# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, DC 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended September 30, 2022**

**OR**

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

**For the transition period from to**

**Commission File Number: 001-40638**

# Xponential Fitness, Inc.
**(Exact Name of Registrant as Specified in its Charter)**

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

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 7, 2022, the registrant had 27,566,312 shares of Class A common stock outstanding and 21,652,447 shares of Class B common stock outstanding.

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## PART I—FINANCIAL INFORMATION

**Item 1. Financial Statements.**

**Xponential Fitness, Inc.**
**Condensed Consolidated Balance Sheets**
**(Unaudited)**
**(amounts in thousands, except share and per share amounts)**

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash, cash equivalents and restricted cash | $ 30,895 | $ 21,320 |
| Accounts receivable, net (Note 10) | 19,377 | 11,702 |
| Inventories | 13,738 | 6,928 |
| Prepaid expenses and other current assets | 10,801 | 5,271 |
| Deferred costs, current portion | 3,573 | 3,712 |
| Notes receivable from franchisees, net (Note 10) | 1,926 | 2,293 |
| Total current assets | 80,310 | 51,226 |
| Property and equipment, net | 16,613 | 12,773 |
| Right-of-use assets | 22,738 | — |
| Goodwill | 165,697 | 169,073 |
| Intangible assets, net | 139,718 | 136,863 |
| Deferred costs, net of current portion | 43,402 | 42,015 |
| Notes receivable from franchisees, net of current portion (Note 10) | 3,107 | 3,041 |
| Other assets | 682 | 553 |
| Total assets | $ 472,267 | $ 415,544 |
| **Liabilities, redeemable convertible preferred stock and deficit** | | |
| Current Liabilities: | | |
| Accounts payable | $ 23,342 | $ 14,905 |
| Accrued expenses | 18,818 | 21,045 |
| Deferred revenue, current portion | 29,039 | 22,747 |
| Notes payable | — | 983 |
| Current portion of long-term debt | 3,035 | 2,960 |
| Other current liabilities | 6,620 | 3,253 |
| Total current liabilities | 80,854 | 65,893 |
| Deferred revenue, net of current portion | 108,191 | 95,691 |
| Contingent consideration from acquisitions (Note 16) | 46,655 | 54,881 |
| Long-term debt, net of current portion, discount and issuance costs | 131,668 | 127,983 |
| Lease liability | 24,472 | — |
| Other liabilities | 3,974 | 4,675 |
| Total liabilities | 395,814 | 349,123 |
| 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 September 30, 2022 and December 31, 2021 | 257,096 | 276,890 |
| Stockholders' equity (deficit): | | |
| Undesignated preferred stock, $0.0001 par value, 4,600,000 shares authorized, none issued and outstanding as of September 30, 2022 and December 31, 2021 | — | — |
| Class A common stock, $0.0001 par value, 500,000,000 shares authorized, 27,560,549 and 23,898,042 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively | 3 | 2 |
| Class B common stock, $0.0001 par value, 500,000,000 shares authorized, 21,650,669 and 22,968,674 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively | 2 | 2 |
| Additional paid-in capital | 528,807 | — |
| Receivable from shareholder (Note 10) | (14,219 ) | (10,600 ) |
| Accumulated deficit | (641,656 ) | (643,833 ) |
| Total stockholders' deficit attributable to Xponential Fitness, Inc. | (127,063 ) | (654,429 ) |
| Noncontrolling interests | (53,580 ) | 443,960 |
| Total stockholders' deficit | (180,643 ) | (210,469 ) |
| Total liabilities, redeemable convertible preferred stock and deficit | $ 472,267 | $ 415,544 |

See accompanying notes to condensed consolidated financial statements.

**Xponential Fitness, Inc.**

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

| | Three Months Ended September 30, 2022 | Three Months Ended September 30, 2021 | Nine Months Ended September 30, 2022 | Nine Months Ended September 30, 2021 |
|---|---|---|---|---|
| Revenue, net: | | | | |
| Franchise revenue | $ 30,006 | $ 19,985 | $ 83,128 | $ 51,504 |
| Equipment revenue | 11,770 | 6,750 | 31,930 | 15,571 |
| Merchandise revenue | 6,264 | 4,879 | 19,100 | 13,620 |
| Franchise marketing fund revenue | 5,172 | 3,706 | 14,544 | 9,503 |
| Other service revenue | 10,551 | 5,547 | 24,983 | 15,509 |
| Total revenue, net | 63,763 | 40,867 | 173,685 | 105,707 |
| Operating costs and expenses: | | | | |
| Costs of product revenue | 11,840 | 7,641 | 34,951 | 19,259 |
| Costs of franchise and service revenue | 4,811 | 3,169 | 13,589 | 8,615 |
| Selling, general and administrative expenses (Note 10) | 32,841 | 24,262 | 96,082 | 62,066 |
| Depreciation and amortization | 4,154 | 2,376 | 11,225 | 6,838 |
| Marketing fund expense | 4,260 | 3,828 | 12,696 | 9,304 |
| Acquisition and transaction expenses (income) | 16,290 | 2,880 | (5,793 ) | 3,527 |
| Total operating costs and expenses | 74,196 | 44,156 | 162,750 | 109,609 |
| Operating income (loss) | (10,433 ) | (3,289 ) | 10,935 | (3,902 ) |
| Other (income) expense: | | | | |
| Interest income | (402 ) | (343 ) | (1,209 ) | (796 ) |
| Interest expense (Note 10) | 3,333 | 5,855 | 9,060 | 21,869 |
| Gain on debt extinguishment | — | — | — | (3,707 ) |
| Total other expense | 2,931 | 5,512 | 7,851 | 17,366 |
| Income (loss) before income taxes | (13,364 ) | (8,801 ) | 3,084 | (21,268 ) |
| Income taxes (benefit) | (308 ) | 103 | (158 ) | 387 |
| Net income (loss) | (13,056 ) | (8,904 ) | 3,242 | (21,655 ) |
| Less: net income (loss) attributable to noncontrolling interests | (5,918 ) | (4,848 ) | 1,065 | (17,599 ) |
| Net income (loss) attributable to Xponential Fitness, Inc. | $ (7,138 ) | $ (4,056 ) | $ 2,177 | $ (4,056 ) |
| Net earnings (loss) per share of Class A common stock: | | | | |
| Basic | $ (1.53 ) | (0.38 ) | $ 0.28 | (0.38 ) |
| Diluted | $ (1.53 ) | (0.38 ) | $ 0.05 | (0.38 ) |
| Weighted average shares of Class A common stock outstanding: | | | | |
| Basic | 26,156,418 | 22,146,011 | 24,781,778 | 22,146,011 |
| Diluted | 26,156,418 | 22,146,011 | 62,822,737 | 22,146,011 |

See accompanying notes to condensed consolidated financial statements.

## Xponential Fitness, Inc.

### Condensed Consolidated Statements of Changes to Stockholders'/Member’s Equity (Deficit)
### (Unaudited)
### (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 Shareholder | Accumulated Deficit | Noncontrolling interests | Total Equity (Deficit) |
| **Balance at December 31, 2021** | 23,898,042 | $ 2 | 22,968,674 | $ 2 | $ — | $ — | $ (10,600 ) | $ (643,833 ) | $ 443,960 | $ (210,469 ) |
| Equity-based compensation | — | — | — | — | 2,423 | — | — | — | 12,204 | 14,627 |
| Net loss | — | — | — | — | — | — | — | (7,519 ) | (7,660 ) | (15,179 ) |
| Conversion of Class B shares to Class A shares | 351,163 | — | (351,163 ) | — | 517,283 | — | — | — | (517,283 ) | — |
| Payment of preferred stock dividend | — | — | — | — | (3,250 ) | — | — | — | — | (3,250 ) |
| Adjustment of preferred stock to redemption value | — | — | — | — | (50,931 ) | — | — | — | — | (50,931 ) |
| Vesting of Class B Shares | — | — | 1,946,644 | — | — | — | — | — | — | — |
| **Balance at March 31, 2022** | 24,249,205 | 2 | 24,564,155 | 2 | 465,525 | — | (10,600 ) | (651,352 ) | (68,779 ) | (265,202 ) |
| Equity based compensation | — | — | — | — | 3,861 | — | — | — | (54 ) | 3,807 |
| Net income | — | — | — | — | — | — | — | 16,834 | 14,643 | 31,477 |
| Conversion of Class B shares to Class A shares | 2,883,053 | — | (2,883,053 ) | — | (7,387 ) | — | — | — | 7,387 | — |
| Payment of preferred stock dividend | — | — | — | — | (3,250 ) | — | — | — | — | (3,250 ) |
| Adjustment of preferred stock to redemption value | — | — | — | — | 127,821 | — | — | — | — | 127,821 |
| Vesting of Class B Shares | — | — | 5,531 | — | — | — | — | — | — | — |
| Vesting of restricted stock units | 53,571 | — | — | — | — | — | — | — | — | — |
| **Balance at June 30, 2022** | 27,185,829 | 2 | 21,686,633 | 2 | 586,570 | — | (10,600 ) | (634,518 ) | (46,803 ) | (105,347 ) |
| Equity based compensation | — | — | — | — | 3,597 | — | — | — | 24 | 3,621 |
| Net loss | — | — | — | — | — | — | — | (7,138 ) | (5,918 ) | (13,056 ) |
| Conversion of Class B shares to Class A shares | 63,435 | — | (63,435 ) | — | 883 | — | — | — | (883 ) | — |
| Vesting of Class B Shares | — | — | 27,471 | — | — | — | — | — | — | — |
| Vesting of restricted share units, net of shares withheld for taxes | 311,285 | 1 | — | — | (1,897 ) | — | — | — | — | (1,896 ) |
| Loan to shareholder and accumulated interest | — | — | — | — | — | — | (3,619 ) | — | — | (3,619 ) |
| Payment of preferred stock dividend | — | — | — | — | (3,250 ) | — | — | — | — | (3,250 ) |
| Adjustment of preferred stock to redemption value | — | — | — | — | (57,096 ) | — | — | — | — | (57,096 ) |
| **Balance at September 30, 2022** | 27,560,549 | $ 3 | 21,650,669 | $ 2 | $ 528,807 | $ — | $ (14,219 ) | $ (641,656 ) | $ (53,580 ) | $ (180,643 ) |

See accompanying notes to condensed consolidated financial statements.

## Xponential Fitness, Inc.

## Condensed Consolidated Statements of Changes to Stockholders'/Member's Equity (Deficit)
## (Unaudited)
## (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/ Shareholder | Accumulated Deficit | Total Equity (Deficit) | Redeemable noncontrolling interests |
| **Balance at December 31, 2020** | — | $ — | — | $ — | $ — | $ 113,697 | $ (1,456) | $ (107,492) | $ 4,749 | $ — |
| Equity-based compensation | — | — | — | — | — | 222 | — | — | 222 | — |
| Net loss | — | — | — | — | — | — | — | (4,750) | (4,750) | — |
| Parent contribution of Rumble assets | — | — | — | — | — | 20,483 | — | — | 20,483 | — |
| Distributions to Member | — | — | — | — | — | (10,600) | — | — | (10,600) | — |
| Payment received from Member, net | — | — | — | — | — | — | 2 | — | 2 | — |
| **Balance at March 31, 2021** | — | — | — | — | — | 123,802 | (1,454) | (112,242) | 10,106 | — |
| Equity based compensation | — | — | — | — | — | 449 | — | — | 449 | — |
| Net loss | — | — | — | — | — | — | — | (8,001) | (8,001) | — |
| **Balance at June 30, 2021** | — | — | — | — | — | 124,251 | (1,454) | (120,243) | 2,554 | — |
| Equity-based compensation prior to Reorganization Transactions | — | — | — | — | — | 37 | — | — | 37 | — |
| Payment received from Member, net | | — | | — | — | — | 1,454 | — | 1,454 | — |
| Net loss prior to Reorganization Transactions | — | — | — | — | — | — | — | (591) | (591) | — |
| 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 | — | — | 104,248 | — | — | — | 104,249 | — |
| Purchase of shares from LCAT shareholders | — | — | — | — | (104,248) | — | — | (46,737) | (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) | — |
| Vesting of Class B shares | — | — | 170,583 | — | — | — | — | — | — | — |
| Adjustment of preferred stock to redemption value | — | — | — | — | (1,116) | — | — | (488) | (1,604) | — |
| Equity-based compensation after Reorganization Transactions | — | — | — | — | 3,493 | — | — | — | 3,493 | — |
| Payment of preferred stock dividends | — | — | — | — | (2,492) | — | — | — | (2,492) | — |
| Adjustment for recognition of tax receivable agreement and deferred tax liabilities | — | — | — | — | (24) | — | — | — | (24) | — |
| Net loss subsequent to Reorganization Transactions | — | — | — | — | — | — | — | (4,056) | (4,056) | (4,257) |
| Adjustment of redeemable noncontrolling interest | — | — | — | — | (977) | — | — | (12,171) | (13,148) | 13,148 |
| **Balance at September 30, 2021** | 23,898,042 | $ 2 | 22,963,246 | $ 2 | $ — | $ — | $ (10,600) | $ (386,660) | $ (397,256) | $ 291,404 |

See accompanying notes to condensed consolidated financial statements.

**Xponential Fitness, Inc.**

**Condensed Consolidated Statements of Cash Flows**
**(Unaudited)**
**(amounts in thousands)**

| | Nine Months Ended September 30, 2022 | Nine Months Ended September 30, 2021 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $ 3,242 | $ (21,655 ) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 11,225 | 6,838 |
| Amortization and write off of debt issuance cost | 94 | 5,722 |
| Amortization and write off of discount on long-term debt | 454 | 2,553 |
| Change in contingent consideration from acquisitions | (5,791 ) | 3,220 |
| Bad debt expense (recovery) | (526 ) | 165 |
| Adjustment for recognition of TRA and deferred tax liability | — | (24 ) |
| Equity-based compensation | 23,920 | 4,201 |
| Non-cash interest | (679 ) | 765 |
| Gain on debt extinguishment | — | (3,707 ) |
| (Gain) loss on disposal of assets | (90 ) | 362 |
| Impairment of studio assets | — | 781 |
| Impairment of brand assets | 3,656 | — |
| Changes in assets and liabilities: | | |
| Accounts receivable | (6,592 ) | (1,913 ) |
| Inventories | (6,810 ) | 1,074 |
| Prepaid expenses and other current assets | (5,529 ) | (9,429 ) |
| Operating lease right-of-use assets and operating lease liabilities | 52 | — |
| Deferred costs | (1,248 ) | (4,811 ) |
| Notes receivable, net | 25 | 148 |
| Accounts payable | 7,497 | (2,702 ) |
| Accrued expenses | (1,555 ) | (559 ) |
| Related party payable | — | (1 ) |
| Other current liabilities | 599 | 455 |
| Deferred revenue | 13,993 | 22,372 |
| Other assets | (129 ) | 18 |
| Other liabilities | 1,663 | 52 |
| Net cash provided by operating activities | 37,471 | 3,925 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (5,660 ) | (2,604 ) |
| Proceeds from sale of assets | 65 | 318 |
| Purchase of studios | — | (390 ) |
| Purchase of intangible assets | (6,840 ) | (868 ) |
| Notes receivable issued | (1,782 ) | (1,000 ) |
| Notes receivable payments received | 2,643 | 563 |
| Net cash used in investing activities | (11,574 ) | (3,981 ) |
| Cash flows from financing activities: | | |
| Borrowings from long-term debt | 5,480 | 218,360 |
| Payments on long-term debt | (2,220 ) | (309,860 ) |
| Debt issuance costs | (49 ) | (904 ) |
| Proceeds from the issuance of Class A common stock, net of underwriting costs | — | 122,016 |
| Payments of costs related to IPO | — | (3,221 ) |
| 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 | (13,000 ) | (4,117 ) |
| Payment of contingent consideration | (1,336 ) | (12,006 ) |
| Payments on loans from related party (Note 10) | — | (85 ) |
| Member contributions | — | 562 |
| Payments for taxes related to net share settlement of restricted share units | (1,897 ) | — |
| Distributions to Member | — | (10,600 ) |
| Loan to shareholder | (3,300 ) | |
| Receipts from Member, net (Note 10) | — | 1,456 |
| Net cash provided by (used in) financing activities | (16,322 ) | 14,301 |
| Increase in cash, cash equivalents and restricted cash | 9,575 | 14,245 |
| Cash, cash equivalents and restricted cash, beginning of period | 21,320 | 11,299 |
| Cash, cash equivalents and restricted cash, end of period | $ 30,895 | $ 25,544 |

See accompanying notes to condensed consolidated financial statements.

**Xponential Fitness, Inc.**

**Condensed Consolidated Statements of Cash Flows**
**(Unaudited)**
**(amounts in thousands)**

| | Nine Months Ended September 30, 2022 | | Nine Months Ended September 30, 2021 | |
|---|---|---|---|---|
| Supplemental cash flow information: | | | | |
| Interest paid | $ | 8,013 | $ | 13,582 |
| Income taxes paid | | 2,570 | | 1,159 |
| Operating cash flows used in operating leases | | 2,783 | | — |
| Noncash investing and financing activity: | | | | |
| Capital expenditures accrued | $ | 1,536 | $ | 260 |
| 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 | | (19,794 ) | | 1,604 |
| Adjustment of redeemable noncontrolling interest | | — | | 13,148 |
| Deferred offering costs reclassified into equity | | — | | 4,429 |
| Accrued deemed dividend | | — | | 4,875 |
| Intangible asset acquired in exchange for deferred revenue | | 4,800 | | — |
| ROU assets obtained in exchange for new operating lease liabilities | | 10,305 | | — |

See accompanying notes to condensed 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 and entered into a series of transactions to implement an internal reorganization. Pursuant to a reorganization into a holding company structure, the Company is a holding company with its principal asset being an 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 September 30, 2022, the Company's portfolio of ten brands consists of: "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," a dance-based cardio workout concept that combines toning, interval and circuit training; "Pure Barre," a total body workout concept that uses the ballet barre to perform small isometric movements; "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 40 and 43 company-owned transition studios as of September 30, 2022 and 2021, respectively.

In connection with the IPO, XPO Inc. entered into a 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/(loss) is allocated to the noncontrolling interest to reflect the entitlement of the Continuing Pre-IPO LLC Members to a portion of XPO Holdings' net income or loss.

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 condensed 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 consolidates XPO LLC on its condensed consolidated financial statements and records a noncontrolling interest related to the Class B units held by the Class B stockholders on its condensed consolidated balance sheet and statement of operations.

**Basis of presentation** – The Company's condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). In the opinion of management, the Company has made all adjustments necessary to present fairly the condensed consolidated statements of operations, balance sheets, changes in stockholders'/member's equity (deficit), and cash flows for the periods presented. Such adjustments are of a normal, recurring nature. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Securities and Exchange Commission (the "SEC"). Interim results of operations are not necessarily indicative of results of operations to be expected for a full year.

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

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 condensed consolidated statement 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 and geographic information** –The Company operates in one reportable and operating segment. The Company generated $3,104 and $9,060 of revenue outside the United States during the three and nine months ended September 30, 2022, respectively, and $585 and $1,124 during the three and nine months ended September 30, 2021, respectively. As of September 30, 2022 and December 31, 2021, 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. In July 2022, the Company issued a $750 standby letter of credit to a third-party financing company, who provides loans to the Company's franchisees. The standby letter of credit is contingent upon the failure of franchisees to perform according to the terms of underlying contracts with the third party. The Company deposited cash in a restricted account as collateral for the standby letter of credit. Restricted cash was $3,382 and $1,427 at September 30, 2022 and December 31, 2021, respectively.

**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 September 30, 2022 and December 31, 2021, the allowance for doubtful accounts was $1,297 and $2,193, respectively.

**Accrued expenses** – Accrued expenses consisted of the following:

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Accrued compensation | $ 4,485 | $ 4,248 |
| Contingent consideration from acquisitions, current portion | 5,272 | 3,678 |
| Sales tax accruals | 4,697 | 6,003 |
| Legal accruals | 409 | 2,932 |
| Accrued deemed dividend | — | 3,250 |
| Other accruals | 3,955 | 934 |
| Total accrued expenses | $ 18,818 | $ 21,045 |

**Deferred offering costs –** Deferred offering costs, primarily consisted of legal, accounting and other fees relating to the Company's initial public offering. Upon consummation of the IPO in July 2021, total deferred offering costs of $7,650 were reclassified as additional paid-in capital within stockholders' equity and recorded against the proceeds of the IPO.

**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 condensed consolidated financial statements.

**Fair value measurements** – Accounting Standards Codification ("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 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.

**Noncontrolling interests** – Noncontrolling interests represent the economic interests of XPO LLC held by Class B common stockholders. Income or loss is attributed to the noncontrolling interests based on the weighted average LLC interests outstanding during the period. The noncontrolling interests' ownership percentage can fluctuate over time as the Class B common stockholders elect to exchange their shares of Class B common stock for Class A common stock.

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 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 per share adjusts the basic earnings per share calculation for the potential dilutive impact of common shares such as equity awards using the treasury-stock method. Diluted earnings 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.

For the three and nine months ended September 30, 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.

**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 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 three and nine months ended September 30, 2022 and 2021.

**Recently adopted accounting pronouncements** –

*Accounting for leases* – On January 1, 2022, the Company adopted ASU No. 2016-02, "Leases (Topic 842)" utilizing the effective date method for the initial application. Under Topic 842, the Company elected the package of practical expedients to not reassess (1) the classification of existing leases, (2) whether any expired or existing contracts are or contain leases and (3) initial direct costs for any existing leases. The Company did not elect the practical expedient pertaining to land easements, as it is not applicable to its leases. Additionally, the Company did not elect to use the practical expedient that permits a reassessment of lease terms for existing leases using hindsight. The Company's lease agreements generally contain lease and non-lease components. Non-lease components primarily include payments for common area maintenance. The Company applied the practical expedient as an accounting policy for classes of underlying assets that have fixed payments for non-lease components, to not separate non-lease components from lease components and instead to account for them together as a single lease component, which increases the amount of lease assets and corresponding liabilities. Payments under lease arrangements are primarily fixed, however, certain lease agreements contain variable payments, which are expensed as incurred and not included in the operating lease assets and liabilities.

As a result of the adoption of Topic 842, the condensed consolidated financial statements for 2022 are presented under the new standard, while the comparative periods presented are not adjusted and continue to be reported in accordance with the Company's historical accounting policy. This standard requires all lessees to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, for all leases with a term greater than 12 months. The adoption of the new lease standard had a significant impact on the Company's condensed consolidated balance sheets due to the recognition of $17,597 of right-of-use assets for operating leases and a corresponding lease obligation of $21,826 on January 1, 2022. The adoption of Topic 842 did not have a material impact on the Company's lease classification or on its statements of operations and liquidity. See Note 9, for information regarding the Company's adoption of Topic 842 and the Company's undiscounted future lease payments and the timing of those payments.

**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.

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

*Credit Losses* – In June 2016, the Financial Accounting Standards Board (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 condensed consolidated financial statements.

*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 condensed 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 condensed 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 nine months ended September 30, 2021, the Company entered into agreements with franchisees under which the Company repurchased five studios to operate as company-owned transition studios. The aggregate purchase price for the acquisitions was $390, less $60 of net deferred revenue and deferred costs resulting in total purchase consideration of $330. The following summarizes the aggregate fair values of the assets acquired and liabilities assumed:

| | | |
|---|---|---|
| Property and equipment | $ | 136 |
| Reacquired franchise rights | | 194 |
| Total purchase price | $ | 330 |

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. Inputs used in the methodologies primarily included sales forecasts, projected future cash flows and discount rate commensurate with the risk involved. The acquisition was not material to the results of operations of the Company.

During the nine months ended September 30, 2021, the Company refranchised 28 company-owned transition studios for aggregate proceeds of $318 and recorded a loss on disposal of the related studio assets of $362. During the nine months ended September 30, 2022, the Company refranchised 16 company-owned transition studios and received no proceeds and recorded no gain or loss on disposal of the studio assets. The Company is actively seeking to refranchise the remaining company-owned transition studios, although it 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 three and nine months ended September 30, 2022, the Company did not record any impairment charges. During the three and nine months ended September 30, 2021, the Company recorded $0 and $781 of impairment charges, respectively, which is a Level 3 measurement.

***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 condensed consolidated balance sheets. See Note 16 for additional information.

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.

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*).

(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.

***BodyFit Trademark***

In the quarter ended June 30, 2022, the Company entered into a Trademark Acquisition Agreement with Vitalize, LLC dba Bodybuilding.com (the "Seller") whereby the Company acquired all rights, titles, and interests in and to the BodyFit trademark in the United States. The acquisition was recorded as an asset acquisition. The aggregate purchase consideration for the acquisition was $10,300. The purchase price consisted of $5,500 of cash consideration, which was paid in July 2022, and $4,800 of noncash consideration, which was recorded as a contract liability. The noncash consideration relates to signing of a brand fee agreement (as defined in Note 4) where the Seller has access to the Company's franchisees to sell its products to franchisees over the term of the agreement. The fair value of the trademark was determined using the relief from royalty method and is considered to have a 10-year life. The fair value of the contract liability was determined using the total fair value of the asset acquired reduced by the amount of cash consideration provided. The Trademark Acquisition Agreement is subject to termination due to a third-party right of first refusal. The likelihood of exercise of the right of first refusal was considered remote as of September 30, 2022.

***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.

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

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.

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 three and nine months ended September 30, 2021, the Company incurred $0 and $307, respectively, of transaction costs directly related to the Rumble acquisition, which is included in acquisition and transaction expenses in the condensed 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 condensed 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 nine months ended September 30, 2022. Other deferred revenue amounts of $16,367 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 December 31, 2021 | $ 100,653 | $ 5,980 | $ 106,633 |
| Revenue recognized that was included in deferred revenue at the beginning of the year | (16,073 ) | (2,456 ) | (18,529 ) |
| Deferred revenue recorded as settlement in purchase accounting | (240 ) | — | (240 ) |
| Increase, excluding amounts recognized as revenue during the year | 28,398 | 4,601 | 32,999 |
| Balance at September 30, 2022 | $ 112,738 | $ 8,125 | $ 120,863 |

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 September 30, 2022. 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 |
|---|---|---|---|
| Remainder of 2022 | $ 1,927 | $ 1,454 | $ 3,381 |
| 2023 | 10,563 | 4,280 | 14,843 |
| 2024 | 12,360 | 1,564 | 13,924 |
| 2025 | 13,192 | 414 | 13,606 |
| 2026 | 13,304 | 413 | 13,717 |
| Thereafter | 61,392 | — | 61,392 |
| | $ 112,738 | $ 8,125 | $ 120,863 |

The following table reflects the components of deferred revenue:

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Franchise and area development fees | $ 112,738 | $ 100,653 |
| Brand fees | 8,125 | 5,980 |
| Equipment and other | 16,367 | 11,805 |
| Total deferred revenue | 137,230 | 118,438 |
| Non-current portion of deferred revenue | 108,191 | 95,691 |
| Current portion of deferred revenue | $ 29,039 | $ 22,747 |

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

**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 condensed consolidated balance sheets. The associated expense is classified within costs of franchise and service revenue in the condensed consolidated statements of operations. At September 30, 2022 and December 31, 2021, there were approximately $3,637 and $3,071 of current deferred costs and approximately $42,921 and $41,941 in non-current deferred costs, respectively. The Company recognized franchise sales commission expense of approximately $2,968 and $8,318 for the three and nine months ended September 30, 2022 respectively, and $1,513 and $3,962 for the three and nine months ended September 30, 2021, 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 10 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 condensed 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 condensed consolidated statements of cash flows.

At September 30, 2022 and December 31, 2021, the principal balance of the notes receivable was approximately $5,599 and $7,473, 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 September 30, 2022 and December 31, 2021, the Company has reserved approximately $566 and $2,139 as uncollectible notes receivable, respectively.

**Note 6 – Property and equipment**

Property and equipment consisted of the following:

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Furniture and equipment | $ 3,580 | $ 3,393 |
| Computers and software | 12,990 | 8,686 |
| Vehicles | 171 | 12 |
| Leasehold improvements | 7,026 | 6,481 |
| Construction in progress | 2,271 | 982 |
| Less: accumulated depreciation | (9,425) | (6,781) |
| Total property and equipment | $ 16,613 | $ 12,773 |

Depreciation expense for the three and nine months ended September 30, 2022 was $1,054 and $2,720, respectively, and $705 and $2,159 for the three and nine months ended September 30, 2021, respectively.

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

**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.

Goodwill at September 30, 2022 decreased to $165,697 from $169,073 at December 31, 2021. The $3,376 decrease was due to an impairment charge of $3,376 recognized in the third quarter of 2022 included within selling, general and administrative expenses. This amount represents the accumulated total of impairments recognized to date related to goodwill.

During the quarter ended September 30, 2022, the Company determined it was necessary to re-evaluate goodwill of the AKT reporting unit for impairment due to impacts arising from litigation resulting in decline in forecasted and actual cash flows. Therefore, the Company performed a quantitative assessment of the fair value of the reporting unit using an income approach with assumptions that are considered Level 3 inputs and concluded that the carrying value of the AKT reporting unit exceeded its fair value, resulting in a goodwill impairment of $3,376. The fair value of the reporting unit was determined by discounting estimated future cash flows, which were calculated based on revenue and expense long-term growth assumptions ranging from 2.0% to 5.0%, at a weighted average cost of capital (discount rate) of 16.0%. In addition, the Company determined that the trademark and franchise agreements intangible assets related to the AKT reporting unit were also impaired and recognized an impairment loss of $280 in the third quarter of 2022.

Intangible assets consisted of the following:

| | | September 30, 2022 | | | December 31, 2021 | | |
|---|---|---|---|---|---|---|---|
| | **Amortization period (years)** | **Gross amount** | **Accumulated amortization** | **Net amount** | **Gross amount** | **Accumulated amortization** | **Net amount** |
| Trademarks | 10 | $ 21,110 | $ (2,078) | $ 19,032 | $ 10,920 | $ (794) | $ 10,126 |
| Franchise agreements | 7.5 – 10 | 69,100 | (23,111) | 45,989 | 69,500 | (17,166) | 52,334 |
| Non-compete agreement | 5 | 1,400 | (1,400) | — | 1,400 | (1,282) | 118 |
| Web design and domain | 3 – 10 | 430 | (168) | 262 | 430 | (86) | 344 |
| Deferred video production costs | 3 | 3,709 | (1,881) | 1,828 | 2,370 | (1,036) | 1,334 |
| Total definite-lived intangible assets | | 95,749 | (28,638) | 67,111 | 84,620 | (20,364) | 64,256 |
| Indefinite-lived intangible assets: | | | | | | | |
| Trademarks | N/A | 72,607 | — | 72,607 | 72,607 | — | 72,607 |
| Total intangible assets | | $ 168,356 | $ (28,638) | $ 139,718 | $ 157,227 | $ (20,364) | $ 136,863 |

Amortization expense was $3,100 and $8,505, for the three and nine months ended September 30, 2022, respectively, and $1,671 and $4,679 for the three and nine months ended September 30, 2021, respectively.

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

| | |
|---|---|
| Remainder of 2022 | $ 2,908 |
| 2023 | 11,239 |
| 2024 | 10,813 |
| 2025 | 10,296 |
| 2026 | 7,481 |
| Thereafter | 24,374 |
| Total | $ 67,111 |

**Note 8 – Debt**

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. 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 began on 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 XPO Holdings and certain of the Company’s material subsidiaries and are secured by substantially all of the assets of XPO Holdings 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% (9.19% at September 30, 2022).

The Credit Agreement also contains mandatory prepayments of the Term Loans with: (i) 50% of the XPO Holdings’ 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 September 30, 2022, 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.

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

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 nine months ended September 30, 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 quarter ended September 30, 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 loans 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.

On September 30, 2022, the Company entered into a third amendment (the “Third Amendment”) to the Credit Agreement. The Third Amendment provides for, among other things, additional term loans in an aggregate principal amount of $7,500 (the “2022 Incremental Term Loan”), the proceeds of which were used for the acquisition of BodyFit trademark and general corporate purposes, including funding working capital and the payment of fees, costs and expenses related to the Third Amendment. The Company received $5,502 in September 2022 and the remaining $1,998 in principal amount was received in October 2022. The Third Amendment also (i) increased the amount of the quarterly principal payments of the loans provided pursuant to the Credit Agreement (including the 2022 Incremental Term Loan) commencing on December 31, 2022 to $759 and (ii) amended the amount of the prepayment premium applicable in the event the 2022 Incremental Term Loan is prepaid within two years of the effective date of the Third Amendment.

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 condensed consolidated statement of operations for $3,707 for the nine months ended September 30, 2021.

The Company incurred debt issuance costs of $49 and $904 in the nine months ended September 30, 2022 and 2021, respectively. Debt issuance cost amortization amounted to approximately $30 and $94 for the three and nine months ended September 30, 2022, respectively, and $372 and $5,722 for the three and nine months ended September 30, 2021, respectively. Unamortized debt issuance costs as of September 30, 2022 and December 31, 2021 were $296 and $341, respectively, and are presented as a reduction to long-term debt in the condensed consolidated balance sheets.

Principal payments on outstanding balances of long-term debt as of September 30, 2022 were as follows:

| | | Amount |
|---|---|---|
| Remainder of 2022 | $ | 759 |
| 2023 | | 3,035 |
| 2024 | | 3,035 |
| 2025 | | 129,654 |
| Total | $ | 136,483 |

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

The carrying value of the Company's long-term debt approximated fair value as of September 30, 2022 and December 31, 2021, 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 – Leases**

The Company leases office space, company-owned transition studios, warehouse, training centers and video recording studio. Certain real estate leases include one or more options to renew. The exercise of lease renewal options is at the Company's sole discretion. When deemed reasonably certain of exercise, the renewal options are included in the determination of the lease term and lease payment obligation, respectively. The depreciable life of assets and leasehold improvements are limited by the expected lease term. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Right-of-use ("ROU") assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date of the lease based on the present value of lease payments over the lease term. When readily determinable, the Company uses the rate implicit in the lease contract in determining the present value of lease payments. If the implicit rate is not provided, the Company uses its incremental borrowing rate based on information available at the lease commencement date, including the lease term. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company lease terms may include options to extend or terminate the lease. Currently, it is not reasonably certain that the Company will exercise those options and therefore, the Company utilized the initial, noncancelable, lease term to calculate the lease assets and corresponding liabilities for all leases. The Company has certain insignificant short-term leases with an initial term of twelve months or less that are not recorded in the condensed consolidated balance sheets. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company applied the practical expedient as an accounting policy for classes of underlying assets that have fixed payments for non-lease components, to not separate non-lease components from lease components and instead to account for them together as a single lease component, which increases the amount of lease assets and corresponding liabilities.

Supplemental balance sheet information related to leases is summarized as follows:

| Operating leases | Balance Sheet Location | | September 30, 2022 |
|---|---|---|---|
| ROU assets, net | Right-of-use assets | $ | 22,738 |
| Lease liabilities, short-term | Other current liabilities | $ | 2,767 |
| Lease liabilities, long-term | Lease liability | $ | 24,472 |

Components of lease expense during the three and nine months ended September 30, 2022, are summarized as follows:

| | Three Months Ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | Related-party lease | | Third-party leases | | Total | |
| Operating lease costs | $ | 80 | $ | 983 | $ | 1,063 |
| Variable lease costs | | — | | 207 | | 207 |
| Short-term lease costs | | — | | — | | — |
| Total | $ | 80 | $ | 1,190 | $ | 1,270 |

| | Nine Months Ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | Related-party lease | | Third-party leases | | Total | |
| Operating lease costs | $ | 239 | $ | 2,513 | $ | 2,752 |
| Variable lease costs | | — | | 594 | | 594 |
| Short-term lease costs | | — | | 108 | | 108 |
| Total | $ | 239 | $ | 3,215 | $ | 3,454 |

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

Supplemental cash flow information related to operating leases during the three and nine months ended September 30, 2022, is summarized as follows:

| | Three Months Ended September 30 |
|---|---|
| Cash paid for amounts included in the measurement of operating lease liabilities | $ 1,038 |

| | Nine Months Ended September 30 |
|---|---|
| Cash paid for amounts included in the measurement of operating lease liabilities | $ 2,783 |

Other information related to leases as of September 30, 2022 is summarized as follows:

| | |
|---|---|
| Weighted average remaining lease term (years) | 7.82 |
| Weighted average discount rate | 9 % |

Maturities of lease liabilities as of September 30, 2022 are summarized as follows:

| | Amount |
|---|---|
| Remainder of 2022 | $ 1,241 |
| 2023 | 4,966 |
| 2024 | 4,987 |
| 2025 | 4,891 |
| 2026 | 4,954 |
| Thereafter | 16,360 |
| Total future lease payments | 37,399 |
| Less: imputed interest | 10,160 |
| Total | $ 27,239 |

**Note 10 – 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 three and nine months ended September 30, 2021, the Company recorded approximately $63 and $462 of management fees included within selling, general and administrative 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 2020, the Company provided net funds to an affiliate of the Parent aggregating $1,456, which was recorded as a reduction to member's equity. During the nine months ended September 30, 2021, the Parent repaid the balance of the receivable. The aggregate receivable from the Parent at September 30, 2021 was $0.

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. In July 2022, the Company entered into a settlement agreement with the Rumble sellers to resolve disputes related to the acquisition and related agreements. Under the terms of the settlement, the Company will prospectively reduce the interest rate on the debt financing provided to the Rumble sellers from 11% per annum to 7.5% per annum if payment is in cash or 10% per annum if payment is in payment in kind and extend the maturity date of the debt financing. In August 2022, the Rumble sellers borrowed an additional $3,300 under the debt financing agreement which was recorded as receivable from shareholder within equity. At September 30, 2022, the Company recorded $319 of interest in kind, which was recorded as an increase to receivable from shareholder within equity. In addition, the Company agreed to fund additional loans to the Rumble sellers under the existing debt financing agreement in an aggregate amount of $7,650 at various dates through July 2023.

The Company's Chief Executive Officer is the sole owner of ICI, which previously provided unsecured loans to the Company, which loaned 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 accrued interest at the time the loan was made, which was recorded as interest expense. The notes receivable begin to accrue interest 45 days after the issuance to the franchisee. At September 30, 2022 and December 31, 2021, the Company had recorded $96 and $96 of notes receivable, respectively. The notes payable were repaid in 2021. The Company recognized $3 and $8 of interest income in the three and nine months ended September 30, 2022, respectively, and $3 and $9 in the three and nine months ended September 30, 2021. The Company did not record any interest expense for the three and nine months ended September 30, 2022, respectively. During the three and nine months ended September 30, 2021, the Company recorded $0 and $5 of interest expense, 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. The Company recorded expense related to this lease of $80 and $239 in the three and nine months ended September 30, 2022, respectively, and $78 and $233 in the three and nine months ended September 30, 2021, respectively. In September 2022, the Company's Chief Executive Officer sold the building to an unaffiliated third party. The Company entered into a building lease agreement with the new owner.

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, package and memberships revenue, and merchandise revenue, were $679 and $2,018 for the three and nine months ended September 30, 2022, respectively, and $612 and $1,210 for the three and nine months ended September 30, 2021, respectively. Included in accounts receivable as of September 30, 2022 and December 31, 2021, is $6 and $320, respectively, for such sales. At September 30, 2022 and December 31, 2021, notes receivable from franchisees includes $0 and $294 and notes receivable from franchisees, net of current portion includes $1,921 and $1,744, respectively, related to financing provided to these affiliates.

**Note 11 – 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 ASC Topic 815, *Derivatives and Hedging*. 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 September 30, 2022.

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 an 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 condensed 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 September 30, 2022, the Company recognized the preferred maximum redemption value of $257,096, which is the maximum redemption value on the earliest redemption date based on fair market value per share of Convertible Preferred (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 200,000 outstanding shares of Convertible Preferred). The recording of the preferred maximum redemption value was treated as deemed contribution, which was not included in the calculation of earnings per share, and resulted in a net increase of $19,794 to additional paid-in-capital.

**Note 12 – Member's/Stockholder's Equity (Deficit)**

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

*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. On April 6, 2022, the Company entered into an underwriting agreement with certain existing stockholders, affiliates of H&W Investco (the "Selling Stockholders") and certain underwriters named therein, pursuant to which the Selling Stockholders sold 4,500,000 shares of Class A common stock at a price of $20.00 per share. All of the shares sold in this offering were offered by the Selling Stockholders. In addition, the Selling Stockholders granted the underwriters a 30-day option to purchase up to an additional 675,000 shares of the Company's Class A common stock, which was exercised on April 7, 2022. The shares sold in the offering consisted of (i) 2,479,342 existing shares of Class A common stock and (ii) 2,695,658 newly-issued shares of Class A common stock issued in connection with the exchange of LLC units held by the Selling Stockholders. The Company did not receive any proceeds from the sale of shares of Class A common stock offered by the Selling Stockholders. Simultaneously, 2,695,658 Class B shares were surrendered by the Selling Stockholders and canceled. Additionally, during the three and nine months ended September 30, 2022, pursuant to the Amended LLC agreement, certain Continuing Pre-IPO LLC Members exchanged their LLC units for 63,435 and 601,993 shares of Class A common stock on a one-for-one basis, respectively.

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

*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 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 are 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.

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.

During 2022, the Company experienced a change in noncontrolling interests ownership due to the conversion of Class B to Class A shares and as such, has rebalanced the related noncontrolling interests balance. The Company calculated the rebalancing based on the net assets of XPO LLC, after considering the preferred shareholders' claim on the net assets of XPO LLC. The Company used the liquidation value of the preferred shares for such rebalancing.

The following table summarizes the ownership of XPO LLC as of September 30, 2022:

| Owner | Units Owned | Ownership percentage |
|---|---|---|
| XPO Inc. | 27,560,549 | 56 % |
| Noncontrolling interests | 21,650,669 | 44 % |
| Total | 49,211,218 | 100 % |

## Note 13 – Equity Compensation

***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. Stock-based compensation related to profit interest units increases noncontrolling interests.

In June 2021, the Parent amended previously issued profit interest units with performance-based vesting conditions that were based on performance targets connected to the value received from change of control of the Parent. 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. In March 2022, the units vested when the average trading price condition was met. During the nine months ended September 30, 2022, the Company recognized $12,003 of expense, including $8,467 of accelerated compensation expense when these grants vested in March 2022.

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

The fair value of the time-based grants was 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. The Company recognized $24 and $171 of expense during the three and nine months ended September 30, 2022, respectively, and $137 and $808 in the three and nine months ended September 30, 2021, respectively. At September 30, 2022, the Company had $40 of unrecognized compensation expense. The unrecognized compensation expense is expected to be recognized over a weighted average period of approximately 0.84 years for the time-based grants.

***Liability Classified Restricted stock units*** –

In November 2021, the Company granted restricted stock unit ("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 September 30, 2022, 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.

During the three and nine months ended September 30, 2022, the Company recognized $623 and $1,865 of expense, respectively. At September 30, 2022, the Company had $5,658 of unrecognized expense relating to these grants.

***Equity Classified Restricted stock units*** –

The following table summarizes activity for RSUs for the three and nine months ended September 30, 2022:

| | Shares |
|---|---|
| Outstanding at December 31, 2021 | 1,122,877 |
| Issued | 1,274,422 |
| Vested | — |
| Forfeited, expired, or canceled | (37,663 ) |
| Outstanding at March 31, 2022 | 2,359,636 |
| Issued | 247,643 |
| Vested | (53,571 ) |
| Forfeited, expired, or canceled | (3,684 ) |
| Outstanding at June 30, 2022 | 2,550,024 |
| Issued | 15,022 |
| Vested | (427,629 ) |
| Forfeited, expired, or canceled | (16,256 ) |
| Outstanding at September 30, 2022 | 2,121,161 |

During the three and nine months ended September 30, 2022, the Company granted 15,022 and 1,537,087 RSUs, respectively, at a weighted average grant-date fair value of $17.36 and $19.62 per share. RSUs are valued at the Company's closing stock price on the date of grant, and generally vest over a one- to four-year period. Compensation expense for RSUs is recognized on a straight-line basis.

Included in the RSUs described above, the Company granted 170,767 performance-based RSUs at a weighted average grant-date closing price of $18.25 per share. The performance-based RSUs are recognized as expense on a straight-line basis over the vesting period of three to four years. Management performs a regular assessment to determine the likelihood of meeting the related metrics and adjusts the expense recognized if necessary. As of September 30, 2022, the achievement of performance metrics is considered probable.

Total compensation expense recognized for restricted stock units was $3,597 and $9,881 for the three and nine months ended September 30, 2022, respectively, and $783 for the three and nine months ended September 30, 2021. Due to the Company's full valuation allowance on its net deferred tax assets, there is no income tax benefit on the unvested RSUs. During the three and nine months ended September 30, 2022, the Company recognized an income tax benefit of $388 and $434 on vested RSUs, respectively.

At September 30, 2022, the Company had $32,400 of total unrecognized compensation expense related to non-vested RSUs. That cost is expected to be recognized over a weighted-average period of 3.1 years.

**Note 14 – 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 condensed 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 its 56% economic interest in XPO Holdings.

The provision for income taxes differs from the amount of income tax computed by applying the applicable U.S. statutory federal income tax rate of 21% to income (loss) before income taxes due to XPO Holdings' pass-through structure for U.S. income tax purposes, state taxes, preferred stock dividends, non-deductible expenses, change in fair value of contingent consideration and the valuation allowance against the deferred tax asset. The effective tax rate for the three and nine months ended September 30, 2022 is 0.03% and (0.02%), respectively. The effective tax rate for the three and nine months ended September 30, 2021 is (1.17%) and (1.82%), respectively. During the three and nine months ended September 30, 2022, the Company recognized income tax benefit of $308 and $158 on its share of pre-tax book income (loss), exclusive of the noncontrolling interest of 44%. During the three and nine months ended September 30, 2021, the Company recognized income tax expense of $103 and $387 on its share of pre-tax book income (loss), exclusive of the noncontrolling interest of 49%.

As of September 30, 2022, management determined based on applicable accounting standards and the weight of all available evidence, it was not more likely than not ("MLTN") that the Company will generate sufficient taxable income to realize its deferred tax assets including the difference in tax basis in excess of the financial reporting value for its investment in XPO Holdings. Consequently, the Company has established a full valuation allowance against its deferred tax assets as of September 30, 2022. In the event that management subsequently determines that it is MLTN that the Company will realize its deferred tax assets in the future over the recorded amount, a decrease to the valuation allowance will be made, which will reduce the provision for income taxes.

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 September 30, 2022, the Company has not booked any income tax provision/(benefit) for the impact for the CARES Act due to the pass-through treatment of XPO Holdings. The Company has deferred payroll taxes of approximately $325 as of September 30, 2022 and December 31, 2021, 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 Tax Receivable Agreement ("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 September 30, 2022, 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 $3,076 of the TRA, $56,294 of the TRA liability was not recorded as of September 30, 2022. 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 15 – Earnings (Loss) Per Share**

For the three and nine months ended September 30, 2022 and 2021, basic earnings (loss) per share has been calculated by dividing net income (loss) attributable to Class A common stockholders by the weighted average number of shares of Class A common stock outstanding for the period. Diluted earnings (loss) per share has been calculated in a manner consistent with that of basic earnings (loss) per share while considering all potentially dilutive shares of Class A common stock outstanding during the period.

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 (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 (loss) per share at the subsidiary level, the amounts presented as net income (loss) attributable to noncontrolling interests and net income (loss) attributable to XPO Inc. presented below will not agree to the amounts presented on the condensed consolidated statement of operations.

Diluted earnings (loss) per share attributable to common stockholders adjusts the basic earnings or losses 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 was calculated using the as-if-converted method. The potentially dilutive impact of restricted stock units was calculated using the treasury stock method. Because the Company reported net losses for the three months ended September 30, 2022 and the three and nine months ended September 30, 2021, 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 earnings per share for the three and nine months ended September 30, 2022:

| | Three Months Ended September 30, 2022 | Three Months Ended September 30, 2021 | Nine Months Ended September 30, 2022 | Nine Months Ended September 30, 2021 |
|---|---|---|---|---|
| Numerator: | | | | |
| Net income (loss) | $ (13,056) | $ (8,904) | $ 3,242 | $ (21,655) |
| Less: net income (loss) attributable to noncontrolling interests | 33,271 | 9,452 | (6,295) | 22,203 |
| Less: dividends on preferred shares | (3,250) | (2,492) | (9,750) | (2,492) |
| Less: deemed contribution (dividend) | (57,096) | (6,500) | 19,794 | (6,500) |
| Net income (loss) attributable to XPO Inc. - basic | $ (40,131) | $ (8,444) | $ 6,991 | $ (8,444) |
| Add: net income (loss) attributable to non-controlling interests | - | - | 6,295 | - |
| Add: dividends on preferred shares | - | - | 9,750 | - |
| Less: deemed contributions (dividend) | - | - | (19,794) | - |
| Net income (loss) attributable to XPO Inc. - diluted | $ (40,131) | $ (8,444) | $ 3,242 | $ (8,444) |
| Denominator: | | | | |
| Weighted average shares of Class A common stock outstanding - basic | 26,156,418 | 22,146,011 | 24,781,778 | 22,146,011 |
| Effect of dilutive securities: | | | | |
| Rumble Class A common stock | - | - | 1,300,032 | - |
| Restricted stock units | - | - | 538,693 | - |
| Convertible preferred stocks | - | - | 13,888,889 | - |
| Conversion of Class B common stock to Class A common stock | - | - | 22,313,345 | - |
| Weighted average shares of Class A common stock outstanding - diluted | 26,156,418 | 22,146,011 | 62,822,737 | 22,146,011 |
| | | | | |
| Net earnings (loss) per share attributable to Class A common stock - basic | $ (1.53) | $ (0.38) | $ 0.28 | $ (0.38) |
| Net earnings (loss) per share attributable to Class A common stock - diluted | $ (1.53) | $ (0.38) | $ 0.05 | $ (0.38) |
| Shares excluded from diluted earnings (loss) per share of Class A common stock: | | | | |
| Rumble Class A common stock | 1,300,032 | 1,300,032 | - | 1,300,032 |
| Restricted stock units | 2,121,161 | 821,308 | - | 821,308 |
| Convertible preferred stocks | 13,888,889 | 13,888,889 | - | 13,888,889 |
| Conversion of Class B common stock to Class A common stock | 21,650,669 | 22,963,246 | - | 22,963,246 |
| Profits interests, performance vesting | - | 1,934,550 | - | 1,934,550 |
| Rumble contingent shares | 2,024,445 | 2,024,445 | 2,024,445 | 2,024,445 |
| Profits interests, time vesting | 15,303 | 250,106 | 15,303 | 250,106 |

**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 condensed consolidated balance sheet as of December 31, 2021 an amount which approximates the settlement amount when combined with pre-existing obligations. The settlement amount was paid in full in March 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 $409 and $2,931 which is included in accrued expenses in the condensed consolidated balance sheets as of September 30, 2022 and December 31, 2021, 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 $242 and $744 of additional contingent consideration as interest expense for the three and nine months ended September 30, 2021, respectively. 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. During the three and nine months ended September 30, 2022, the Company recorded an increase of $120 and $380 to contingent consideration, respectively, which was recorded as acquisition and transaction expenses. During the three and nine months ended September 30, 2021, the Company recorded an increase of $80 and $420 to contingent consideration, respectively, which was recorded as acquisition and transaction expenses. As of September 30, 2022 and December 31, 2021, contingent consideration totaled approximately $1,220 and $840, 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. 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 made payments to the sellers aggregating $6,500, which was recorded at the settlement date using a discount rate of 8.345%. 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 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, were contingent on Stride reaching milestones for opening two franchise studios and membership enrollments for such studios at various dates through 2021. 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 three and nine months ended September 30, 2022, the Company recorded an increase of $16,170 and a decrease of $6,030 to contingent consideration, which was recorded as acquisition and transaction expense (income). During the three and nine months ended September 30, 2021, the Company recorded an increase of $2,800 to contingent consideration, which was recorded as acquisition and transaction expenses. At September 30, 2022 and December 31, 2021, contingent consideration totals $42,170 and $48,200, respectively, recorded as contingent consideration from acquisitions in the condensed 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 three and nine months ended September 30, 2022, the Company recorded $154 and $496 of additional contingent consideration, which was recorded as interest expense, respectively. During the three and nine months ended September 30, 2022, the Company recorded $0 and ($141) of additional contingent consideration, which was recorded as acquisition and transaction expense (income), respectively. In addition, during the three and nine months ended September 30, 2022, the Company paid $0 and $1,336 of contingent consideration. At September 30, 2022 and December 31, 2021, contingent consideration was $5,272 and $3,678 recorded as accrued expenses, respectively, and $3,265 and $5,841 recorded as contingent consideration from acquisitions, respectively, in the condensed consolidated balance sheets.

**Note 17 – Subsequent Events**

In October 2022, the Rumble sellers borrowed an additional $1,750 under the debt financing agreement which was recorded as receivable from shareholder within equity (see Note 10).

In October 2022, the remaining $1,998 in principal amount was received under the Third Amendment to the Credit Agreement (see Note 8).

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes thereto and the other financial information included elsewhere in this Quarterly Report on Form 10-Q. 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 Quarterly Report on Form 10-Q, 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 56% 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.

We operate 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 or international expansion agreements in 14 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, the largest franchised indoor rowing brand in the United States; AKT, a dance-based cardio workout combining toning, interval and circuit training; YogaSix, the largest franchised yoga brand in the United States; Pure Barre, a total body workout that uses the ballet barre to perform small isometric movements, and the largest Barre brand in the United States; 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 September 30, 2022, 2,219 studios were open in North America, and franchisees were contractually committed to open an additional 1,919 studios under existing franchise agreements. In addition, as of September 30, 2022, we had 266 studios open internationally, and our master franchisees were contractually obligated to sell licenses to franchisees to open an additional 920 new studios.

During the nine months ended September 30, 2022 and 2021, we generated revenue outside the United States of $9,060 and $1,124, respectively. As of September 30, 2022 and December 31, 2021, we did not have material assets located outside of the United States. No franchisee accounted for more than 5% of our revenue. We operate in one segment for financial reporting purposes.

**The COVID-19 Pandemic**

In 2020 and through most of 2021, 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 and restrictions 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. Our franchised studios have resumed operations as of September 30, 2022. We also experienced lower license sales and delays in new studios openings due to the COVID-19 pandemic.

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 Condensed Consolidated Financial Statements for additional information.

**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 Condensed 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 condensed consolidated balance sheets. During the three and nine months ended September 30, 2022, the Company paid $0 and $1,336 of contingent consideration, respectively.

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 Condensed Consolidated Financial Statements for additional information.

**Factors Affecting Our Results of Operations**

In addition to the impact of the risks 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 and domestic 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. In the U.S., we may from time to time consider acquisition of and partnership with certain complimentary assets or businesses that can enhance and expand our brands and operations.

•***Demand and competition for consumer 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 such as inflation and recession, 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 three and nine months ended September 30, 2022 and 2021:

| | Three Months Ended September 30, 2022 | Three Months Ended September 30, 2021 | Nine Months Ended September 30, 2022 | Nine Months Ended September 30, 2021 |
|---|---|---|---|---|
| | ($ in thousands) | | | |
| System-wide sales | $ 264,837 | $ 192,721 | $ 739,163 | $ 496,598 |
| Number of new studios openings globally, net | 128 | 80 | 355 | 236 |
| Number of studios operating globally (cumulative total as of period end) | 2,485 | 2,032 | 2,485 | 2,032 |
| Number of licenses sold globally (cumulative total as of period end)[1] | 5,193 | 4,123 | 5,193 | 4,123 |
| Number of licenses contractually obligated to open internationally (cumulative total as of period end) | 920 | 879 | 920 | 879 |
| AUV (LTM as of period end) | $ 475 | $ 355 | $ 475 | $ 355 |
| AUV (run rate) | $ 489 | $ 417 | NA | NA |
| Same store sales | 17 % | 65 % | 28 % | 36 % |
| Adjusted EBITDA[2] | $ 20,003 | $ 6,829 | $ 52,092 | $ 18,720 |

(1) Global franchise licenses sold are presented gross of terminations.

(2) The definition of adjusted EBITDA and a detailed reconciliation of adjusted EBITDA are set forth below under the section entitled "Non-GAAP Financial Measures".

The following table presents additional information related to our studio and license key performance indicators for the three and nine months ended September 30, 2022 and 2021:

| | Three Months Ended September 30, 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | North America | International | Global | North America | International | Global |
| Open Studios: | | | | | | |
| Open studios (beginning of period) | 2,123 | 234 | 2,357 | 1,826 | 126 | 1,952 |
| New studio openings, net | 96 | 32 | 128 | 65 | 15 | 80 |
| Open studios (end of period) | 2,219 | 266 | 2,485 | 1,891 | 141 | 2,032 |
| Franchise Licenses Sold: [1] | | | | | | |
| Franchise licenses sold (total beginning of period) | 4,466 | 469 | 4,935 | 3,573 | 280 | 3,853 |
| New franchise license sales | 209 | 49 | 258 | 236 | 34 | 270 |
| Franchise licenses sold (total end of period) | 4,675 | 518 | 5,193 | 3,809 | 314 | 4,123 |
| Studios Obligated to Open Internationally under MFAs: | | | | | | |
| Gross studios obligated to open under MFAs | | | 1,186 | | | 1,020 |
| Less: studios opened under MFAs | | | 266 | | | 141 |
| Remaining studios obligated to open under MFAs | | | 920 | | | 879 |
| Licenses sold by master franchisees, net [2] | | | 226 | | | 171 |

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| | North America | International | Global | North America | International | Global |
| Open Studios: | | | | | | |
| Open studios (beginning of period) | 1,954 | 176 | 2,130 | 1,714 | 82 | 1,796 |
| New studio openings, net | 265 | 90 | 355 | 177 | 59 | 236 |
| Open studios (end of period) | 2,219 | 266 | 2,485 | 1,891 | 141 | 2,032 |
| Franchise Licenses Sold: (1) | | | | | | |
| Franchise licenses sold (total beginning of period) | 4,062 | 362 | 4,424 | 3,275 | 194 | 3,469 |
| New franchise license sales | 613 | 156 | 769 | 534 | 120 | 654 |
| Franchise licenses sold (total end of period) | 4,675 | 518 | 5,193 | 3,809 | 314 | 4,123 |
| Studios Obligated to Open Internationally under MFAs: | | | | | | |
| Gross studios obligated to open under MFAs | | | 1,186 | | | 1,020 |
| Less: studios opened under MFAs | | | 266 | | | 141 |
| Remaining studios obligated to open under MFAs | | | 920 | | | 879 |
| Licenses sold by master franchisees, net (2) | | | 226 | | | 171 |

(1) Global franchise licenses sold are presented gross of terminations.

(2) Reflects the number of licenses for studios which have already been sold, but not yet opened, by master franchisees under master franchise agreements, net of terminations.

All metrics above, other than adjusted EBITDA, are presented on an adjusted basis to reflect 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-Q 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 fund revenue, respectively. We believe that this operating measure aids in understanding how we derive our royalty revenue and marketing fund 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 during a particular reporting period, net of studios no longer operating in the system. 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 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 operate a limited number of company-owned transition 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 be sold internationally reflect the number of licenses that master franchisees are contractually obligated to sell 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. Of the franchisees that opened their first studio in 2020, on average it took approximately 14.6 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***

Average Unit Volume ("AUV") is calculated by dividing sales during the applicable period for all studios being measured by the number of studios being measured. AUV (LTM as of period end) 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. Quarterly run-rate AUV consists of average quarterly sales for all studios that are at least six months old at the beginning of the respective quarter, multiplied by four. 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 (including change in contingent consideration), management fees and expenses (that were discontinued after July 2021), 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), secondary public offering expenses for which we do not receive proceeds, expense related to the remeasurement of our TRA obligation and expense related to loss on impairment of our brand intangible assets and goodwill 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 of other items 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 three and nine months ended September 30, 2022 and 2021:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | (in thousands) | | | |
| Net income (loss) | $ (13,056) | $ (8,904) | $ 3,242 | $ (21,655) |
| Interest expense, net | 2,931 | 5,512 | 7,851 | 21,073 |
| Income taxes | (308) | 103 | (158) | 387 |
| Depreciation and amortization | 4,154 | 2,376 | 11,225 | 6,838 |
| EBITDA | (6,279) | (913) | 22,160 | 6,643 |
| Equity-based compensation | 4,243 | 3,530 | 23,920 | 4,201 |
| Acquisition and transaction expenses (income) | 16,290 | 2,880 | (5,793) | 3,527 |
| Management fees and expenses | — | 63 | — | 462 |
| Litigation expenses | 1,015 | 1,089 | 8,374 | 3,707 |
| Employee retention credit | — | — | (2,597) | — |
| Secondary public offering expenses | — | — | 737 | — |
| TRA remeasurement | 1,078 | 180 | 1,635 | 180 |
| Impairment of brand assets | 3,656 | — | 3,656 | — |
| Adjusted EBITDA | $ 20,003 | $ 6,829 | $ 52,092 | $ 18,720 |

**Results of Operations**

The following table presents our condensed consolidated results of operations for the three and nine months ended September 30, 2022 and 2021:

| | Three Months Ended September 30, 2022 | Three Months Ended September 30, 2021 | Nine Months Ended September 30, 2022 | Nine Months Ended September 30, 2021 |
|---|---|---|---|---|
| | (in thousands) | | | |
| Revenue, net: | | | | |
| Franchise revenue | $ 30,006 | $ 19,985 | $ 83,128 | $ 51,504 |
| Equipment revenue | 11,770 | 6,750 | 31,930 | 15,571 |
| Merchandise revenue | 6,264 | 4,879 | 19,100 | 13,620 |
| Franchise marketing fund revenue | 5,172 | 3,706 | 14,544 | 9,503 |
| Other service revenue | 10,551 | 5,547 | 24,983 | 15,509 |
| Total revenue, net | 63,763 | 40,867 | 173,685 | 105,707 |
| Operating costs and expenses: | | | | |
| Costs of product revenue | 11,840 | 7,641 | 34,951 | 19,259 |
| Costs of franchise and service revenue | 4,811 | 3,169 | 13,589 | 8,615 |
| Selling, general and administrative expenses | 32,841 | 24,262 | 96,082 | 62,066 |
| Depreciation and amortization | 4,154 | 2,376 | 11,225 | 6,838 |
| Marketing fund expense | 4,260 | 3,828 | 12,696 | 9,304 |
| Acquisition and transaction expenses (income) | 16,290 | 2,880 | (5,793 ) | 3,527 |
| Total operating costs and expenses | 74,196 | 44,156 | 162,750 | 109,609 |
| Operating income (loss) | (10,433 ) | (3,289 ) | 10,935 | (3,902 ) |
| Other (income) expense: | | | | |
| Interest income | (402 ) | (343 ) | (1,209 ) | (796 ) |
| Interest expense | 3,333 | 5,855 | 9,060 | 21,869 |
| Gain on debt extinguishment | — | — | — | (3,707 ) |
| Total other expense | 2,931 | 5,512 | 7,851 | 17,366 |
| Income (loss) before income taxes | (13,364 ) | (8,801 ) | 3,084 | (21,268 ) |
| Income taxes | (308 ) | 103 | (158 ) | 387 |
| Net income (loss) | $ (13,056 ) | $ (8,904 ) | $ 3,242 | $ (21,655 ) |

The following table presents our condensed consolidated results of operations for the three and nine months ended September 30, 2022 and 2021 as a percentage of revenue:

| | Three Months Ended September 30, 2022 | Three Months Ended September 30, 2021 | Nine Months Ended September 30, 2022 | Nine Months Ended September 30, 2021 |
|---|---|---|---|---|
| Revenue, net: | | | | |
| Franchise revenue | 47 % | 49 % | 49 % | 49 % |
| Equipment revenue | 18 % | 16 % | 18 % | 15 % |
| Merchandise revenue | 10 % | 12 % | 11 % | 13 % |
| Franchise marketing fund revenue | 8 % | 9 % | 8 % | 9 % |
| Other service revenue | 17 % | 14 % | 14 % | 14 % |
| Total revenue, net | 100 % | 100 % | 100 % | 100 % |
| Operating costs and expenses: | | | | |
| Costs of product revenue | 19 % | 19 % | 20 % | 18 % |
| Costs of franchise and service revenue | 8 % | 8 % | 8 % | 8 % |
| Selling, general and administrative expenses | 51 % | 59 % | 55 % | 59 % |
| Depreciation and amortization | 7 % | 6 % | 6 % | 6 % |
| Marketing fund expense | 7 % | 9 % | 7 % | 9 % |
| Acquisition and transaction expenses (income) | 26 % | 7 % | (3 )% | 3 % |
| Total operating costs and expenses | 116 % | 108 % | 94 % | 104 % |
| Operating income (loss) | (16 )% | (8 )% | 6 % | (4 )% |
| Other (income) expense: | | | | |
| Interest income | (1 )% | (1 )% | (1 )% | (1 )% |
| Interest expense | 5 % | 14 % | 5 % | 21 % |
| Gain on debt extinguishment | — % | — % | — % | (4 )% |
| Total other expense | 5 % | 13 % | 5 % | 16 % |
| Income (loss) before income taxes | (21 )% | (21 )% | 1 % | (20 )% |
| Income taxes | — % | — % | — % | — % |
| Net income (loss) | (20 )% | (22 )% | 2 % | (20 )% |

**Three Months Ended September 30, 2022 versus 2021**

The following is a discussion of our consolidated results of operations for the three months ended September 30, 2022 versus the three months ended September 30, 2021.

***Revenue***

| | Three Months Ended September 30, 2022 | 2021 | Change from Prior Year $ | % |
|---|---|---|---|---|
| | ($ in thousands) | | | |
| Franchise revenue | $ 30,006 | $ 19,985 | $ 10,021 | 50.1 % |
| Equipment revenue | 11,770 | 6,750 | 5,020 | 74.4 % |
| Merchandise revenue | 6,264 | 4,879 | 1,385 | 28.4 % |
| Franchise marketing fund revenue | 5,172 | 3,706 | 1,466 | 39.6 % |
| Other service revenue | 10,551 | 5,547 | 5,004 | 90.2 % |
| Total revenue, net | $ 63,763 | $ 40,867 | $ 22,896 | 56.0 % |

*Total revenue.* Total revenue was $63.8 million in the three months ended September 30, 2022, compared to $40.9 million in the three months ended September 30, 2021, an increase of $22.9 million, or 56.0%. The increase in total revenue was primarily due to increase in same store sales and increase in open studios.

*Franchise revenue.* Franchise revenue was $30.0 million in the three months ended September 30, 2022, compared to $20.0 million in the three months ended September 30, 2021, an increase of $10.0 million, or 50.1%. Franchise revenue consisted of franchise royalty fees of $18.0 million, training fees of $2.1 million, franchise territory fees of $7.0 million and technology fees of $2.9 million in the three months ended September 30, 2022, compared to franchise royalty fees of $12.6 million, training fees of $2.0 million, franchise territory fees of $3.6 million and technology fees of $1.9 million in the three months ended September 30, 2021. The increase in franchise royalty fees, technology fees and training fees was primarily due to a 17% increase in same store sales and to 453 new studio openings globally since September 30, 2021, which also contributed to the increase in franchise territory fees.

*Equipment revenue.* Equipment revenue was $11.8 million in the three months ended September 30, 2022, compared to $6.8 million in the three months ended September 30, 2021, an increase of $5.0 million, or 74.4%. Most equipment revenue is recognized in the period when the equipment is installed. Global equipment installations in the three months ended September 30, 2022, totaled 136 compared to 76 in the prior year period, with a larger percentage of higher dollar installations in 2021.

*Merchandise revenue.* Merchandise revenue was $6.3 million in the three months ended September 30, 2022, compared to $4.9 million in the three months ended September 30, 2021, an increase of $1.4 million, or 28.4.%. 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 due to the COVID-19 pandemic.

*Franchise marketing fund revenue.* Franchise marketing fund revenue was $5.2 million in the three months ended September 30, 2022, compared to $3.7 million in the three months ended September 30, 2021, an increase of $1.5 million, or 39.6%. The increase was primarily due to an increase in same store sales, 328 new studio openings in North America since September 30, 2021 and a temporary reduction in the marketing fund percentage collected from 2% to 1% of the sales of franchisees while their studios were closed due to the COVID-19 pandemic in 2021.

*Other service revenue.* Other service revenue was $10.6 million in the three months ended September 30, 2022, compared to $5.5 million in the three months ended September 30, 2021, an increase of $5.0 million, or 90.2%. The increase was primarily due to a $5.1 million increase in other preferred vendor commission revenue and brand fee revenue; partially offset by a decrease in package and memberships revenue due to fewer company-owned transition studios.

***Operating Costs and Expenses***

| | Three Months Ended September 30, | | Change from Prior Year | |
|---|---|---|---|---|
| | 2022 | 2021 | $ | % |
| | ($ in thousands) | | | |
| Costs of product revenue | $ 11,840 | $ 7,641 | $ 4,199 | 55.0 % |
| Costs of franchise and service revenue | 4,811 | 3,169 | 1,642 | 51.8 % |
| Selling, general and administrative expenses | 32,841 | 24,262 | 8,579 | 35.4 % |
| Depreciation and amortization | 4,154 | 2,376 | 1,778 | 74.8 % |
| Marketing fund expense | 4,260 | 3,828 | 432 | 11.3 % |
| Acquisition and transaction expenses (income) | 16,290 | 2,880 | 13,410 | 465.6 % |
| Total operating costs and expenses | $ 74,196 | $ 44,156 | $ 30,040 | 68.0 % |

*Costs of product revenue.* Costs of product revenue was $11.8 million in the three months ended September 30, 2022, compared to $7.6 million in the three months ended September 30, 2021, an increase of $4.2 million, or 55.0%, compared to an increase in related revenues of 55.1%. Costs of product revenue as a percentage of related revenue was 65.7% in the three months ended September 30, 2022 and 2021.

*Costs of franchise and service revenue.* Costs of franchise and service revenue was $4.8 million in the three months ended September 30, 2022, compared to $3.2 million in the three months ended September 30, 2021, an increase of $1.6 million, or 51.8%. The increase was primarily due to a $1.5 million increase in franchise sales commissions, consistent with the related franchise territory revenue increase.

*Selling, general and administrative expenses.* Selling, general and administrative expenses were $32.8 million in the three months ended September 30, 2022, compared to $24.3 million in the three months ended September 30, 2021, an increase of $8.6 million, or 35.4%. The increase was primarily attributable to an increase in equity-based compensation of $0.7 million, primarily related to new grants; increase in legal expenses of $2.3 million related to various legal matters; increase in salaries and wages of $1.8 million related to payroll tax expense in connection with restricted stock units and the acquisition of BFT in October 2021; increase in impairment charges of $3.7 million related to impairment of intangible assets and goodwill of the AKT reporting unit in September 2022; and $0.1 million net increase in other variable expenses in 2022.

*Depreciation and amortization.* Depreciation and amortization expense was $4.2 million in the three months ended September 30, 2022, compared to $2.4 million in the three months ended September 30, 2021, an increase of $1.8 million, or 74.8%. The increase was due primarily to amortization of intangibles related to the BFT acquisition in October 2021 and the BodyFit trademark acquisition in the second quarter of 2022.

*Marketing fund expense.* Marketing fund expense was $4.3 million in the three months ended September 30, 2022, compared to $3.8 million in the three months ended September 30, 2021, an increase of $0.4 million, or 11.3% and is consistent with the increase in franchise marketing fund revenue.

*Acquisition and transaction expenses (income).* Acquisition and transaction expenses (income) were $16.3 million in the three months ended September 30, 2022, compared to $2.9 million in the three months ended September 30, 2021, a change of $13.4 million. These expenses represent the non-cash change in contingent consideration related to 2017 and 2021 business acquisitions.

***Other (Income) Expense, net***

| | Three Months Ended September 30, 2022 | 2021 | Change from Prior Year $ | % |
|---|---|---|---|---|
| | ($ in thousands) | | | |
| Interest income | $ (402) | $ (343) | $ (59) | 17.2 % |
| Interest expense | 3,333 | 5,855 | (2,522) | (43.1)% |
| Total other expense, net | $ 2,931 | $ 5,512 | $ (2,581) | (46.8)% |

*Interest income.* Interest income primarily consists of interest on notes receivable and was insignificant in each of the three-month periods ended September 30, 2022 and 2021.

*Interest expense*. Interest expense was $3.3 million in the three months ended September 30, 2022, compared to $5.9 million in the three months ended September 30, 2021, a decrease of $2.5 million, or 43.1%. Interest expense consists of interest on notes payable and long-term debt, accretion of earn-out liabilities and amortization of deferred loan costs and debt discount. The decrease was primarily due to lower average debt balance compared to the prior year and to write off of $2.5 million of deferred loan costs and debt discount and $0.4 million prepayment penalty incurred in the prior year period related to paydown of debt with IPO proceeds.

***Income Taxes***

| | Three Months Ended September 30, 2022 | 2021 | Change from Prior Year $ | % |
|---|---|---|---|---|
| | ($ in thousands) | | | |
| Income taxes | $ (308) | $ 103 | $ (411) | (399.0)% |

*Income taxes*. Income taxes (benefit) were ($0.3) million in the three months ended September 30, 2022, compared to $0.1 million in the three months ended September 30, 2021. In 2022, the Company is taxed as a corporation. Prior to the IPO in July 2021, the Company was a pass-through entity for income tax purposes.

**Nine Months Ended September 30, 2022 and 2021**

The following is a discussion of our consolidated results of operations for the nine months ended September 30, 2022 versus the nine months ended September 30, 2021.

***Revenue***

| | Nine Months Ended September 30, 2022 | Nine Months Ended September 30, 2021 | Change from Prior Year $ | Change from Prior Year % |
|---|---|---|---|---|
| | ($ in thousands) | | | |
| Franchise revenue | $ 83,128 | $ 51,504 | $ 31,624 | 61.4 % |
| Equipment revenue | 31,930 | 15,571 | 16,359 | 105.1 % |
| Merchandise revenue | 19,100 | 13,620 | 5,480 | 40.2 % |
| Franchise marketing fund revenue | 14,544 | 9,503 | 5,041 | 53.0 % |
| Other service revenue | 24,983 | 15,509 | 9,474 | 61.1 % |
| Total revenue, net | $ 173,685 | $ 105,707 | $ 67,978 | 64.3 % |

*Total revenue.* Total revenue was $173.7 million in the nine months ended September 30, 2022, compared to $105.7 million in the nine months ended September 30, 2021, an increase of $68.0 million, or 64.3%. The increase in total revenue was primarily due to reopening of studios that were temporarily closed or were operating under capacity restrictions in 2021 due to the COVID-19 pandemic and opening of new studios in 2022.

*Franchise revenue.* Franchise revenue was $83.1 million in the nine months ended September 30, 2022, compared to $51.5 million in the nine months ended September 30, 2021, an increase of $31.6 million, or 61.4%. Franchise revenue consisted of franchise royalty fees of $49.9 million, training fees of $6.0 million, franchise territory fees of $20.6 million and technology fees of $6.6 million in the nine months ended September 30, 2022, compared to franchise royalty fees of $32.2 million, training fees of $5.1 million, franchise territory fees of $9.6 million and technology fees of $4.7 million in the nine months ended September 30, 2021. The increase in franchise royalty fees, technology fees and training fees was primarily due to a 28% 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 453 new studio openings globally since September 30, 2021, which also contributed to the increase in franchise territory fees and technology fees.

*Equipment revenue.* Equipment revenue was $31.9 million in the nine months ended September 30, 2022, compared to $15.6 million in the nine months ended September 30, 2021, an increase of $16.4 million, or 105.1%. Most equipment revenue is recognized in the period that the equipment is installed. Global equipment installations in the nine months ended September 30, 2022, totaled 376 compared to 216 in the prior year period, primarily due to the increase of studio openings compared to prior year period.

*Merchandise revenue.* Merchandise revenue was $19.1 million in the nine months ended September 30, 2022, compared to $13.6 million in the nine months ended September 30, 2021, an increase of $5.5 million, or 40.2%. 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 due to the COVID-19 pandemic.

*Franchise marketing fund revenue.* Franchise marketing fund revenue was $14.5 million in the nine months ended September 30, 2022, compared to $9.5 million in the nine months ended September 30, 2021, an increase of $5.0 million, or 53.0%. The increase was primarily due to an increase in same store sales, 328 new studio openings in North America since September 30, 2021 and a temporary reduction in the marketing fund percentage collected from 2% to 1% of the sales of franchisees while their studios were closed due to the COVID-19 pandemic in 2021.

*Other service revenue.* Other service revenue was $25.0 million in the nine months ended September 30, 2022, compared to $15.5 million in the nine months ended September 30, 2021, an increase of $9.5 million, or 61.1%. The increase was primarily due to a $9.7 million increase in other preferred vendor commission revenue and brand fee revenue; partially offset by a decrease in package and memberships revenue due to fewer company-owned transition studios.

***Operating Costs and Expenses***

| | Nine Months Ended September 30, 2022 | 2021 | Change from Prior Year $ | % |
|---|---|---|---|---|
| | ($ in thousands) | | | |
| Costs of product revenue | $ 34,951 | $ 19,259 | $ 15,692 | 81.5 % |
| Costs of franchise and service revenue | 13,589 | 8,615 | 4,974 | 57.7 % |
| Selling, general and administrative expenses | 96,082 | 62,066 | 34,016 | 54.8 % |
| Depreciation and amortization | 11,225 | 6,838 | 4,387 | 64.2 % |
| Marketing fund expense | 12,696 | 9,304 | 3,392 | 36.5 % |
| Acquisition and transaction expenses (income) | (5,793 ) | 3,527 | (9,320 ) | (264.2 )% |
| Total operating costs and expenses | $ 162,750 | $ 109,609 | $ 53,141 | 48.5 % |

*Costs of product revenue.* Costs of product revenue was $35.0 million in the nine months ended September 30, 2022, compared to $19.3 million in the nine months ended September 30, 2021, an increase of $15.7 million, or 81.5%, compared to an increase in related revenues of 74.8%. Costs of product revenue as a percentage of related revenue increased to 68.5% in the nine months ended September 30, 2022, from 66.0% in the nine months ended September 30, 2021. The increase was due to a shift in equipment revenue mix in 2022.

*Costs of franchise and service revenue.* Costs of franchise and service revenue was $13.6 million in the nine months ended September 30, 2022, compared to $8.6 million in the nine months ended September 30, 2021, an increase of $5.0 million, or 57.7%. The increase was primarily due to a $4.4 million increase in franchise sales commissions, consistent with the related franchise territory revenue increase.

*Selling, general and administrative expenses.* Selling, general and administrative expenses were $96.1 million in the nine months ended September 30, 2022, compared to $62.1 million in the nine months ended September 30, 2021, an increase of $34.0 million, or 54.8%. The increase was primarily attributable to an increase in equity-based compensation of $19.7 million, primarily related to modification of performance-based awards in 2021 which vested in 2022 and new grants; an increase in accounting expenses of $2.4 million, primarily related to outsourcing of certain accounting functions and fees related to recovery of employee retention credit; increase in legal expenses of $6.8 million related to various legal matters; increase in insurance expense of $2.7 million; increase in impairment charges of $2.9 million; and $0.2 million net increase in other variable expenses in 2022; partially offset by a net decrease in salaries and wages expense of $0.7 million primarily attributable to employee retention credit recorded in the nine months ended September 30, 2022.

*Depreciation and amortization.* Depreciation and amortization expense was $11.2 million in the nine months ended September 30, 2022, compared to $6.8 million in the nine months ended September 30, 2021, an increase of $4.4 million, or 64.2%. The increase was due primarily to amortization of intangibles related to the BFT acquisition in October 2021 and the BodyFit trademark acquisition in the second quarter of 2022.

*Marketing fund expense.* Marketing fund expense was $12.7 million in the nine months ended September 30, 2022, compared to $9.3 million in the nine months ended September 30, 2021, an increase of $3.4 million, or 36.5% and is consistent with the increase in franchise marketing fund revenue.

*Acquisition and transaction expenses (income).* Acquisition and transaction expenses (income) were ($5.8) million in the nine months ended September 30, 2022, compared to $3.5 million in the nine months ended September 30, 2021, a decrease of  $9.3 million. These expenses represent the non-cash change in contingent consideration related to 2017 and 2021 business acquisitions and $0.3 million of expense in 2021 related to the Rumble acquisition.

***Other (Income) Expense, net***

| | Nine Months Ended September 30, 2022 | 2021 | Change from Prior Year $ | % |
|---|---|---|---|---|
| | ($ in thousands) | | | |
| Interest income | $ (1,209 ) | $ (796 ) | $ (413 ) | 51.9 % |
| Interest expense | 9,060 | 21,869 | (12,809 ) | (58.6 )% |
| Gain on debt extinguishment | — | (3,707 ) | 3,707 | NA |
| Total other expense, net | $ 7,851 | $ 17,366 | $ (9,515 ) | (54.8 )% |

*Interest income.* Interest income primarily consists of interest on notes receivable and was insignificant in each of the nine months ended September 30, 2022 and 2021.

*Interest expense*. Interest expense was $9.1 million in the nine months ended September 30, 2022, compared to $21.9 million in the nine months ended September 30, 2021, a decrease of $12.8 million, or 58.6%. Interest expense consists of interest on notes payable and long-term debt, accretion of earn-out liabilities and amortization of deferred loan costs and debt discount. The decrease was due primarily to lower average debt balance compared to the prior year and to write off of $7.5 million of deferred loan costs and debt discount and $2.3 million prepayment penalty incurred in the prior year period related to our credit agreement with Cerberus Business Finance Agency, LLC, which was replaced with a new credit facility in April 2021, and $115 million paydown of debt with IPO proceeds.

*Gain on debt extinguishment*. Gain on debt extinguishment of $3.7 million in the nine months ended September 30, 2021 represents the forgiveness of principal and interest on our Paycheck Protection Program loan.

***Income Taxes***

| | Nine Months Ended September 30, | | Change from Prior Year | |
|---|---|---|---|---|
| | 2022 | 2021 | $ | % |
| | ($ in thousands) | | | |
| Income taxes | $ (158 ) | $ 387 | $ (545 ) | (140.8 )% |

*Income taxes*. Income taxes (benefit) were ($0.2) in the nine months ended September 30, 2022, compared to $0.4 million in the nine months ended September 30, 2021. In 2022, the Company is taxed as a corporation. Prior to the IPO in July 2021, the Company was a pass-through entity for income tax purposes.

**Liquidity and Capital Resources**

As of September 30, 2022, we had $27.5 million of cash and cash equivalents, excluding $3.4 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”, as disclosed in our Form 10-K for the year ended December 31, 2021. 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.

***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, each a “Term Loan” and together, the “Term Loans”). 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 Loans 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% (9.19% at September 30, 2022).

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 2.0% 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 (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 September 30, 2022, 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.

Immediately following the IPO, on July 27, 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.

On September 30, 2022, we entered into a third amendment (the "Third Amendment") to the Credit Agreement. The Third Amendment provides for, among other things, additional term loans in an aggregate principal amount of $7.5 million (the "2022 Incremental Term Loan"), the proceeds of which were used for the acquisition of BodyFit trademark and general corporate purposes, including funding working capital and the payment of fees, costs and expenses related to the Third Amendment. We received $5.5 million in September 2022 and the remaining $2.0 million of the principal amount was received in October 2022. The Third Amendment also (i) increased the amount of the quarterly principal payments of the loans provided pursuant to the Credit Agreement (including the 2022 Incremental Term Loan) commencing on December 31, 2022 and (ii) amended the amount of the prepayment premium applicable in the event the 2022 Incremental Term Loan is prepaid within two years of the effective date of the Third Amendment.

The total principal amount outstanding on the Term Loan, the 2021 Incremental Term Loan, and the 2022 Incremental Term Loan was $136.5 million at September 30, 2022.Quarterly principal payments of $0.8 million on the Term Loan as amended are due beginning December 31, 2022.

At September 30, 2022, there had been no material changes in our cash requirements from known contractual and other obligations as disclosed in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of our Annual Report on Form 10-K for the year ended December 31, 2021.

***Cash Flows***

The following table presents summary cash flow information for the nine months ended September 30, 2022 and 2021:

| | Nine Months Ended September 30, 2022 | 2021 |
|---|---|---|
| | (in thousands) | |
| Net cash provided by (used in) operating activities | $ 37,471 | $ 3,925 |
| Net cash provided by (used in) investing activities | (11,574 ) | (3,981 ) |
| Net cash provided by (used in) financing activities | (16,322 ) | 14,301 |
| Net increase in cash, cash equivalents and restricted cash | $ 9,575 | $ 14,245 |

*Cash Flows from Operating Activities*

In the nine months ended September 30, 2022, cash provided by operating activities was $37.5 million, compared to cash provided of $3.9 million in the nine months ended September 30, 2021, an increase in cash provided of $33.5 million. Of the change, $36.3 million was due to net income offset by adjustments for non-cash items. Additionally, the following changes in operating assets and liabilities contributed to the net increase in operating cash flows:

•increase in accounts payable, other current liabilities and other liabilities of $11.9 million due to timing of payments;

•increase in prepaid expenses and other current assets of $3.9 million;

•increase in deferred cost of $3.6 million due to an increase in sales of additional franchises;

•increase in cash outflows relating to (1) decrease in deferred revenue of $8.4 million; (2) decrease in accrued expenses of $1.0 million; (3) decrease in accounts receivable of $4.7 million; and (4) decrease in inventories of $7.9 million.

*Cash Flows from Investing Activities*

In the nine months ended September 30, 2022, cash used in investing activities was $11.6 million, compared to $4.0 million in the nine months ended September 30, 2021, an increase in cash used of $7.6 million. The increase was primarily attributable to an increase in cash used to purchase property and equipment and intangible assets and issue notes receivables; decrease in cash proceeds from sales of assets; partially offset by an increase in cash received from collection of notes receivable and decrease in cash used to purchase studios.

*Cash Flows from Financing Activities*

In the nine months ended September 30, 2022, cash used in financing activities was $16.3 million, compared to cash provided by financing activities of $14.3 million in the nine months ended September 30, 2021, an increase in cash used of $30.6 million. The increase in cash used was primarily attributable to the following changes:

•increase in dividend payment of $8.9 million;

•increase in tax payments of $1.9 million related to net share settlement of restricted share units;

•decrease in borrowings on long-term debt of $212.9 million;

•decrease in distribution to Member of $10.6 million;

•increase in loan to shareholder of $3.3 million;

•lower debt issuance costs of $0.9 million and lower payments on long-term debt and contingent consideration of $318.3 million;

•decrease in cash received resulting from the IPO and preferred stock issuance, net of offering costs, of $317.2 million and decrease in receipts from Member of $1.5 million;

•payments of $185.7 million in connection with reorganization transactions in 2021.

**Off-Balance Sheet Arrangements**

As of September 30, 2022, we did not have any off-balance sheet arrangements as defined in the rules and regulations of the Securities and Exchange Commission (the "SEC").

**Critical Accounting Policies and Estimates**

There have been no significant changes to our critical accounting policies and estimates from the information provided in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our Form 10-K for the year ended December 31, 2021, except for the adoption of Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842)" which we adopted on January 1, 2022. For further discussion on the adoption of this new accounting standard please see Note 2 "Summary of Significant Accounting Policies" of Notes to Condensed Consolidated Financial Statements in Part 1, Item 1 of this Form 10-Q.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable.

**Item 4. 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 September 30, 2022. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2022, our disclosure controls and procedures were effective at the reasonable assurance level.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

The material set forth in Note 16 (pertaining to information regarding legal contingencies) of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

### Item 1A. Risk Factors.

The Company has included in Part 1, Item 1A of Part 1 of its Annual Report on Form 10-K for the year ended December 31, 2021, a description of certain risks and uncertainties that could affect the Company's business, future performance or financial condition (the "Risk Factors"). There have been no material changes to the Risk Factors we previously disclosed in our filings with the SEC. Our operations could also be affected by additional factors that are not presently known to us or by factors that we currently consider immaterial to our business.

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

None.

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

None.

### Item 6. Exhibits.

| Exhibit Number | Description |
|---|---|
| 10.1* | Third Amendment dated as of September 30, 2022 to Financing Agreement 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. |
| 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.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Xponential Fitness, Inc.
(Registrant)

| | | |
|---|---|---|
| Date: November 10, 2022 | By: | /s/ John Meloun<br>**John Meloun**<br>**Chief Financial Officer** |

Exhibit 10.1

**THIRD AMENDMENT TO FINANCING AGREEMENT**

THIRD AMENDMENT TO FINANCING AGREEMENT, dated as of September 30, 2022 (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, as amended by the Second Amendment to Financing Agreement, dated as of October 8, 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, the Borrowers wish to amend the Financing Agreement to provide for additional term loans in an aggregate principal amount equal to $7,500,000 (the "2022 Incremental Term Loans") to be made by the Lenders listed on Annex A hereto (the “2022 Incremental Term Loan Lenders”) in accordance with their respective commitments set forth on such Annex A (the “2022 Incremental Term Loan Commitments”), the proceeds of which will be used for general corporate purposes;

WHEREAS, the Loan Parties have requested that the Agents and the Lenders amend the Financing Agreement in certain respects in connection with, the 2022 Incremental Term Loans, and the Agents and the Lenders are agreeable to such request for amendment 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.

(a)The 2022 Incremental Term Loan Lenders hereby agree to provide the full amount of the 2022 Incremental Term Loans in accordance with their respective 2022 Incremental Term Loan Commitments. The 2022 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 2022 Incremental Term Loan Commitments as of the Third Amendment Effective Date (as hereinafter defined) are $7,500,000. The 2022 Incremental Term Loan Commitments will terminate in full upon the making of the related 2022 Incremental Term Loans.

(c)Subject to the satisfaction of the conditions set forth in Section 5 below, the funding of the 2022 Incremental Term Loans will occur in one drawing on the date hereof and will be made by the 2022 Incremental Term Loan Lenders ratably in accordance with their respective 2022 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 2022 Incremental Term Loan Lenders). In the event that all or any portion of the 2022 Incremental Term Loans are not borrowed on the date hereof, the unborrowed portion of the 2022 Incremental Term Loan Commitments shall automatically terminate on the date hereof unless the 2022 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:

> "Third Amendment" means the Third Amendment to Financing Agreement, dated as of September 30, 2022, among the Loan Parties, the Lenders and the Agents.
>
> "Third Amendment Effective Date" has the meaning specified therefor in Section 5 of the Third 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 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, (b) 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, (c) 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 (d) 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, the Third 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 (ii) commencing with December 31, 2021 and, for the Scheduled Term Loan Payment Dates occurring on December 31, 2021, March 31, 2022, June 30, 2022 and September 30, 2022, in an amount equal to $739,922.87 and (iii) commencing with December 31, 2022 and for each Scheduled Term Loan Payment Date thereafter, in an amount equal to $758,672.87; 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 2022 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 2022 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 2022 Incremental Term Loans shall be as specified in the applicable Notice of Borrowing.

(h)The proceeds of the 2022 Incremental Term Loans shall be used for general corporate purposes of the Loan Parties and their Subsidiaries.

(i)Schedule 1.01(A) of the Financing Agreement shall be amended and supplemented to include the 2022 Incremental Term Loan Commitments set forth on Annex A hereto.

2. [Reserved].

3. [Reserved].

4. Fees. On the Third Amendment Effective Date, the Borrowers shall pay, or cause to be paid, to the 2022 Incremental Term Loan Lenders, an upfront fee (the "2022 Incremental Term Loan Upfront Fee") in an amount equal to 1.00% of the aggregate principal amount of the 2022 Incremental Term Loans actually funded by the 2022 Incremental Term Loan Lenders on the Third Amendment Effective Date; provided, that, at the option of each 2022 Incremental Term Lender, such 2022 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 2022 Incremental Term Loans made by such 2022 Incremental Term Lender on the Third Amendment Effective Date; provided, further that the parties hereto agree to treat the 2022 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 Third 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 Third 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.

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 "Third Amendment Effective Date"):

(a)Payment of Fees, Etc. The Borrowers shall have paid (or caused to be paid), on or before the Third 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.

(b)Delivery of Documents. The Agents and the Lenders shall have received, on or before the Third Amendment Effective Date, the following, each in form and substance reasonably satisfactory to the Lenders and, unless indicated otherwise, dated the Third 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 Third 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 Third 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 Third 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 Loan Party as is set forth herein and the organizational number of such Loan Party, if an organizational number is issued in such jurisdiction (or a certification that there have been no changes to such organizational documents since the Second Amendment Effective Date);

(vi)a copy of the Governing Documents of each Loan Party, together with all amendments thereto, certified as of the Third 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. Within 60 days after the Third Amendment Effective Date (or such later date as may be permitted by the Agents (acting at the direction of the Required Lenders)), the Agents shall have received shifting Account Control Agreements, each in form and substance reasonably satisfactory to the Collateral Agent and the Required Lenders, with respect to the Cash Management Accounts (other than Excluded Accounts) existing on the Third Amendment Effective Date.

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 Third 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.

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.

(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.

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

**BFT FRANCHISE HOLDINGS, LLC**

By: /s/ John Meloun
Name: John Meloun
Title: Chief Financial Officer

[Signature Page to Third Amendment]

ADMINISTRATIVE AGENT AND
COLLATERAL AGENT:

**WILMINGTON TRUST, NATIONAL ASSOCIATION,** as Administrative Agent and Collateral Agent

By: /s/ Teisha Wright
Name: Teisha Wright
Title: Vice President

LENDERS:

**MSD XPO PARTNERS, LLC**, as Lender
By: /s/ Kenneth Gerold
Name: Kenneth Gerold
Title: Authorized Signatory

**MSD PCOF PARTNERS XXXIX, LLC**, as Lender
By: /s/ Kenneth Gerold
Name: Kenneth Gerold
Title: Authorized Signatory

**MSD BDC SPV I, LLC**, as Lender
By: /s/ Kenneth Gerold
Name: Kenneth Gerold
Title: Authorized Signatory

**REDWOOD MASTER FUND, LTD.**, as Lender

By: /s/ Sean Sauler

Name: Sean Sauler
Title: Deputy CEO

**REDWOOD OPPORTUNITY Master FUND, LTD.**, as Lender

By: /s/ Sean Sauler

Name: Sean Sauler
Title: Deputy CEO

CORBIN OPPORTUNITY FUND, LP**.**, as Lender

By: /s/ Sean Sauler

Name: Sean Sauler
Title: Deputy CEO

**DESALKIV Cayman C-2, Ltd**, as Lender

By: /s/ Seth Charnow

Name: Seth Charnow

Title: Authorized Signatory

Annex A

2022 Incremental Term Loan Lenders' Commitments

| Lender Name | 2022 Incremental Term Loan Commitments | 2022 Incremental Term Loan Commitment Percentage |
|---|---|---|
| MSD BDC SPV I, LLC | $1,997,776.53 | 26.637020331% |
| MSD PCOF PARTNERS XXXIX, LLC | $2,367,722.33 | 31.569631127% |
| MSD XPO PARTNERS, LLC | $923,416.23 | 12.312216409% |
| REDWOOD MASTER FUND LTD | $283,714.92 | 3.782865600% |
| REDWOOD OPPORTUNITY MASTER FUND LTD | $1,927,369.99 | 25.698266533% |
| | **$7,500,000.00** | **100.000000000%** |

**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 quarterly report on Form 10-Q 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: November 10, 2022 | By: | /s/ Anthony Geisler<br>**Anthony Geisler**<br>**Chief Executive Officer**<br>(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 quarterly report on Form 10-Q 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: November 10, 2022 | By: | /s/ John Meloun<br>**John Meloun**<br>**Chief Financial Officer**<br>(Principal Financial Officer) |

**Exhibit 32.1**

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

In connection with the Quarterly Report of Xponential Fitness, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2022, 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: November 10, 2022 | By: | /s/ Anthony Geisler<br>**Anthony Geisler**<br>**Chief Executive Officer**<br>(Principal Executive Officer) |

**Exhibit 32.2**

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

In connection with the Quarterly Report of Xponential Fitness, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2022, 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: November 10, 2022 | By: | /s/ John Meloun<br>**John Meloun**<br>**Chief Financial Officer**<br>(Principal Financial Officer) |