to any taxable period beginning before and ending after the Closing Date, the portion of such taxable period ending on and including the Closing Date.

"Related Person" means (a) with respect to an entity, (i) any Affiliate of such entity, (ii) each Person that serves as a director, officer, partner, member, manager, executor, or trustee (or in a similar capacity) of such entity, (iii) any Person with respect to which such entity serves as a general partner or a trustee (or in a similar capacity), and (iv) any Person that would be a Related Person of any individual described in clause (i) or (ii) pursuant to clause (b) of this definition or (b) with respect to an individual, (i) each other member of such individual's Family, and (ii) any entity with respect to which such individual or one or more members of such individual's Family serves as a director, officer, partner, member, manager, executor, or trustee (or in a similar capacity).

"Representative" means, with respect to any Person, any and all directors, officers, employees, consultants, financial advisors, counsel, accountants and other agents of such Person.

"Seller Parties" means Sellers and Shareholders.

"Subsidiary" means, with respect to any Person, any corporation, partnership, limited liability company, joint venture or other legal entity of any kind of which such Person (either alone or through or together with one or more of its other Subsidiaries) owns, directly or indirectly, more than fifty percent (50%) of the capital stock or other equity interests the holders of which are (a) generally entitled to vote for the election of the board of directors or other governing body of such legal entity or (b) generally entitled to share in the profits or capital of such legal entity.

"Tax Return" means any return, declaration, report, claim for refund, information return or statement or other document relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"Taxes" means (i) all federal, state, local, foreign and other income, gross receipts, sales, use, production, ad valorem, transfer, franchise, registration, profits, license, lease, service, service use, withholding, payroll, employment, unemployment, estimated, excise, severance, escheat or unclaimed property, environmental, stamp, occupation, premium, property (real or personal), real property gains, windfall profits, customs, duties or other taxes, fees, assessments or charges of any kind whatsoever, together with any interest, additions or penalties with respect thereto and any interest in respect of such additions or penalties, (ii) any Liability for payment of amounts described in clause (i) whether as a result of transferee liability, of being a member of an affiliated consolidated, combined or unitary group for any period or otherwise through operation of Law, and (iii) any Liability for the payment of amounts described in clauses (i) or (ii) as a result of any tax sharing, tax indemnity or tax allocation agreement, or any other express or implied agreement to indemnify any other Person for Taxes.

"Transaction Documents" means, with respect to a party, all agreements, certificates and other instruments to be delivered by such party pursuant to this Agreement.

"Transactions" means the purchase and sale of the Purchased Assets, the assumption of the Assumed Liabilities and the other Transactions and the Transaction Documents.

Execution Version

Exhibit 10.20

FIRST AMENDMENT TO
FINANCING AGREEMENT

FIRST AMENDMENT, dated as of July 27, 2021 (this "Amendment"), to the Financing Agreement, dated as of April 19, 2021 (as amended, restated, supplemented or otherwise modified, the "Financing Agreement"), by and among Xponential Intermediate Holdings, LLC, a Delaware limited liability company (the "Parent"), Xponential Fitness LLC, a Delaware limited liability company ("XF"), each Subsidiary (as defined therein) of Parent listed as a "Borrower" on the signature pages hereto (together with XF and each other Person that executes a joinder agreement and becomes a "Borrower" thereunder, each a "Borrower" and collectively, the "Borrowers"), each other Subsidiary of Parent listed as a "Guarantor" on the signature pages thereto (together with Parent and each other Person that executes a joinder agreement and becomes a "Guarantor" thereunder or otherwise guaranties all or any part of the Obligations (as defined therein), each a "Guarantor" and collectively, the "Guarantors"), the lenders from time to time party thereto (each a "Lender" and collectively, the "Lenders"), Wilmington Trust, National Association ("Wilmington Trust"), as collateral agent for the Lenders (in such capacity, together with its successors and assigns, the "Collateral Agent") and Wilmington Trust, as administrative agent for the Lenders (in such capacity, together with its successors and assigns, the "Administrative Agent" and together with the Collateral Agent, each an "Agent" and collectively, the "Agents"). All terms used herein that are defined in the Financing Agreement and not otherwise defined herein shall have the meanings assigned to them in the Financing Agreement (as amended hereby).

WHEREAS, the Loan Parties have requested that the Agents and the Lenders amend the Financing Agreement in certain respects, and the Agents and the Lenders are agreeable to such request, on and subject to the terms and conditions set forth herein; and

NOW THEREFORE, in consideration of the premises and other good and valuable consideration, the parties hereto hereby agree as follows:

1. Amendments to Financing Agreement. Subject to the satisfaction or waiver of the conditions set forth in Section 3 hereof, the Financing Agreement is hereby amended as follows:

(a) Section 1.01 of the Financing Agreement is hereby amended to replace the definition of "Affiliate" with the following:

> ""Affiliate" means, with respect to any Person, any other Person that directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" of a Person means the power, directly or indirectly, either to (a) vote 10% or more of the Equity Interests having ordinary voting power for the election of members of the Board of Directors of such Person or (b) direct or cause the direction of the management and policies of such Person whether by contract or otherwise. Notwithstanding anything herein to the contrary, in no event shall: (i) any Agent or any Lender be considered an "Affiliate" of any Loan Party or (ii)

any Agent or any Lender be considered an "Affiliate" of the Sponsor solely as a result of its ownership of the PubCo Convertible Preferred or any shares of common stock of PubCo issuable upon conversion of the PubCo Convertible Preferred."

(b) The last sentence of Section 2.06(b) of the Financing Agreement is hereby amended and restated in its entirety as follows:

"In connection with an initial public offering of Equity Interests of the Parent or any direct or indirect parent company of the Parent, including PubCo (such initial public offering, an "IPO"): (a) in connection with the first $60,000,000 of principal amount of Term Loans prepaid (including for the avoidance of doubt, prepayments made pursuant to Section 2.05(c)(x)) with the proceeds of, and substantially concurrently with the consummation of, such IPO, no Applicable Prepayment Premium shall be due and owing, (b) in connection with the next $65,000,000 of principal amount of Term Loans prepaid (i.e., the amount prepaid in excess of $60,000,000 of principal up to an aggregate principal prepayment amount of $125,000,000) (such aggregate principal amount, the "Excess IPO Prepayment Amount") with the proceeds of and substantially concurrently with the consummation of, such IPO or the proceeds of and substantially concurrently with the consummation of, the PubCo Convertible Preferred, an amount equal to 0.75% of such Excess IPO Prepayment Amount shall be due and owing and (c) in connection with any Term Loans in excess of $125,000,000 of principal amount prepaid with the proceeds of such IPO or the proceeds of the PubCo Convertible Preferred, the Applicable Prepayment Premium shall be due and owing with respect to such excess amount."

(c)Section 7.02(h) of the Financing Agreement is hereby amended to insert the below clause (J) after clause (I) thereof:

"(J) Subsidiaries of the Parent may make distributions to Parent, which Parent shall promptly distribute, or cause to be distributed, to Xponential Fitness, Inc. ("PubCo"), for the payment of, and in amounts not to exceed the amounts required to be paid in respect of the Series A Convertible Preferred Stock or Series A-1 Convertible Preferred Stock (the "PubCo Convertible Preferred"), including (1) Preferential Coupons (as defined in each Certificate of Designations governing the PubCo Convertible Preferred), including any paid in cash and (2) any amounts due upon redemptions of the PubCo Convertible Preferred in accordance with the terms of the Certificates of Designations governing such PubCo Convertible Preferred.

2. Representations and Warranties. Each Loan Party hereby jointly and severally represents and warrants to the Agents and the Lenders, as of the date hereof, as follows:

(a) Representations and Warranties; No Event of Default. The representations and warranties contained herein, in Article VI of the Financing Agreement and in each other Loan Document, certificate or other writing delivered by or on behalf of any Loan Party to any Secured Party pursuant thereto on or prior to the First Amendment Effective Date are true and correct in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified as to "materiality" or "Material Adverse Effect" in the text thereof, which representations and warranties shall be true and correct in all respects subject to such qualification) on and as of such date as though made on and as of such date, except to the extent that any such representation or warranty expressly relates solely to an earlier date (in which case such representation or warranty shall be true and correct in all material respects (except that such materiality qualifier shall not be applicable to any representations or warranties that already are qualified or modified as to "materiality" or "Material Adverse Effect" in the text thereof, which representations and warranties shall be true and correct in all respects subject to such qualification) on and as of such earlier date), and no Default or Event of Default has occurred and is continuing as of the First Amendment Effective Date or would result from this Amendment becoming effective in accordance with its terms.

(b) Authorization; Enforceability. The execution and delivery of this Amendment by each Loan Party, and the performance of the Financing Agreement, as amended hereby, (i) have been duly authorized by all necessary action, (ii) do not and will not contravene (A) any of its Governing Documents, (B) any applicable Requirement of Law or (C) any Contractual Obligation binding on or otherwise affecting it or any of its properties, (iii) do not and will not result in or require the creation of any Lien (other than pursuant to any Loan Document) upon or with respect to any of its properties other than any such Lien that constitutes a Permitted Lien, and (iv) do not and will not result in any default, noncompliance, suspension, revocation, impairment, forfeiture or nonrenewal of any permit, license, authorization or approval applicable to its operations or any of its properties except, in the case of clauses (ii)(B), (ii)(C) and (iv), as could not reasonably be expected to have a Material Adverse Effect. This Amendment constitutes the legal, valid and binding obligation of such Loan Party, enforceable against such Loan Party in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and general principles of equity.

3. Conditions Precedent to Effectiveness. This Amendment shall become effective upon satisfaction in full, in a manner reasonably satisfactory to the Agents, or waiver by the Agents, of the following conditions precedent (the first date upon which all such conditions shall have been satisfied (or waived) being herein called the "First Amendment Effective Date"):

(a) Payment of Fees, Etc. The Borrower shall have paid (or caused to be paid), on or before the First Amendment Effective Date, all fees, costs and expenses then due and payable, if any, pursuant to Section 2.06 or 12.04 of the Financing Agreement.

(b) Delivery of Documents. The Agents shall have received this Amendment, in form and substance satisfactory to the Lenders, duly executed by the Loan Parties, each Agent and all Lenders.

4. Continued Effectiveness of the Financing Agreement and Other Loan Documents. Each Loan Party hereby (i) acknowledges and consents to this Amendment, (ii) confirms and agrees that the Financing Agreement and each other Loan Document to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects except that on and after the First Amendment Effective Date all references in the Financing Agreement or any other Loan Document to "Financing Agreement", the "Agreement", "thereto", "thereof", "thereunder" or words of like import referring to the Financing Agreement shall mean the Financing Agreement as amended by this Amendment, and (iii) confirms and agrees that to the extent that the Financing Agreement or any such other Loan Document purports to assign or pledge to the Collateral Agent for the benefit of the Lenders, or to grant to the Collateral Agent for the benefit of the Lenders a security interest in or Lien on, any Collateral as security for the Obligations or Guaranteed Obligations, as the case may be, of any Loan Party from time to time existing in respect of the Financing Agreement (as amended hereby) and the other Loan Documents, such pledge, assignment and/or grant of the security interest or Lien is hereby ratified and confirmed in all respects as of the date hereof. This Amendment does not and shall not affect any of the obligations of any Loan Party, other than as expressly provided herein, including, without limitation, the Borrower's obligation to repay the Loans in accordance with the terms of Financing Agreement, or the obligations of any other Loan Party under any Loan Document to which it is a party, all of which obligations shall remain in full force and effect. Except as expressly provided herein, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Agents or any Lender under the Financing Agreement or any other Loan Document, nor constitute a waiver of any provision of the Financing Agreement or any other Loan Document.

5. Reaffirmation of Loan Parties. Each Loan Party hereby reaffirms its obligations under the Financing Agreement and each other Loan Document to which it is a party as of the date hereof. Each Loan Party hereby further ratifies and reaffirms as of the date hereof the validity and enforceability of all of the Liens and security interests heretofore granted by it, pursuant to and in connection with the Financing Agreement or any other Loan Document to the Agents, on behalf and for the benefit of the Agents and each Lender, as collateral security for the obligations under the Financing Agreement and the other Loan Documents in accordance with their respective terms, and acknowledges that all of such liens and security interests, and all collateral heretofore pledged by it as security for such obligations, continues to be and remain collateral for such obligations. Although each of the Guarantors have been informed of the matters set forth herein and have acknowledged and agreed to same, each of the Guarantors understands that the Agents and the Lenders shall have no obligation to inform the Guarantors of such matters in the future or to seek the Guarantors' acknowledgement or agreement to future amendments, waivers, or modifications, and nothing herein shall create such a duty.

6. Miscellaneous.

(a) This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of this Amendment by electronic mail shall be equally as effective as delivery of an original executed counterpart of this Amendment. Any party may request in writing that parties delivering an executed counterpart of this Amendment by electronic mail also deliver an original executed counterpart of this Amendment but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Amendment.

(b)Section and paragraph headings herein are included for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

(c)THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED IN THE STATE OF NEW YORK.

(d)This Amendment constitutes a "Loan Document" under the Financing Agreement.

(e)Any provision of this Amendment that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining portions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

(f) The Borrower will pay (or cause to be paid) promptly upon receipt of a reasonably detailed invoice therefor, all reasonable and documented out-of-pocket fees, costs and expenses of the Agents in connection with the preparation, execution and delivery of this Amendment in accordance with and pursuant to Section 12.04 of the Financing Agreement, including, without limitation, reasonable and documented fees, costs and expenses of Latham & Watkins LLP, counsel to the Collateral Agent.

(g) By its execution hereof, each of the Lenders party hereto, constituting all Lenders party to the Financing Agreement, hereby (i) authorize and direct each Agent to execute and deliver this Amendment and (ii) acknowledge and agree that (x) the authorization and direction in this Section 6(g) constitutes an authorization and direction from the Lenders under the provisions of Article X of the Financing Agreement and (y) Article IX (including, for the avoidance of doubt, Sections 10.03 and 10.05 thereof) of the Financing Agreement shall apply to any and all actions taken by either Agent in accordance with such direction.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

BORROWER:

XPONENTIAL FITNESS LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

GUARANTORS:

XPONENTIAL INTERMEDIATE HOLDINGS, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

CLUB PILATES FRANCHISE, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

CYCLEBAR HOLDCO, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

CYCLEBAR FRANCHISING, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

CYCLEBAR WORLDWIDE INC.

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

STRETCH LAB FRANCHISE, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

ROW HOUSE FRANCHISE, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

YOGA SIX FRANCHISE, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

AKT FRANCHISE, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

PB FRANCHISING, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

STRIDE FRANCHISE, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

XPONENTIAL FITNESS BRANDS INTERNATIONAL, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

RUMBLE FRANCHISE, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

ADMINISTRATIVE AGENT AND
COLLATERAL AGENT:

WILMINGTON TRUST, NATIONAL ASSOCIATION, as Administrative Agent and Collateral Agent

By: /s/ Joseph B. Feil
Name: Joseph B. Feil
Title: Vice President

LENDERS:

MSD XPO PARTNERS, LLC

By: /s/ Kenneth Gerold
Name: Kenneth Gerold
Title: Authorized Signatory

MSD PCOF Partners XXXIX, LLC

By: /s/ Kenneth Gerold
Name: Kenneth Gerold
Title: Authorized Signatory

DESALKIV CAYMAN C-2, LTD.

By: /s/ Marianna Fassinotti
Name: Marianna Fassinotti
Title: Authorized Signatory

CORBIN OPPORTUNITY FUND, LP

By: Redwood Capital Management, LLC,
as its sub-advisor

By: /s/ Sean Sauler
Name: Sean Sauler
Title: Deputy CEO

REDWOOD OPPORTUNITY MASTER FUND, LTD.

By: Redwood Capital Management, LLC,
its Investment Manager

By: /s/ Sean Sauler
Name: Sean Sauler
Title: Deputy CEO

REDWOOD MASTER FUND, LTD.

By: Redwood Capital Management, LLC,
its Investment Manager

By: /s/ Sean Sauler
Name: Sean Sauler
Title: Deputy CEO

SECOND AMENDMENT TO
FINANCING AGREEMENT AND FIRST AMENDMENT TO SECURITY AGREEMENT

SECOND AMENDMENT TO FINANCING AGREEMENT AND FIRST AMENDMENT TO SECURITY AGREEMENT, dated as of October 8, 2021 (this "Amendment"), to the Financing Agreement, dated as of April 19, 2021 (as amended by the First Amendment to Financing Agreement, dated as of July 26, 2021, and as may be further as amended, restated, supplemented or otherwise modified, the "Financing Agreement"), by and among Xponential Intermediate Holdings, LLC, a Delaware limited liability company (the "Parent"), Xponential Fitness LLC, a Delaware limited liability company ("XF"), each Subsidiary (as defined therein) of Parent listed as a "Borrower" on the signature pages hereto (together with XF and each other Person that executes a joinder agreement and becomes a "Borrower" thereunder, each a "Borrower" and collectively, the "Borrowers"), each other Subsidiary of Parent listed as a "Guarantor" on the signature pages thereto (together with Parent and each other Person that executes a joinder agreement and becomes a "Guarantor" thereunder or otherwise guaranties all or any part of the Obligations (as defined therein), each a "Guarantor" and collectively, the "Guarantors"), the lenders from time to time party thereto (each a "Lender" and collectively, the "Lenders"), Wilmington Trust, National Association ("Wilmington Trust"), as collateral agent for the Lenders (in such capacity, together with its successors and assigns, the "Collateral Agent") and Wilmington Trust, as administrative agent for the Lenders (in such capacity, together with its successors and assigns, the "Administrative Agent" and together with the Collateral Agent, each an "Agent" and collectively, the "Agents"). All terms used herein that are defined in the Financing Agreement and not otherwise defined herein shall have the meanings assigned to them in the Financing Agreement (as amended hereby).

WHEREAS, BFT Franchise Holdings, LLC, a Delaware limited liability company ("Buyer") is party to that certain Asset Purchase Agreement, entered into as on or about October 8, 2021 (the "Acquisition Agreement"), among the Buyer, GRPX Live Pty Ltd, an Australian corporation, as trustee for GRPX Live Unit Trust ("GRPX Live"), Body Fit Training Company Pty Ltd, an Australian corporation, as trustee for the Body Fit Training Unit ("Body Fit Training"), Body Fit Training USA, Inc., a Delaware corporation ("BFT USA", and collectively with GRPX Live and Body Fit Training, the "Sellers", and each a "Seller"), all of the shareholders and/or equity holders of each of the Sellers that are a party thereto and Cameron Falloon, an individual, as the Sellers' Representative (as defined in the Acquisition Agreement), pursuant to which the Buyer shall purchase and assume from the Sellers substantially all of the assets, and certain specified liabilities, of the Business (as defined in the Acquisition Agreement) (the "BFT Acquisition");

WHEREAS, to enable and facilitate the consummation of the BFT Acquisition, the Borrowers wish to amend the Financing Agreement to provide for additional term loans in an aggregate principal amount equal to $38,000,000 (the "2021 Incremental Term Loans") to be made by the Lenders listed on Annex A hereto (the "2021 Incremental Term Loan Lenders") in accordance with their respective commitments set forth on such Annex A (the "2021 Incremental Term Loan Commitments"), the proceeds of which will be used to provide consideration to the Sellers in connection with the BFT Acquisition;

WHEREAS, the Loan Parties have requested that the Agents and the Lenders consent to, and amend the Financing Agreement in certain respects in connection with, the 2021 Incremental Term Loans and the BFT Acquisition, and the Agents and the Lenders are agreeable to such request for consent and amendment on and subject to the terms and conditions set forth herein; and

DOCPROPERTY DPWPathText * MERGEFORMAT #95046351v5

NOW THEREFORE, in consideration of the premises and other good and valuable consideration, the parties hereto hereby agree as follows:

1. Amendments to Financing Agreement.

(a) The 2021 Incremental Term Loan Lenders hereby agree to provide the full amount of the 2021 Incremental Term Loans in accordance with their respective 2021 Incremental Term Loan Commitments. The 2021 Incremental Term Loan Commitments shall be subject to all of the terms and conditions set forth herein and in the Financing Agreement.

(b) The aggregate 2021 Incremental Term Loan Commitments as of the Second Amendment Effective Date (as hereinafter defined) are $38,000,000. The 2021 Incremental Term Loan Commitments will terminate in full upon the making of the related 2021 Incremental Term Loans.

(c) Subject to the satisfaction of the conditions set forth in Section 5 below, the funding of the 2021 Incremental Term Loans will occur in one drawing on the date hereof and will be made by the 2021 Incremental Term Loan Lenders ratably in accordance with their respective 2021 Incremental Term Loan Commitments pursuant to the Administrative Borrower's request in the form of a Notice of Borrowing (which notice may be delivered upon a shorter time period then set forth in Section 2.02 of the Financing Agreement to the extent agreed to by each 2021 Incremental Term Loan Lenders). In the event that all or any portion of the 2021 Incremental Term Loans are not borrowed on the date hereof, the unborrowed portion of the 2021 Incremental Term Loan Commitments shall automatically terminate on the date hereof unless the 2021 Incremental Term Loan Lenders shall, in their sole discretion and with written notice to the Administrative Agent, agree to an extension.

(d) Section 1.01 of the Financing Agreement is hereby amended to add the following definitions:

"First Amendment" means the First Amendment to Financing Agreement, dated as of July 26, 2021, among the Loan Parties, the Lenders and the Agents.

"Second Amendment" means the Second Amendment to Financing Agreement, dated as of October 8, 2021, among the Loan Parties, the Lenders and the Agents.

"Second Amendment Effective Date" has the meaning specified therefor in Section 5 of the Second Amendment.

(e) Section 1.01 of the Financing Agreement is hereby amended to amend and restate the following definition in its entirety as follows:

"Applicable Prepayment Premium" means, as of any date of determination, with respect to and in the event of any prepayment of the Term Loans, (a) during the period of time from and after the Second Amendment Effective Date up to and including the date that is the first anniversary of the Effective Date, an amount equal to 2.00% times the principal amount of any such prepayment of the Term Loans on such date, (b) during the period of time after the date that is the first anniversary of the Effective Date up to and including the date that is the first anniversary of the Second Amendment Effective Date, an amount equal to 0.98% times the principal amount of any such prepayment of the Term Loans on such date, (c) during the period of time after the date that is the first anniversary of the Second Amendment Effective Date up to and including the date that is the second anniversary of the Effective

Date, an amount equal to 0.50% times the principal amount of any such prepayment of the Term Loans on such date, (d) during the period of time after the date that is the second anniversary of the Effective Date up to and including the date that is the second anniversary of the Second Amendment Effective Date, an amount equal to 0.16% times the principal amount of any such prepayment of the Term Loans on such date, and (e) from the second anniversary of the Second Amendment Effective Date and at all times thereafter, zero.

"Loan Document" means this Agreement, the Agent Fee Letter, any Guaranty, any Joinder Agreement, any Mortgage, any Security Agreement, the Flow of Funds Agreement, the Intercompany Subordination Agreement, any Perfection Certificate, the First Amendment, the Second Amendment, any collateral access agreement, any landlord subordination or waiver agreement, any other agreement, instrument, certificate, report and other document executed and delivered pursuant hereto or thereto or otherwise evidencing or securing any Loan or any other Obligation.

(f) Section 2.03(b) of the Financing Agreement is hereby amended and restated in its entirety and replaced by the following: "The outstanding principal of the Initial Term Loan shall be repayable, ratably, in consecutive quarterly installments, each such installment to be due and payable on the last Business Day of each calendar quarter (i.e. March, June, September, and December) (each, a "Scheduled Term Loan Payment Date"), (i) commencing with June 30, 2021 and, for the Scheduled Term Loan Payment Dates occurring on June 30, 2021 and September 30, 2021, in an amount equal to 0.25% of the original principal amount of the Initial Term Loan made hereunder on the Effective Date and (ii) commencing with December 31, 2021 and for each Scheduled Term Loan Payment Date thereafter, in an amount equal to $739,922.87; provided, however, that the last such installment shall be in the amount necessary to repay in full the unpaid principal amount of the Term Loans on the Final Maturity Date. The outstanding unpaid principal of the Term Loans and all accrued and unpaid interest thereon, shall be due and payable in full on the Final Maturity Date."

(g) Each 2021 Incremental Term Loan Lender shall be deemed to be a "Lender", a "Term Loan Lender" and a "Secured Party" for all purposes under the Financing Agreement and each other Loan Document, and shall have all of the rights and obligations of a Lender, a Term Loan Lender and a Secured Party under the Financing Agreement and the other Loan Documents. The 2021 Incremental Term Loans shall be Term Loans and Initial Term Loans for all purposes under the Financing Agreement and each other Loan Document and, unless otherwise set forth in the Financing Agreement, shall have terms identical to the Initial Term Loans outstanding under the Financing Agreement immediately prior to the date hereof (including, but not limited to, with respect to "Applicable Margin", "Maturity Date" and Section 2.04(b)); provided, that the type and, if applicable, initial Interest Period applicable to the 2021 Incremental Term Loans shall be as specified in the applicable Notice of Borrowing.

(h) The proceeds of the 2021 Incremental Term Loans shall be used to fund the BFT Acquisition on the Second Amendment Effective Date and the payment of fees, costs and expenses related to the Second Amendment.

(i) Schedule 1.01(A) of the Financing Agreement shall be amended and supplemented to include the 2021 Incremental Term Loan Commitments set forth on Annex A hereto.

2. Amendments to Security Agreement. Subject to satisfaction (or waiver) of the conditions set forth in Section 6 hereof, on the Second Amendment Effective Date, the Security Agreement is hereby amended to delete the stricken text (indicated textually in the same manner as the following example: ~~stricken text~~) and to add the double-underlined text (indicated textually in the same manner as the

following example: double-underlined text) as set forth in Annex B attached hereto (the Security Agreement, as amended hereby, the "Amended Security Agreement");

3. Consent to BFT Acquisition.

(a) Pursuant to the request of the Loan Parties and in reliance upon the representations of the Loan Parties set forth herein, the Agents and the Lenders hereby consent to the BFT Acquisition and agree that the BFT Acquisition shall be a Permitted Acquisition under the Financing Agreement and consent and agree that the Borrower may use the proceeds of the 2021 Incremental Term Loan to consummate the BFT Acquisition.

(b) The consent in this Section 3 shall be effective only in this specific instance and for the specific purposes set forth herein and does not allow for any other or further departure from the terms and conditions of the Financing Agreement or any other Loan Document, which terms and conditions shall continue in full force and effect

4. Fees. On the Second Amendment Effective Date, the Borrowers shall pay, or cause to be paid, to the 2021 Incremental Term Loan Lenders, an upfront fee (the "2021 Incremental Term Loan Upfront Fee") in an amount equal to 1.00% of the aggregate principal amount of the 2021 Incremental Term Loans actually funded by the 2021 Incremental Term Loan Lenders on the Second Amendment Effective Date; provided, that, at the option of each 2021 Incremental Term Lender, such 2021 Incremental Term Loan Upfront Fee shall be taken in the form of an equivalent amount of original issue discount in respect of the aggregate principal amount of 2021 Incremental Term Loans made by such 2021 Incremental Term Lender on the Second Amendment Effective Date; provided, further that the parties hereto agree to treat the 2021 Incremental Term Loan Upfront Fee as original issue discount for U.S. federal (and all applicable state and local) income tax purposes.

5. Representations and Warranties. Each Loan Party hereby jointly and severally represents and warrants to the Agents and the Lenders, as of the date hereof, as follows:

(a)Representations and Warranties; No Event of Default. The representations and warranties contained herein, in Article VI of the Financing Agreement and in each other Loan Document, certificate or other writing delivered by or on behalf of any Loan Party to any Secured Party pursuant thereto on or prior to the Second Amendment Effective Date are true and correct in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified as to "materiality" or "Material Adverse Effect" in the text thereof, which representations and warranties shall be true and correct in all respects subject to such qualification) on and as of such date as though made on and as of such date, except to the extent that any such representation or warranty expressly relates solely to an earlier date (in which case such representation or warranty shall be true and correct in all material respects (except that such materiality qualifier shall not be applicable to any representations or warranties that already are qualified or modified as to "materiality" or "Material Adverse Effect" in the text thereof, which representations and warranties shall be true and correct in all respects subject to such qualification) on and as of such earlier date), and no Default or Event of Default has occurred and is continuing as of the Second Amendment Effective Date or would result from this Amendment becoming effective in accordance with its terms.

(a) Authorization; Enforceability. The execution and delivery of this Amendment by each Loan Party, and the performance of the Financing Agreement, as amended hereby, (i) have been duly authorized by all necessary action, (ii) do not and will not contravene (A) any of its Governing Documents, (B) any applicable Requirement of Law or (C) any Contractual Obligation binding on or otherwise affecting it or any of its properties, (iii) do not and will not result in or require the creation of any Lien (other than pursuant to any Loan Document) upon or with respect to any of its properties other than any such Lien that constitutes a Permitted Lien, and (iv) do not and will not result in any default, noncompliance, suspension, revocation, impairment, forfeiture or nonrenewal of any permit, license, authorization or approval applicable to its operations or any of its properties except, in the case of clauses (ii)(B), (ii)(C) and (iv), as could not reasonably be expected to have a Material Adverse Effect. This Amendment constitutes the legal, valid and binding obligation of such Loan Party, enforceable against such Loan Party in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and general principles of equity.

6. Conditions Precedent to Effectiveness. This Amendment shall become effective upon satisfaction in full, or waiver by the parties hereto, of the following conditions precedent (the first date upon which all such conditions shall have been satisfied (or waived) being herein called the "Second Amendment Effective Date"):

(a) Payment of Fees, Etc. The Borrowers shall have paid (or caused to be paid), on or before the Second Amendment Effective Date, (i) all fees, costs and expenses then due and payable, if any, pursuant to Section 4 of this Amendment or Section 12.04 of the Financing Agreement and (ii) to the Agents, for their own account, an amendment fee in an amount agreed upon by the Borrower and the Agents.

(c) Delivery of Documents. The Agents and the Lenders shall have received, on or before the Second Amendment Effective Date, the following, each in form and substance reasonably satisfactory to the Lenders and, unless indicated otherwise, dated the Second Amendment Effective Date:

(i)this Amendment, duly executed by the Loan Parties, each Agent and each Lender;

(ii)a copy of the resolutions of each Loan Party, certified as of the Second Amendment Effective Date by an Authorized Officer thereof, authorizing (A) the borrowings hereunder and the transactions contemplated by this Amendment and (B) the execution, delivery and performance by such Loan Party of this Amendment and the execution and delivery of the other documents to be delivered by such Person in connection herewith;

(iii)a certificate of an Authorized Officer of each Loan Party, certifying the names and true signatures of the representatives of such Loan Party authorized to sign this Amendment and the other documents to be executed and delivered by such Loan Party in connection herewith, together with evidence of the incumbency of such authorized officers;

(iv)a certificate of the appropriate official(s) of the jurisdiction of organization of each Loan Party certifying as of a recent date not more than 30 days prior to the Second Amendment Effective Date as to the good standing of such Loan Party, in such jurisdiction, except, in each case, where the failure to be so qualified could not reasonably be expected to result in a Material Adverse Effect of the Loan Parties, taken as a whole;

(v)a true and complete copy of the charter, certificate of formation, certificate of limited partnership or other publicly filed organizational document of each Loan Party certified as of a recent date not more than 30 days prior to the Second Amendment Effective Date by an appropriate official of the jurisdiction of organization of such Loan Party which shall set forth the same complete name of such

DOCPROPERTY DPWPathText * MERGEFORMAT #95046351v5

Loan Party as is set forth herein and the organizational number of such Loan Party, if an organizational number is issued in such jurisdiction;

(vi)a copy of the Governing Documents of each Loan Party, together with all amendments thereto, certified as of the Second Amendment Effective Date by an Authorized Officer of such Loan Party;

(vii)[reserved];

(viii)a certificate of an Authorized Officer of each Loan Party, certifying as to the matters described in Section 5(a) of this Amendment;

(ix)a certificate of the chief financial officer of the Administrative Borrower, certifying on behalf of the Loan Parties, as to the solvency of the Loan Parties (on a consolidated basis), which certificate shall be reasonably satisfactory in form and substance to the Required Lenders;

(x)[reserved]; and

(xi)a Notice of Borrowing pursuant to Section 2.02 of the Financing Agreement.

7. Conditions Subsequent to Closing.

(a) Within sixty (60) days of the Second Amendment Effective Date, the Additional Guarantor (as defined below) shall have filed intellectual property security agreements, or such comparable agreements, as applicable, in the United States, Australia and New Zealand, in each case, in favor of the Collateral Agent, for the benefit of the Secured Parties, on all of the registered Intellectual Property of the Additional Guarantor in the United States, Australia and New Zealand pursuant to the Amended Security Agreement.

(b)the BFT Acquisition shall be consummated within 5 Business Days of the Second Amendment Effective Date in accordance with the terms of the Acquisition Agreement (as in effect on the date hereof), but without giving effect to any amendments, modifications or waivers of any provision thereto that are materially adverse to the Lenders (in their capacity as such) without the consent of the Required Lenders (such consent not to be unreasonably withheld, delayed or conditioned).

8. Continued Effectiveness of the Financing Agreement and Other Loan Documents. Each Loan Party hereby (i) acknowledges and consents to this Amendment, (ii) confirms and agrees that the Financing Agreement and each other Loan Document to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects except that on and after the Second Amendment Effective Date all references in the Financing Agreement or any other Loan Document to "Financing Agreement", the "Agreement", "thereto", "thereof", "thereunder" or words of like import referring to the Financing Agreement shall mean the Financing Agreement as amended by this Amendment, and (iii) confirms and agrees that to the extent that the Financing Agreement or any such other Loan Document purports to assign or pledge to the Collateral Agent for the benefit of the Lenders, or to grant to the Collateral Agent for the benefit of the Lenders a security interest in or Lien on, any Collateral as security for the Obligations or Guaranteed Obligations, as the case may be, of any Loan Party from time to time existing in respect of the Financing Agreement (as amended hereby) and the other Loan Documents, such pledge, assignment and/or grant of the security interest or Lien is hereby ratified and confirmed in all respects as of the date hereof. This Amendment does not and shall not affect any of the obligations of any Loan

DOCPROPERTY DPWPathText * MERGEFORMAT #95046351v5

Party, other than as expressly provided herein, including, without limitation, the Borrower's obligation to repay the Loans in accordance with the terms of Financing Agreement, or the obligations of any other Loan Party under any Loan Document to which it is a party, all of which obligations shall remain in full force and effect. Except as expressly provided herein, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Agents or any Lender under the Financing Agreement or any other Loan Document, nor constitute a waiver of any provision of the Financing Agreement or any other Loan Document.

9. Reaffirmation of Loan Parties. Each Loan Party hereby reaffirms its obligations under the Financing Agreement and each other Loan Document to which it is a party as of the date hereof. Each Loan Party hereby further ratifies and reaffirms as of the date hereof the validity and enforceability of all of the Liens and security interests heretofore granted by it, pursuant to and in connection with the Financing Agreement or any other Loan Document to the Agents, on behalf and for the benefit of the Agents and each Lender, as collateral security for the obligations under the Financing Agreement and the other Loan Documents in accordance with their respective terms, and acknowledges that all of such liens and security interests, and all collateral heretofore pledged by it as security for such obligations, continues to be and remain collateral for such obligations. Although each of the Guarantors have been informed of the matters set forth herein and have acknowledged and agreed to same, each of the Guarantors understands that the Agents and the Lenders shall have no obligation to inform the Guarantors of such matters in the future or to seek the Guarantors' acknowledgement or agreement to future amendments, waivers, or modifications, and nothing herein shall create such a duty.

10. Miscellaneous.

(a) This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of this Amendment by electronic mail shall be equally as effective as delivery of an original executed counterpart of this Amendment. Any party may request in writing that parties delivering an executed counterpart of this Amendment by electronic mail also deliver an original executed counterpart of this Amendment but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Amendment. The words “execution,” “signed,” “signature,” and words of like import in this Amendment shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

(b)Section and paragraph headings herein are included for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

(c)THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED IN THE STATE OF NEW YORK.

(d)This Amendment constitutes a "Loan Document" under the Financing Agreement.

DOCPROPERTY DPWPathText * MERGEFORMAT #95046351v5

(e) Any provision of this Amendment that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining portions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

(f) The Borrower will pay (or cause to be paid) promptly upon receipt of a reasonably detailed invoice therefor, all reasonable and documented fees and out-of-pocket costs and expenses of the Agents and the Lenders in connection with the preparation, execution and delivery of this Amendment in accordance with and pursuant to Section 12.04 of the Financing Agreement, including, without limitation, reasonable and documented fees, costs and expenses of (x) King & Spalding LLP, counsel to the Lenders and (y) Arnold & Porter Kaye Scholer LLP, counsel to the Agents.

(g) By its execution hereof, each of the Lenders party hereto, constituting all Lenders party to the Financing Agreement, hereby (i) authorizes and directs each Agent to execute and deliver this Amendment and (ii) acknowledges and agrees that (x) the authorization and direction in this Section 9(g) constitutes an authorization and direction from the Lenders under the provisions of Article X of the Financing Agreement and (y) Article X (including, for the avoidance of doubt, Sections 10.03 and 10.05 thereof) of the Financing Agreement shall apply to any and all actions taken by either Agent in accordance with such direction.

11. Joinder of Additional Guarantor.

(a) By its execution of this Agreement, BFT Franchise Holdings, LLC (the "Additional Guarantor") hereby (i) confirms that the representations contained in Article VI of the Financing Agreement are true and correct in all material respects as to the Additional Guarantor as of the Second Amendment Effective Date, except to the extent that any such representation or warranty expressly relates solely to an earlier date (in which case such representation or warranty shall be true and correct in all material respects on and as of such earlier date), and (ii) agrees that, from and after the Second Amendment Effective Date, the Additional Guarantor shall be a party to the Financing Agreement and and be bound, as a Guarantor, by all the provisions thereof and shall comply with and be subject to all of the terms, conditions, covenants, agreements and obligations set forth therein and applicable to the Guarantors, including, without limitation, the guaranty of the Obligations made by the Guarantors, jointly and severally with the other Loan Parties, in favor of the Agents and the Lenders pursuant to Article XI of the Financing Agreement. The Additional Guarantor hereby agrees that from and after the Second Amendment Effective Date each reference to "Guarantor" or a "Loan party" and each reference to the "Guarantors" or the "Loan Parties" in the Financing Agreement shall include the Additional Guarantor.

(a) Attached hereto as Annex C are supplements to each Schedule to the Financing Agreement revised to include all information required to be provided therein with respect to, and only with respect to, the Additional Guarantor. The Schedules to the Financing Agreement shall, without further action, be amended to include the information contained in each such supplement.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

BORROWER:

XPONENTIAL FITNESS LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

GUARANTORS:

XPONENTIAL INTERMEDIATE HOLDINGS, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

CLUB PILATES FRANCHISE, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

CYCLEBAR HOLDCO, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

DOCPROPERTY DPWPathText * MERGEFORMAT #95046351v5

CYCLEBAR FRANCHISING, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

CYCLEBAR WORLDWIDE INC.

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

STRETCH LAB FRANCHISE, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

ROW HOUSE FRANCHISE, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

YOGA SIX FRANCHISE, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

AKT FRANCHISE, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

DOCPROPERTY DPWPathText * MERGEFORMAT #95046351v5

PB FRANCHISING, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

DOCPROPERTY DPWPathText * MERGEFORMAT #95046351v5

STRIDE FRANCHISE, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

XPONENTIAL FITNESS BRANDS INTERNATIONAL, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

RUMBLE FRANCHISE, LLC

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

BFT FRANCHISE HOLDINGS, LLC

/s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

DOCPROPERTY DPWPathText * MERGEFORMAT #95046351v5

ADMINISTRATIVE AGENT AND
COLLATERAL AGENT:

WILMINGTON TRUST, NATIONAL ASSOCIATION, as Administrative Agent and Collateral Agent

By: /s/ Joseph B. Feil
Name: Joseph B. Feil
Title: Vice President

LENDERS:

[________________________]

By:

Name:
Title:

Annex A

2021 Incremental Term Loan Lenders' Commitments

Annex B

Amended Security Agreement

Annex C

Schedule Supplement

DOCPROPERTY DPWPathText * MERGEFORMAT #95046351v5

Exhibit 21.1

Subsidiaries of the Registrant

Name of Subsidiary	Jurisdiction of Incorporation
Xponential Intermediate Holdings, LLC	Delaware
Xponential Fitness LLC	Delaware
Club Pilates Franchise, LLC	Delaware
Stretch Lab Franchise, LLC	Delaware
CycleBar Holdco, LLC	Delaware
CycleBar Worldwide Inc.	Ohio
CycleBar Canada Franchising, ULC	Canada
CycleBar Franchising, LLC	Ohio
Yoga Six Franchise LLC	Delaware
Yoga Six Studio, LLC	Delaware
AKT Franchise, LLC	Delaware
AKT Studio, LLC	Delaware
Row House Franchise, LLC	Delaware
Row House Tustin, LLC	Delaware
Stride Franchise, LLC	Delaware
Xponential Fitness Brands International, LLC	Delaware
PB Franchising LLC	Delaware
PB 1001, LLC	Delaware
Xponential Finance LLC	Delaware
Rumble Franchise, LLC	Delaware
Rumble 1001, LLC	Delaware
Xponential Gift Cards LLC	Delaware
Xponential Employment Services, Inc.	Delaware
BFT Franchise Holdings, LLC	Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-258179 on Form S-8 of our report dated March 4, 2022, relating to the financial statements of Xponential Fitness, Inc. appearing in this Annual Report on Form 10-K for the year ended December 31, 2021.

/s/ Deloitte & Touche LLP

Costa Mesa, California

March 4, 2022

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Anthony Geisler, certify that:

1. I have reviewed this annual report on Form 10-K of Xponential Fitness, Inc.;

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

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

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

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

(b) [Omitted];

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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 4, 2022	By:	/s/ Anthony Geisler **Anthony Geisler** **Chief Executive Officer** (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John Meloun, certify that:

1. I have reviewed this annual report on Form 10-K of Xponential Fitness, Inc.;

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

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

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

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

(b) [Omitted];

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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 4, 2022	By:	/s/ John Meloun **John Meloun** **Chief Financial Officer** (Principal Financial Officer)

Exhibit 32.1

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

In connection with the Annual Report of Xponential Fitness, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Anthony Geisler, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 4, 2022	By:	/s/ Anthony Geisler **Anthony Geisler** **Chief Executive Officer** (Principal Executive Officer)

Exhibit 32.2

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

In connection with the Annual Report of Xponential Fitness, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John Meloun, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1)The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2)The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 4, 2022	By:	/s/ John Meloun **John Meloun** **Chief Financial Officer** (Principal Financial Officer)