As filed with the Securities and Exchange Commission on April 24, 2019

File No. 001-38858

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

Amendment No. 1
to
FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

XPEL, INC.
(Name of registrant as specified in its charter)

Nevada	**20-1117381**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
618 W. Sunset Road San Antonio, Texas	**78216**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (210) 678-3700

With copies to:
Steven R. Jacobs
Jackson Walker L.L.P.
112 East Pecan Street, Suite 2400
San Antonio, TX 78205
(210) 978-7727

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

(Title of each class)	(Name of each exchange on which registered)
Common Stock, par value $.001 per share	The NASDAQ Stock Market LLC

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or 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 7(a)(2)(B) of the Securities Act. ☒

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CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements made in this registration statement include forward-looking statements, which reflect our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this registration statement and are subject to a number of risks, uncertainties and assumptions described under the sections entitled "Business," "Risk Factors" and "Financial Information" and elsewhere in this registration statement.

Forward-looking statements include, but are not limited to, statements with respect to the nature of our strategy and capabilities, the vertical and regional expansion of our market and business opportunities, and the expansion of our product offering in the future. Statements that include words like "believe," "expect," "anticipate," "intend," "plan," "seek," "estimate," "could," "potentially" or similar expressions are forward-looking statements and reflect future predictions that may not be correct, even though we believe they are reasonable. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict or are beyond our control. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward looking statements. Consequently, readers should not place undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they are made.

The forward-looking statements reflect our current expectations and are based on information currently available to us and on assumptions we believe to be reasonable. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause our actual results, activities, performance or achievements to be materially different from that expressed or implied by such forward-looking statements.

Factors to consider when evaluating these forward-looking statements include, but are not limited to:

- the highly competitive nature of our industry;
- our current reliance on a limited number of suppliers;
- our ability to successfully introduce new products and services;
- our ability to achieve benefits from our business initiatives, including identifying and completing suitable acquisitions and investments;
- fluctuating revenue and operating results;
- our reliance on a single distributor in China;
- political, regulatory, economic, and other risks arising from the multi-national nature of our business, including our extensive business in China;
- volatility in currency exchange rates;
- the potential exit of current key personnel or possibility of failure to attract future qualified personnel;
- significant demands related to our rapid growth;
- risks related to possible future indebtedness or the availability of future financing;
- risks related to internal control over financial reporting;
- our lack of experience, and the requirements related to operating, as a U.S. publicly traded company;
- our status as an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012;
- risks related to our intellectual property;
- general global and economic business conditions that may affect demand for our products; and
- considerations related to listing our common stock ("Common Stock") listed on The NASDAQ Stock Market.

Although we have attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. The forward-looking information contained herein is made as of the date of this registration statement and, other than as required by law, we do not assume any obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise.

You should also read the matters described in "Risk Factors" and the other cautionary statements made in this registration statement as being applicable to all related forward-looking statements wherever they appear in this registration statement. The forward-looking statements in this registration statement may not prove to be accurate and therefore you are encouraged not to place undue reliance on forward-looking statements. You should read this registration statement completely.

This registration statement also includes estimates and other statistical data made by independent parties and by us relating to market size and growth and other data about our industry. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. In addition, projections, assumptions and estimates of our future performance and the future performance of the markets in which we operate are necessarily subject to a high degree of uncertainty and risk.

Explanatory Note

XPEL, Inc. is filing this General Form for Registration of Securities on Form 10 to register our common stock, par value $0.001 per share, or Common Stock, pursuant to Section 12(b) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, because we are seeking to list our common shares on The NASDAQ Stock Market ("NASDAQ"). We have applied to list our Common Stock on NASDAQ under the symbol "XPEL." We refer to the initial listing of our Common Stock on NASDAQ throughout this registration statement as the "listing."

Persons interested in obtaining information on the Company may read and copy any materials that we file with the Securities and Exchange Commission ("SEC") at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Commission maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

Once this registration statement becomes effective, we will become subject to the information and periodic reporting requirements of the Exchange Act, and will file annual, quarterly and other periodic reports, proxy statements and other information with the SEC. These periodic reports and other information will be available on the SEC's website referred to above.

Unless the context indicates otherwise, all references in this registration statement to "XPEL", the "Company," "we," "us," and "our" refer to XPEL, Inc. (TSXV: DAP.U) and all of its wholly-owned and majority-owned subsidiaries.

Implications of being an emerging growth company

As a company with less than $1.07 billion in revenue during our last fiscal year, we qualify as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of specified reduced reporting requirements and is relieved of certain other significant requirements that are otherwise generally applicable to public companies. As an emerging growth company:

- we are exempt from the requirement to obtain an attestation and report from our auditors on the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act;
- we are permitted to provide less extensive disclosure about our executive compensation arrangements; and
- we are not required to give our stockholders non-binding advisory votes on executive compensation or approval of golden parachute arrangements.

We may take advantage of these provisions for up to the last day of our fiscal year following the fifth anniversary of our completion of an initial public offering or such earlier time that we are no longer an emerging growth company. We will cease to be an emerging growth company upon the earliest of (i) the last day of the first fiscal year in which our annual gross revenues exceed $1.07 billion, (ii) December 31 of the fiscal year that we become a "large accelerated filer" as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock held by non-affiliates exceeds $700 million as of the last business day of our most recently completed second fiscal quarter and we have been publicly reporting for at least 12 months or (iii) the date on which we have issued more than $1.07 billion in non-convertible debt during the preceding three-year period.

We may choose to take advantage of some but not all of these reduced burdens. We have taken advantage of reduced reporting requirements in this registration statement. Accordingly, the information contained herein may be different from the information prospective investors receive from our competitors that are public companies, or other public companies in which prospective investors have made an investment.

Registered trademarks and trademark applications

Our trademarks are the subject of trademark registrations in the United States and other various countries. Other brands, names and trademarks contained in this registration statement are the property of their respective owners. Solely for convenience, the trademarks, service marks and trade names are referred to in this registration statement without the SM, TM and ® symbols, but such references are not intended to indicate, in any way, that the owner thereof will not assert, to the fullest extent under applicable law, such owner's rights to these trademarks, service marks and trade names.

XPEL®, XPEL & DESIGN®, XPEL ULTIMATE®, PELTI®, PROTEX® and TRACWRAP® are registered trademarks of the Company.

XPEL™, XPEL FUSION™, XPEL ULTIMATE PLUS™, XPEL STEALTH™, XPEL RX™, XPEL ARMOR™, XPEL PRIME XR™, XPEL PRIME XR PLUS™, XPEL PRIME CS™, PRIME X-SERIES™, PRIME AP™, PRIME GL™, PRIME SD™, PROTEX (STYLIZED)™, ASP™, LUX™, LUX PLUS™, LUX-M™, ZEUS™, F8000 Film™, F9300 Film™ and MPD™ are trademarks of the Company.

Other trademarks and trade names in this registration statement are the property of their respective owners.

Market and industry data and forecasts

Certain market and industry data and forecasts included in this registration statement were obtained from independent market research, industry publications and surveys, governmental agencies and publicly available information. Industry surveys, publications and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. We have not independently verified any of the data from third-party sources, nor have we ascertained the underlying assumptions relied upon therein. Similarly, independent market research and industry forecasts, which we believe to be reliable based upon our management's knowledge of the industry, have not been independently verified. While we are not aware of any misstatements regarding the market or industry data presented herein, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under the heading "Item 1A. Risk Factors".

Item 1 – Business

Company Overview

Founded in 1997, XPEL has grown from an automotive product design software company to a global provider of after-market automotive products, including automotive surface and paint protection, headlight protection, and automotive window films, as well as a provider of complementary proprietary software. In 2018, we expanded our product offerings to include window film (both commercial and residential) and security film protection for commercial and residential uses. Today, we have approximately 180 employees and serve over 2,000 direct customers and several thousand indirect customers around the world.

XPEL began as a software company designing vehicle patterns used to produce cut-to-fit protective film for the painted surfaces of automobiles. In 2007, we began selling automotive surface and paint protection film products to complement our software business. In 2011, we introduced our ULTIMATE protective film product line which, at the time, was the industry's first protective film with self-healing properties. The ULTIMATE technology allows the protective film to better absorb the impacts from rock impingement or other road debris, thereby fully protecting the painted surface of a vehicle. The film is described as "self-healing" due to its ability to return to its original state after debris infringement.

The launch of the ULTIMATE product catapulted XPEL into several years of strong revenue growth. In 2014, we began our international expansion by establishing an office in the United Kingdom. In 2015, we acquired Parasol Canada, a distributor of our products in Canada. In 2017, we established our European headquarters in The Netherlands, and expanded our product offerings to include an automotive protective window film branded as PRIME. We continued our international expansion in 2017 with the acquisition of Protex Canada Corp., or Protex Canada, a leading franchisor of automotive protective film franchises serving Canada, as well as opened our XPEL Mexico office. In 2018, we launched our first product offering outside of the automotive industry, a window and security film protection for commercial and residential uses. Also in 2018, we launched the next generation of our highly successful ULTIMATE line, ULTIMATE PLUS and acquired Apogee Corporation which effectively launched XPEL Asia based in Taiwan.

Products and Services

Surface and Paint Protection Film Rolls: Our primary products are paint and surface protection films. Most of the products sold are destined for automotive application which principally protect painted surfaces from rock chips, damage from bug acids and other road debris. Some of the products sold are used for non-automotive applications, such as industrial protection, screen protection or architectural protection. We sell a variety of product lines each with their own unique characteristics, warranty and intended use, including:

XPEL ULTIMATE PLUS: ULTIMATE PLUS is the flagship clear, thermoplastic polyurethane, or TPU, based product which is a self-healing, stain-resistant film with unmatched clarity and durability. ULTIMATE PLUS carries a 10-year warranty in most markets and is by far our top seller.

XPEL STEALTH: STEALTH is a satin-finished paint protection film, made with the same construction as ULTIMATE PLUS. STEALTH is designed to protect surfaces that already have a matte finish or to give otherwise glossy surfaces a matte finish.

TRACWRAP: TRACWRAP is a temporary TPU-based paint protection film, for both do it yourself, or DIY, and professional applications, that is designed to be used for a short period of time, including during road trips, vehicle transport or vehicles pending a full installation of our other products like XPEL ULTIMATE PLUS.

LUX PLUS: LUX PLUS is our flagship clear, TPU-based paint protection film for the Chinese market. Designed and formulated specifically for the demands of China, with excellent self-healing and stain-resistance, it is offered for sale exclusively in that market.

XPEL RX: RX Protection Film provides protection for a variety of surfaces including screens and other electronics and contains silver ions which inhibit the growth of microbes on the film's surface. This product was launched pursuant to our acquisition of E-Shields LLC in 2018.

XPEL ARMOR: ARMOR is a thick PVC-based protection film that looks and performs like a spray-on bedliner. It is designed to resist abrasions and punctures from the most aggressive terrain.

OTHER FILMS: We sell a variety of other specialty films in smaller quantities for select customers or in certain markets, including: LUX-M, ZEUS, PROTEX, MPD and ASP in the Chinese Market, F8000 Film in Mexico and F9300 Film in Canada and Europe.

Most of our Surface and Paint Protection Films are applied wet and can be installed in bulk or pre-cut using our Design Access Program, or DAP, software. While we sell some pre-cut and Do-It-Yourself products made from these rolls direct to consumer, the vast majority of the products are professionally installed.

Surface and Paint Protection film sales represented 77.8% of our 2018 revenue.

Automotive Window Film Rolls: We sell several lines of automotive window films, primarily under the XPEL PRIME brand name, which exhibit a range of performance characteristics and appearances, including:

XPEL PRIME XR PLUS: PRIME XR PLUS offers 98% infrared heat rejection thanks to multi-layer nano-particule technology. This is our most expensive flagship product with the best specs and characteristics. It is available in a variety of visible light transmission, or VLT, levels.

XPEL RRIME XR: PRIME XR utilizes a nano-ceramic construction, blocking 88% of infrared heat and will not interfere with radio, cellular or Bluetooth signals like a metallized film.

XPEL PRIME CS: PRIME CS blocks solar heat radiation to keep vehicles at comfortable temperatures and blocks 99% of harmful UV rays. Available in both a black and neutral charcoal color, PRIME CS will remain the same over the years and never fades or turns purple.

OTHER FILMS: We also sell a variety of other automotive window films both under the PRIME brand and on a private-label basis, including: PRIME X-SERIES and PRIME AP in China, PRIME HP, PRIME GL, PRIME SD and more. Generally, these products are lower cost and are sold only in certain markets.

Automotive window film sales represented 6.7% of our 2018 revenue.

Architectural Window Film Rolls: In 2018, we began offering an architectural glass solution for commercial and residential buildings under the VISION brand name, representing our first product set with a fully non-automotive use. Architectural window films come in several broad categories, including:

SOLAR: Solar films are designed to provide solar energy rejection. We offer a variety of films with varying colors, VLTs and price points.

SAFETY & SECURITY: Safety and Security films are clear, thick polyethylene terephithalate, or PET, films to secure glass in the event of a breakage. We offer a variety of thicknesses and offer films with varying adhesive characteristics for different types of installations.

OTHER: In addition to the main categories of SOLAR and SAFETY & SECURITY films, we also offer anti-graffiti, exterior applied and decorative films.

Design Access Program: A key component of our product offering is our Design Access Program software. DAP is a proprietary software and database consisting of over 80,000 vehicle applications used by the

Company and its customers to cut automotive protection film into vehicle panel shapes for both paint protection film and window film products.

We commit significant resources to keep the pattern database updated with a goal toward having a pattern for every panel of every vehicle. When new vehicle models are introduced to the market, we strive to create the pattern as soon as possible. Our patterns and software increase installer efficiency and reduce waste.

Our DAP customers pay a monthly access fee to access our proprietary data base. Monthly DAP subscriptions represented 2.3% of our 2018 revenue.

Installation Services: We offer installation services of our various products directly to retail and wholesale customers through our ten company-owned installation facilities in their respective markets. Our installation services are primarily automotive film installation but have grown to include architectural film installation in certain markets. Installation services represented 5.6% of our 2018 revenue.

Miscellaneous Products, Tools and Pre-Cut: We sell a variety of other miscellaneous product sets which include:

PRE-CUT FILM PRODUCTS: While most of our surface protection films, automotive window films and architectural window films are sold as rolls, we also offer to pre-cut them into vehicle specific shapes (if applicable) or cut them into smaller pieces or shapes to aide in the installation or to increase affordability or efficiency for our customers who cannot justify purchasing an entire roll of a given product.

XPEL FUSION PLUS CERAMIC COATING: XPEL FUSION PLUS is a hydrophobic, self-cleaning coating that can be applied to paint and paint protection film and provides additional protection to a vehicle's painted surface to enhance its gloss and protect it from minor scratches.

TOOLS AND ACCESSORIES: We sell a variety of tools and accessories which are used in the installation of our products, including squeegees and microfiber towels, application fluids, plotter cutters, knives and more. Generally, these are offered as a service to our customers to provide one-stop shopping.

MERCHANDISE AND APPAREL: We sell a variety of XPEL-branded merchandise and apparel which helps represent and build our brand.

Strategic Overview

XPEL is currently pursuing several key strategic initiatives to drive continued growth. Our global expansion strategy focuses on the need to establish a local presence where possible, allowing us to better control the delivery of our products and services. In furtherance of this approach, we established our European headquarters in early 2017 to capture market share in what we believed to be an under-penetrated region. We are continuing to add locally based regional sales personnel, leveraging local knowledge and relationships to expand the markets in which we operate.

We seek to increase global brand awareness in strategically important areas, including seeking high visibility at premium events such as major car shows and high value placement in advertising media consumed by car enthusiasts, to help further expand the Company's premium brand.

XPEL also continues to expand its delivery channels by acquiring select installation facilities in key markets and acquiring international partners to enhance its global reach. As we expand globally, we strive to tailor our distribution model to adapt to target markets. We believe this flexibility allows us to penetrate and grow market share more efficiently. Our acquisition strategy centers around our belief that the closer the Company is to its end customers, the greater its ability to drive increased product sales.

We also continue to drive expansion of our non-automotive product portfolio. The Company launched its new commercial/residential window film product line in 2018, giving us access to a large new market and representing the first non-automotive product line in XPEL's history. While there is some overlap with our existing customers, we believe that this new product line exposes the Company to several new addressable markets.

Sales and Distribution

We sell and distribute our products through independent installers, new car dealerships, third party distributors, Company-owned installation centers, Protex Canada's franchisees and on-line.

Independent Installers/New Car Dealerships

We primarily operate by selling a complete turn-key solution directly to independent installers and new car dealerships, which includes XPEL protection films, installation training, access to our proprietary DAP software, marketing support and lead generation. Approximately 52% of the Company's product sales in 2018 were through this channel.

While we are principally a product company, we also offer a suite of services to complement our products for our customers, including access to our proprietary DAP software. We believe that this software greatly enhances installation efficiency and reduces film waste – a highly valuable feature to our customers, as their highest cost tends to be labor. We also provide marketing and lead generation for our customers by featuring them in our dealer locator on our website. To be considered an "authorized dealer" (and thereby have end customers referred to them), independent installers must complete our four-day, hands-on training class and meet other requirements. Trainees are certified upon completion. Additionally, XPEL works closely with independent installers and new car dealerships to support local events in their area.

XPEL also offers 24/7 customer service for independent installers and new car dealerships where we provide installation, software and training support via our website and telephone technical support services.

Finally, our customers in the independent installer/new car dealership channel tend to be smaller in nature, and consequently frequently experience "just-in-time" inventory needs. The Company maintains inventory in several locations globally to meet these needs.

Distributors

In various parts of the world, XPEL operates primarily through third party distributors, who operate under written agreements with the Company to develop a market or a region under our supervision and direction. These distributors may sell to other distributors or customers who ultimately install the product on an end customer's vehicle. Due to the nature of this channel, product margins are generally less than other channels. Approximately 42% of the Company's product sales in 2018 were through this channel.

We operate through a sole distributor, Shanghai Xing Ting Trading Co., Ltd., which we refer to as the China Distributor, in China under our form distribution agreement. Approximately 29.2% of our total 2018 revenue derived from sales to the China Distributor.

Through our distribution agreement with the China Distributor entered into on May 31, 2018, the China Distributor has rights to promote, market, distribute, sell and install our products in China. Additionally, we have granted the non-exclusive right to the China Distributor to use our software in connection with customers' purchases of our products. The China Distributor places orders with us on a prepaid basis at a price set by us, which we may change with 30 days' notice. Certain of our products have minimum purchase requirements that increase annually.

We have also granted the China Distributor a non-exclusive license to use our brands to promote sales of our products to end-users. The distribution agreement applies to separate product categories, distinguished by their exclusive or non-exclusive relationship with the China Distributor, each for a term of five years, each of which will automatically renew for up to three additional five year periods unless otherwise terminated by either party with 60 days' notice.

We consider our relations with the China Distributor to be good, but the loss of our relationship could result in the delay of the distribution and a decrease in marketing of our products in China. For more information, see Part I, Item 1A—Risk Factors—*We rely on one distributor of our products and services in China. The loss of this relationship, or a material disruption in sales by this distributor, could severely harm our business.*

Company-Owned Installation Centers

XPEL operates ten company-owned installation centers: six in the United States, three in Canada and one in the United Kingdom. These locations serve wholesale and retail customers in their respective markets. This channel represented approximately 6% of the Company's 2018 revenue.

Some of our Company-owned installation centers are located in geographic areas where we also serve customers in our independent installer/dealership channel, which may be perceived to generate channel conflict. However, we believe these channels have a synergistic relationship with our Company-owned centers supporting independent installers and dealerships by supplementing inventory needs, assisting with overflow work and providing additional customer service and employee training. We believe this channel strategy benefits our goal of generating the most product revenue possible.

Franchisee Channel

XPEL's acquisition of Protex Canada in 2017 added its franchisee network to our distribution portfolio. These franchises are authorized to sell automotive paint film and window film. A franchisee must pay a franchise fee to be assigned an exclusive area in which to offer sale and installation of protective films. As the franchisor, Protex Canada provides brand, training and other support to franchisees. Franchisees pay a royalty to Protex Canada based on percent of revenues. Franchisees, as part of their franchise agreement, are required to purchase paint protection and window films from XPEL. The revenue from this channel which consists of franchise fee and royalty revenue represented less than 1% of the Company's 2018 revenue.

Online and Catalog Sales

XPEL offers certain products such as paint protection kits, car wash products, after-care products and installation tools via its website. Revenues from this channel are negligible but we believe that by offering these products on our website, we increase brand awareness. The revenue from this channel represented less than 1% of the Company's 2018 revenue.

Competition

The Company principally competes with other manufacturers and distributors of automotive protective film products. While the Company considers itself a product company competing with other product companies, the Company believes its suite of services which accompany the Company's product offerings including its software, marketing and lead generation to its customers and customer service provide for substantial differentiation from its competitors. Within the market for surface and paint protection film, our principal competitors include Eastman Chemical Company (under the LLumar and Suntek brands) and several other smaller companies. For more information, see Part I, Item 1A—Risk Factors—*The after-market automotive product supply business is highly competitive. Competition presents an ongoing threat to the success of our Company.*

Suppliers

The Company's paint and surface protection, automotive window films and architectural window films are sourced from five suppliers. Approximately 87% of the Company's inventory purchases in 2018 were sourced from one of these suppliers, entrotech, which we refer to as the primary supplier.

Through our Amended and Restated Supply Agreement that we entered into with our primary supplier in March 2017, we have exclusive rights to commercialize, market, distribute and sell its automotive aftermarket products through March 21, 2020, at which time the term automatically renews for successive two year periods thereafter unless terminated at the option of either party with two months' notice. During such term, we have agreed to use commercially reasonable efforts to purchase a minimum of $5,000,000 of products quarterly from this primary supplier, with a yearly minimum purchasing requirement of $20,000,000. Under the terms of the Supply Agreement, the primary supplier has retained all of the rights to its technology and products relating to protective films subject to the Company's exclusive right to commercialize, market, distribute and sell products manufactured by the primary supplier to the automotive aftermarket including to new car dealerships.

The primary supplier manufactures our products according to mutually agreed-upon specifications, quality assurance programs and other standards that are mutually established. We consider our relations with the primary supplier to be good, but the loss of our relationship with the primary supplier could result in the delay of the manufacture and delivery of some of our automotive film products. For more information, see Part I, Item 1A—Risk Factors—*A material disruption from our primary supplier could cause us to be unable to meet customer demands or increase our costs.*

Film Conversion Process

The Company receives its surface and paint protection, automotive window film and architectural window film in a variety of roll forms, including short and master roll format. For some of the Company's products, the Company engages in a variety of converting activities in its facilities in San Antonio, Texas and in other locations. Depending on the product and the format in which it was received, conversion activities may include: inspection, slitting, rewinding or boxing. Additionally, for some of the Company's products, including pre-cut film products, the Company performs further conversion which includes cutting film into specific shapes using computer aided cutting equipment.

Government Regulation and Legislation

The manufacturing, packaging, storage, distribution, advertising and labeling of our products and our business operations all must comply with extensive federal, state and foreign laws and regulations and consumer protection laws. Governmental regulations also affect taxes and levies, capital markets, healthcare costs, energy usage, international trade, immigration and other labor issues, all of which may have a direct or indirect negative effect on our business and our customers' and suppliers' businesses. We are also required to comply with certain federal, state and local laws and regulations and industry self-regulatory codes concerning privacy and date security. These laws and regulations require us to provide customers with our policies on sharing information with third parties, and advance notice of any changes to these policies. Related laws may govern the manner in which we store or transfer sensitive information, or impose obligations on us in the event of a security breach or inadvertent disclosure of such information. International jurisdictions impose different, and sometimes more stringent, consumer and privacy protections.

Our products are subject to export controls, including the U.S. Department of Commerce's Export Administration Regulations and economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Asset Controls, and similar laws that apply in other jurisdictions in which we distribute or sell our products. Export control and economic sanctions laws include prohibitions on the sale or supply of certain products and services to certain embargoed or sanctioned countries, regions, governments, persons and entities. In addition, various countries regulate the import of certain products, through import permitting and licensing requirements, as well as customs, duties and similar charges, and have enacted laws that could limit our ability to distribute our products. The exportation, reexportation, and importation of our products, including by our partners, must comply with these laws or else we may be adversely affected, through reputational harm, government investigations, penalties, and a denial or curtailment of our ability to export our products. Complying with export control and sanctions laws for a particular sale may be time consuming and may result in the delay or loss of sales opportunities. If we are found to be in violation of U.S. sanctions or export control laws, it could result in substantial fines and penalties for us and for the individuals working for us. Changes in export, sanctions or import laws, may delay the introduction and sale of our product in international markets, or, in some cases, prevent the export or import of our products to certain countries, regions, governments, persons or entities altogether, which could adversely affect our business, financial condition and operating results.

We are also subject to various domestic and international anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, as well as other similar anti-bribery and anti-kickback laws and regulations. These laws and regulations generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Our exposure for violating these laws would increase to the extent our international presence expands and as we increase sales and operations in foreign jurisdictions.

Environmental Matters

We are subject to a variety of federal, state, local and foreign environmental, health and safety laws and regulations governing, among other things, the generation, storage, handling, use and transportation of hazardous materials; the emission and discharge of hazardous materials into the environment; and the health and safety of our employees. We have incurred and expect to continue to incur costs to maintain or achieve compliance with environmental, health and safety laws and regulations. To date, these costs have not been material to the Company.

Intellectual Property

We regard some of the features of our DAP software, our brands and marketing message, and our documentation as proprietary and rely on copyright, patent, and trademark and service mark laws and trade secret protection, such as confidentiality procedures, contractual arrangements, non-disclosure agreements and other measures to protect our proprietary information. Our intellectual property is an important and valuable asset that enables us to gain recognition for our products, services, and DAP software and enhance our competitive position and market value.

We have obtained United States copyright registrations for our DAP software applications and also have two patents in the United States related to our DAP software.

Available Information

XPEL is a Nevada corporation formed in 2003. Our street address is 618 W. Sunset Road, San Antonio, Texas 78216 and our phone number is (210) 678-3700. The address of our website is www.xpel.com. The inclusion of the Company's website address in this registration statement does not include or incorporate by reference the information on or accessible through the Company's website, and the information contained on or accessible through the website should not be considered as part of this registration statement.

The Company will make its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports (and amendments to those reports) filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 available on the Company's website as soon as reasonably practicable after the Company electronically files or furnishes such materials with the Securities and Exchange Commission ("SEC"). Interested persons can view such materials without charge under the

"Investor Relations" section and then by clicking "Corporate Filings / Financial Results" on the Company's web site.

XPEL, Inc. is an "emerging growth" and a "smaller reporting company filer" within the meaning of Rule 12b-2 under the Securities Exchange Act.

Item 1A – Risk Factors

Any investment in our Common Stock involves a high degree of risk. Investors should carefully consider the risks described below and all of the information contained in this registration statement before deciding whether to purchase our Common Stock. Our business, financial condition or results of operations could be materially adversely affected by these risks if any of them actually occur. This registration statement also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face as described below and elsewhere in this registration statement. See "Cautionary Notice Regarding Forward-Looking Statements."

Risks Related to Our Business and Industry

The after-market automotive product supply business is highly competitive. Competition presents an ongoing threat to the success of our Company.

We face significant competition from a number of companies, many of whom have greater financial, marketing and technical resources than us, as well as regional and local companies and lower-cost manufacturers of automotive and other products. Such competition may result in pressure on our profit margins and limit our ability to maintain or increase the market share of our products.

Additionally, as we introduce new products and as our existing products evolve, or as other companies introduce new products and services, we may become subject to additional competition. Our principal competitors have significantly greater resources than us. This may allow our competitors to respond more effectively than we can to new or emerging technologies and changes in market requirements. Our competitors may also develop products, features, or services that are similar to ours or that achieve greater market acceptance, may undertake more far-reaching and successful product development efforts or marketing campaigns, or may adopt more aggressive pricing policies. Certain competitors could use strong or dominant positions in one or more markets to gain a competitive advantage against us.

We believe that our ability to compete effectively depends upon many factors both within and beyond our control, including:

- the usefulness, ease of use, performance, and reliability of our products compared to our competitors;
- the timing and market acceptance of products, including developments and enhancements to our products or our competitors' products;
- customer service and support efforts;
- marketing and selling efforts;
- our financial condition and results of operations;
- acquisitions or consolidation within our industry, which may result in more formidable competitors;
- our ability to attract, retain, and motivate talented employees;
- our ability to cost-effectively manage and grow our operations;
- our ability to meet the demands of local markets in high-growth emerging markets, including some in which we have limited experience; and
- our reputation and brand strength relative to that of our competitors.

If we are unable to differentiate or successfully adapt our products, services and solutions from competitors, or if we decide to cut prices or to incur additional costs to remain competitive, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

A material disruption from the primary supplier could cause us to be unable to meet customer demands or increase our costs.

Pursuant to an Amended and Restated Supply Agreement dated as of March 21, 2017, between us and our primary supplier, which we refer to as the Supply Agreement, we have engaged the primary supplier to act as the primary source of our automotive paint protection film products. In 2018, approximately 87% of our inventory purchases were purchased from the primary supplier.

Any failure by the primary supplier to perform its obligations under the Supply Agreement, including a failure to provide sufficient supply of our products to satisfy customer demand, could have a material adverse effect on our revenue, operating results and operating cash flows.

Additionally, if our relationship with the primary supplier were to terminate or if operations at its manufacturing facility were to be disrupted as a result of significant equipment failures, natural disasters, earthquakes, power outages, fires, explosions, terrorism, adverse weather conditions, labor disputes or other reasons, we may be unable to fill customer orders or otherwise meet customer demand for our products, and such disruption could increase our costs and reduce our sales, any of which could have a material adverse effect our business, financial condition, results of operations and cash flows.

We rely on one distributor of our products and services in China. The loss of this relationship, or a material disruption in sales by this distributor, could severely harm our business.

The Company distributes all of its products in China through one distributor, with sales to such distributor representing 29.2% of total 2018 revenue. The China Distributor places orders with us on a prepaid basis at a price set by us, which we may change with 30 days' notice. The China Distributor then generates orders, sells and distributes our products to its end customers in China.

Any failure by the China Distributor to perform its obligations, including a failure to procure sufficient orders of our products to satisfy customer demand or a failure to adequately market our products, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Because of our dependence on the China Distributor, any loss of our relationship or any adverse change in the financial health of such distributor that would affect its ability to distribute our products may have a material adverse effect on our business, financial condition, results of operations and cash flows.

A significant percentage of our revenue is generated from our business in China, a market that is associated with certain risks.

Our business in China is operated through a single distributor. In 2018, approximately 29.2% of our revenue was generated in China, more than any other country in which we operate, and we expect such portion will increase with the expansion of our business in China. However, there are risks generally associated with doing business in China, including:

Significant political and economic uncertainties

Historically, the Chinese government has exerted substantial influence over the business activities of private companies. Under its current leadership, the Chinese government has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the Chinese government will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice. Furthermore, the Chinese government continues to exercise significant control over the Chinese economy through regulation and state ownership. Changes in China's laws, regulations or policies, including those affecting taxation, currency, imports, or the nationalization of private enterprises could have a material adverse effect on our business, results of operations and financial condition. Furthermore, government actions in the future could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in Chinese properties.

Possible trade dispute

A growing trade dispute between the United States and China could increase the sales price of our products or decrease our profits, if any, in China. The current U.S. and China administrations have recently imposed tariffs on imports from the other country, and the current U.S. administration has indicated that it may impose additional tariffs on imported Chinese goods. These tariffs may escalate to a trade conflict between China and the United States, which may affect our business in China. If such a dispute were to escalate or if tariffs were imposed on any of our products, we could be forced to increase the sales price of our products, reduce margins, or otherwise suffer from trade restrictions levied by the Chinese government that may have a material adverse effect on our business.

Limited recourse in China

While the Chinese government has enacted a legal regime surrounding corporate governance and trade, its experience in implementing such laws and regulations is limited. It is unclear how successful any attempt to enforce commercial claims or resolve commercial disputes will be. The resolution of any such dispute may be subject to the exercise of considerable discretion by the Chinese government and its agencies and forces unrelated to the legal merits of a particular matter or dispute may influence their determination.

Additionally, any rights we may have to specific performance, or to seek an injunction under China law, in either of these cases, are severely limited, and without a means of recourse by virtue of the Chinese legal system, we may be unable to prevent these situations from occurring. The occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations.

Uncertain interpretation of law

There are substantial uncertainties regarding the interpretation and application of the laws and regulations in the greater China area, including, but not limited to, the laws and regulations governing our business. China's laws and regulations are frequently subject to change due to rapid economic and social development and many of them were newly enacted within the last 10 years. The effectiveness of newly enacted laws, regulations or amendments may be delayed, resulting in detrimental reliance by foreign investors. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively.

The Chinese government has broad discretion in dealing with violations of laws and regulations, including levying fines, revoking business permits and other licenses and requiring actions necessary for compliance. In particular, licenses and permits issued or granted to our Company by relevant governmental bodies may be revoked at a later time by higher regulatory bodies. We cannot predict the effect of the interpretation of existing or new Chinese laws or regulations on our businesses. We cannot assure you that our current ownership and operating structure would not be found to be in violation of any current or future Chinese laws or regulations. As a result, we may be subject to sanctions, including fines, and could be required to restructure our operations or cease to provide certain services. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. Any of these or similar actions could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations.

General global economic and business conditions affect demand for our products.

We compete in various geographic regions and markets around the world. We expect to experience fluctuations in revenues and results of operations due to economic and business cycles. Important factors for our business and the businesses of our customers include the overall strength of the economy and our customers' confidence in the economy, unemployment rates, availability of consumer financing and interest rates. While we attempt to minimize our exposure to economic or market fluctuations by offering a balanced mix of end markets and geographic regions, any of the above factors, individually or in the aggregate, or a significant or sustained downturn in a specific end market or geographic region could reduce demand for our products and services, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

If changes to our existing products or introduction of new products or services do not meet our customers' expectations or fail to generate revenue, we could lose our customers or fail to generate any revenue from such products or services and our business may be harmed.

We may introduce significant changes to our existing products or develop and introduce new and unproven products or services, including using products with which we have little or no prior development or operating experience. The trend of the automotive industry towards autonomous vehicles and car- and ride-sharing services may result in a rapid increase of new and untested products in the aftermarket automotive industry. If new or enhanced products fail to attract or retain customers or to generate sufficient revenue, operating margin, or other value to justify certain investments, our business may be adversely affected. If we are not successful with new approaches to monetization, we may not be able to maintain or grow our revenue as anticipated or recover any associated development costs.

If we were unable to maintain our network of sales and distribution channels, it could adversely affect our net sales, profitability and the implementation of our growth strategy.

Our ability to continue to grow our business depends on our ability to maintain effective sales and distribution channels in each of the markets in which we operate. We make use of a variety of distribution channels, including independent installers, new car dealerships, distributors and franchisees. We believe that this network of distribution channels enables us to efficiently reach consumers at a variety of points of sale. If we are not able to maintain our sales and distribution channels, we could experience a decline in sales, as well as reduced market share, as consumers may decide to purchase competing products that are more easily obtainable. The failure to deliver our products in accordance with our delivery schedules could harm our relationships with independent installers and new car dealerships, distributors and franchisees, which could adversely affect our net sales, profitability and the implementation of our growth strategy.

We depend on our relationships with independent installers and new car dealerships and their ability to sell and service our products. Any disruption in these relationships could harm our sales.

The largest portion of our products are distributed through independent installers and new car dealerships. We do not have direct control over the management or the business of these independent installers and new car dealerships, except indirectly through terms as negotiated with us. Should the terms of doing business with them change, our business may be disrupted, which could have an adverse effect on our business, financial condition and results of operations.

Because some of our independent installer and new car dealership customers also may offer our competitors' products, our competitors may incent the independent installers and new car dealerships to favor their products. We do not have long-term contracts with a majority of the independent installers and new car dealerships, and the independent installers and new car dealerships are not obligated to purchase specified amounts of our products. In fact, all of the independent installers and new car dealerships buy from us on a purchase order basis. Consequently, with little or no notice, the independent installers and new car dealerships may terminate their relationships with us or materially reduce their purchases of our products.

If we were to lose any significant independent installers or new car dealerships, for among other reasons that the independent installers and new car dealerships acquired or were acquired by a competitor such that they became a direct competitor, then we would need to obtain one or more new independent installers or new car dealerships to cover the particular location or product line, which may not be possible on favorable terms or at all.

The Company may incur material losses and costs as a result of product liability and warranty claims.

The Company faces an inherent risk of exposure to product liability claims if the use of its products results, or is alleged to result, in personal injury and/or property damage. If the Company manufactures a defective product, it may experience material product liability losses. Whether or not its products are defective, the Company may incur significant costs to defend product liability claims. It also could incur significant costs in correcting any defects, lose sales and suffer damage to its reputation. Product liability insurance coverage may not be adequate for the liabilities and may not continue to be available on acceptable terms.

The Company is also subject to product warranty claims in the ordinary course of business. If the Company sells poor-quality products or uses defective materials, the Company may incur unforeseen costs in excess of what it has reserved in its financial statements. These costs could have a material adverse effect on the Company's business, financial condition, operating cash flows and ability to make required debt payments.

We sell our products under limited warranties. We have established a liability reserve under these warranties based on a review of historical warranty claims. Our liability for warranties as of December 31, 2018 and 2017 was $70,250 and $95,882, respectively. The warranty reserves may not be sufficient to cover the costs associated with future warranty claims. A significant increase in these costs could adversely affect the Company's operating results for future periods in which these additional costs materialize. Warranty reserves may need to be adjusted from time to time in the future if actual warranty claim experience differs from estimates. Any of the foregoing matters could have a material adverse effect on the Company's business, financial condition, operating cash flows and ability to make required debt payments.

Harm to our reputation or the reputation of one or more of our products could have an adverse effect on our business.

We believe that maintaining and developing the reputation of our products is critical to our success and that the importance of brand recognition for our products increases as competitors offer products similar to our products. We devote significant time and incur substantial marketing and promotional expenditures to create and maintain brand loyalty as well as increase brand awareness of our products. Adverse publicity about us or our brands, including product safety or quality or similar concerns, whether real or perceived, could harm our image or that of our brands and result in an adverse effect on our business, as well as require resources to rebuild our reputation.

We may not be able to identify, finance and complete suitable acquisitions and investments, and any completed acquisitions and investments could be unsuccessful or consume significant resources.

Our business strategy is expected to include acquiring businesses and making investments that complement our existing business. We expect to analyze and evaluate the acquisition of strategic businesses or product lines with the potential to strengthen our industry position or enhance our existing set of product and service offerings. We may not be able to identify suitable acquisition candidates, obtain financing or have sufficient cash necessary for acquisitions or successfully complete acquisitions in the future. Acquisitions and investments may involve significant cash expenditures, debt issuance, equity issuance, operating losses and expenses. Acquisitions involve numerous other risks, including:

- diversion of management time and attention from daily operations;

- difficulties integrating acquired businesses, technologies and personnel into our business;
- difficulties in obtaining and verifying the financial statements and other business information of acquired businesses;
- inability to obtain required regulatory approvals;
- potential loss of key employees, key contractual relationships or key customers of acquired companies or of ours;
- assumption of the liabilities and exposure to unforeseen liabilities of acquired companies; and
- dilution of interests of holders of our common stock through the issuance of equity securities or equity-linked securities.

Our revenue and operating results may fluctuate, which may make our results difficult to predict and could cause our results to fall short of expectations.

As a result of the rapidly changing nature of the markets in which we compete, our quarterly and annual revenue and operating results may fluctuate from period to period. These fluctuations may be caused by a number of factors, many of which are beyond our control. For example, changes in industry or third-party specifications may alter our development timelines and consequently our ability to deliver and monetize new or updated products and services. Other factors that may cause fluctuations in our revenue and operation results include but are not limited to:

- any failure to maintain strong customer relationships;
- any failure of significant customers, including distributors, to renew their agreements with us;
- variations in the demand for our services and products and the use cycles of our services and products by our customers;
- changes in our pricing policies or those of our competitors; and
- general economic, industry and market conditions and those conditions specific to our business.

For these reasons and because the market for our services and products is relatively new and rapidly changing, it is difficult to predict our future financial results.

If we are unable to retain and acquire new customers, our financial performance may be materially and adversely affected.

Our financial performance and operations are dependent on retaining our current customers and acquiring new customers. A number of factors could negatively affect our customer retention or acquisition. For example, potential customers may request products or services that we currently do not provide and may be unwilling to wait until we can develop or source such additional features.

Other factors that affect our ability to retain or acquire new customers include customers' increasing use of competing products or services, our failure to develop and introduce new and improved products or new products or services not achieving a high level of market acceptance, changes in customer preference or customer sentiment about the quality or usefulness of our products and services, including customer service, consolidation or vertical integration of our customers, adverse changes in our products mandated by legislation, regulatory authorities, or litigation, including settlements or consent decrees, and technical or other problems preventing us from delivering our products in a rapid and reliable manner.

If we are unable to retain and acquire new customers, our financial performance may be materially and adversely affected.

We are exposed to political, regulatory, economic and other risks that arise from operating a multinational business.

Sales outside of the U.S. for the year ended December 31, 2018 accounted for approximately 58% of our revenue. Accordingly, our business is subject to the political, regulatory, economic and other risks that are inherent in operating in numerous countries. These risks include:

- changes in general economic and political conditions in countries where we operate, particularly in emerging markets;
- relatively more severe economic conditions in some international markets than in the U.S.;
- the difficulty of enforcing agreements and collecting receivables through non-U.S. legal systems;
- the difficulty of communicating and monitoring standards and directives across our global facilities;
- the imposition of trade protection measures and import or export licensing requirements, restrictions, tariffs or exchange controls;
- the possibility of terrorist action affecting us or our operations;
- the threat of nationalization and expropriation;
- difficulty in staffing and managing widespread operations in non-U.S. labor markets;
- changes in tax treaties, laws or rulings that could have a material adverse impact on our effective tax rate;
- limitations on repatriation of earnings;
- the difficulty of protecting intellectual property in non-U.S. countries; and
- changes in and required compliance with a variety of non-U.S. laws and regulations.

Our success depends in part on our ability to anticipate and effectively manage these and other risks. We cannot assure you that these and other factors will not have a material adverse effect on our international operations or on our business as a whole.

Volatility in currency exchange rates could have a material adverse effect on our financial condition, results of operations and cash flows.

Our financial statements reflect translation of items denominated in non-U.S. currencies to U.S. dollars. Therefore, if the U.S. dollar strengthens in relation to the principal non-U.S. currencies from which we derive revenue as compared to a prior period, our U.S. dollar-reported revenue and income will effectively be decreased to the extent of the change in currency valuations and vice-versa. Fluctuations in foreign currency exchange rates, most notably the strengthening of the U.S. dollar against other various foreign currencies in markets where we operate, could continue to have a material adverse effect on our reported revenue in future periods. In addition, currency variations could have a material adverse effect on margins on sales of our products in countries outside of the U.S.

The loss of one or more of our key personnel, or our failure to attract and retain other highly qualified personnel in the future, could harm our business.

We currently depend on the continued services and performance of our executive officers, Ryan L. Pape, our President and Chief Executive Officer, and Barry R. Wood, our Senior Vice President and Chief Financial Officer, neither of whom has an employment agreement. Loss of key personnel, including members of management as well as key product development, marketing, and sales personnel, could disrupt our operations and have an adverse effect on our business. As we continue to grow, we cannot guarantee that we will continue to attract the personnel we need to maintain our competitive position. As we grow, the incentives to attract, retain, and motivate employees may not be as effective as in the past. If we do not succeed in attracting, hiring, and integrating effective personnel, or retaining and motivating existing personnel, our business could be adversely affected.

If we fail to manage our growth effectively, our business, financial condition and results of operations may suffer.

We have experienced rapid growth over the last five years and we believe we will continue to grow at a rapid pace. This growth has put significant demands on our processes, systems and personnel. We have made and we expect to make further investments in additional personnel, systems and internal control processes to help manage our growth. In addition, we have sought to, and may continue to seek to grow through strategic acquisitions. Our growth strategy may place significant demands on our management and our operational and financial infrastructure. Our ability to manage our growth effectively and to integrate new technologies and acquisitions into our existing business will require us to continue to expand our operational, financial and management information systems and to continue to retain, attract, train, motivate and manage key employees. Growth could strain our ability to develop and improve our operational, financial and management controls, enhance our reporting systems and procedures, recruit, train and retain highly skilled personnel, maintain our quality standards; and maintain our customer satisfaction.

Managing our growth will require significant expenditures and allocation of valuable management resources. If we fail to achieve the necessary level of efficiency in our organization as it grows or if we are unable to successfully manage and support our rapid growth and the challenges and difficulties associated with managing a larger, more complex business, this could cause a material adverse effect on our business, financial position and results of operations, and the market value of our shares could decline.

We may seek to incur substantial indebtedness in the future.

Our business strategy may include incurring indebtedness in the future. If this occurs, our degree of leverage could have important consequences for the holders of our Common Stock, including increasing our vulnerability to general economic and industry conditions; requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities; restricting us from making strategic acquisitions or causing us to make non-strategic divestitures; limiting our ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; and limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged. Any of the above consequences could result in a material adverse effect on our business, financial condition and results of operations.

We cannot be certain that additional financing will be available on reasonable terms when required, or at all.

From time to time, we may need additional financing. Our ability to obtain additional financing, if and when required, will depend on investor demand, our operating performance, the condition of the capital markets, and other factors. To the extent we draw on credit facilities, if any, to fund certain obligations, we may need to raise additional funds and we cannot assure investors that additional financing will be available to us on favorable terms when required, or at all. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences, or privileges senior to the rights of our Common Stock, and existing stockholders may experience dilution.

The preparation of our financial statements will involve the use of estimates, judgments and assumptions, and our financial statements may be materially affected if such estimates, judgments and assumptions prove to be inaccurate.

Financial statements prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP") require the use of estimates, judgments and assumptions that affect the reported amounts. Different estimates, judgments and assumptions reasonably could be used that would have a material effect on the consolidated financial statements, and changes in these estimates, judgments and assumptions are likely to occur from period to period in the future. Significant areas of accounting requiring the application of management's judgment include, but are not limited to, determining the fair value of our assets and the timing and amount of cash flows from our assets. These estimates, judgments and assumptions are inherently uncertain and, if they prove to be wrong, we face the risk that charges to income will be required. Any such charges could significantly harm our business, financial condition, results of operations and the price of our securities. Estimates and assumptions are made on an ongoing basis for the following: revenue recognition, capitalization of software development costs, impairment of long-lived assets, inventory reserves, allowances for doubtful accounts, revenue recognition, fair value for business combinations, and impairment of goodwill. See "Financial Information" for a discussion of the accounting estimates, judgments and assumptions that we believe are the most critical to an understanding of our future plan of operations.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, stockholders could lose confidence in our financial and other public reporting, which would likely negatively affect our business and the market price of our Common Stock.

Effective internal control over financial reporting is necessary for us to provide reliable financial reports and prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. In addition, any testing conducted by us, or any testing conducted by our independent registered public accounting firm may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses or that may require prospective or retroactive changes to our consolidated financial statements or identify other areas for further attention or improvement. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which is likely to negatively affect our business and the market price of our Common Stock.

Management is responsible for establishing and maintaining adequate internal control over our financial reporting. We have discovered certain financial statement reporting errors that, while not material, indicated a significant deficiency in internal controls over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those responsible for oversight of financial reporting. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of the significant deficiency, our management concluded that the Company's internal control over financial reporting was insufficiently rigorous and developed and implemented remediation plans designed to address the significant deficiency. If our remedial measures are insufficient to address the significant deficiency, or if additional significant deficiencies or material weaknesses in internal control are discovered or occur in the future, the Company's consolidated financial statements could contain material misstatements. If we are unable to remediate a material weakness or significant deficiency in a timely manner, our investors, regulators, customers and other business partners may lose confidence in our business or our financial reports, and our access to capital markets may be adversely affected. Any of the foregoing effects could have a material adverse effect on the Company's business, financial condition and operating cash flows.

We will be required to disclose changes made in our internal controls and procedures on a quarterly basis and our management will be required to assess the effectiveness of these controls annually. However, for as long as we are an "emerging growth company" under the JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). We could be an "emerging growth company" for up to five years. An independent assessment of the effectiveness of our internal controls could detect problems that our management's assessment might not. Undetected material weaknesses in our internal controls could lead to financial statement restatements and require us to incur the expense of remediation.

We have no operating experience as a publicly traded company in the U.S.

We have no operating experience as a publicly traded company in the U.S. Following the effectiveness of this registration statement, we will be required to develop and implement internal control systems and procedures in order to satisfy the periodic and current reporting requirements under applicable Securities and Exchange Commission, or SEC, regulations. This transition could place a significant strain on our management team, infrastructure and other resources. In addition, our management team may not successfully or efficiently manage a public company that is subject to significant regulatory oversight and reporting obligations.

We will incur increased costs as a result of being a U.S. public company.

As a publicly traded company in the United States, we will need to comply with new laws, regulations and requirements, certain corporate governance provisions of the Sarbanes-Oxley Act and related regulations of the SEC. Complying with these statutes, regulations and requirements will occupy a significant amount of time of our board of directors and management and will significantly increase our costs and expenses. As a U.S. public company, we will need to institute a more comprehensive compliance regime, including establishing a more robust system of internal controls and the preparation and distribution of periodic public reports. These activities will require us to retain outside counsel and accountants to a greater degree, resulting in increased costs, which may have a material adverse effect on our business. These requirements may also make it more difficult for us to attract and retain qualified members of our Board, particularly to serve on our Audit Committee, and qualified executive officers.

We are an "emerging growth company," and we cannot be certain if the reduced SEC reporting requirements applicable to emerging growth companies will make our Common Stock less attractive to investors.

We are an "emerging growth company" as defined in the JOBS Act. We will remain an "emerging growth company" until the earliest to occur of (i) the last day of the fiscal year during which our total annual revenue is, (ii) the last day of the fiscal year following the fifth anniversary of the date of the first sale of common equity securities pursuant to an effective registration statement, (iii) the date on which we have, during the previous three-year period, issued more than $1 billion in non-convertible debt securities and (iv) the date on which we are deemed to be a "large accelerated filer" under the Exchange Act. We intend to take advantage of exemptions from various reporting requirements that are applicable to most other public companies, whether or not they are classified as "emerging growth companies," including, an exemption from the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that our independent registered public accounting firm provide an attestation report on the effectiveness of our internal control over financial reporting and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

If some investors find our Common Stock less attractive because we intend to rely on certain of these exemptions and benefits under the JOBS Act, there may be a less active, liquid or orderly trading market for our Common Stock and the market price and trading volume of our Common Stock may be more volatile and decline significantly.

Violations of the U.S. Foreign Corrupt Practices Act and similar anti-corruption laws outside the U.S. could have a material adverse effect on us.

The Foreign Corrupt Practices Act, or FCPA, and similar anti-corruption laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials or other persons for the purpose of obtaining or retaining business. Recent years have seen a substantial increase in anti-bribery law enforcement activity, with more frequent and aggressive investigations and enforcement proceedings by both the U.S. Department of Justice and the SEC, increased enforcement activity by non-U.S. regulators and increases in criminal and civil proceedings brought against companies and individuals. Our policies mandate compliance with these anti-bribery laws. We operate in many parts of the world that are recognized as having governmental and commercial corruption and in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. We cannot assure you that our internal control policies and procedures will always protect us from reckless or criminal acts committed by our employees or third-party intermediaries. In the event that we believe or have reason to believe that our employees or agents have or may have violated applicable anti-corruption laws, including the FCPA, we may be required to investigate or have outside counsel investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management. Violations of these laws may require self-disclosure to governmental agencies and result in criminal or civil sanctions, which could disrupt our business and result in a material adverse effect on our reputation, business, financial condition, results of operations and cash flows.

Our failure to satisfy international trade compliance regulations, and changes in U.S. government sanctions, could have a material adverse effect on us.

Our global operations require importing and exporting goods and technology across international borders on a regular basis. Our policy mandates strict compliance with U.S. and non-U.S. trade laws applicable to our products. Nonetheless, our policies and procedures may not always protect us from actions that would violate U.S. or non-U.S. laws. Any improper actions could subject us to civil or criminal penalties, including material monetary fines, or other adverse actions including denial of import or export privileges, and could damage our reputation and business prospects.

Changes in U.S. administrative policy, including changes to existing trade agreements, could have a material adverse effect on us.

As a result of changes to U.S. administrative policy, there may be changes to existing trade agreements, greater restrictions on free trade generally or other possible changes. Changes in U.S. social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories and countries where we currently sell products, and any resulting negative sentiments towards the U.S. as a result of such changes, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Intellectual property challenges may hinder our ability to develop and market our products, and we may incur significant costs in our efforts to successfully avoid, manage, defend and litigate intellectual property matters.

Proprietary technologies, customer relationships, trademarks, trade names and brand names are important to our business. Intellectual property protection, however, may not preclude competitors from developing products similar to ours or from challenging our names or products. Further, as we expand on a multi-national level and in some jurisdictions where the protection of intellectual property rights is less robust, the risk of competitors duplicating our proprietary technologies increases. We may need to spend significant resources monitoring our intellectual property rights, and we may or may not be able to detect infringement by third parties. Assertions by or against us relating to intellectual property rights, and any inability to protect these rights, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may face design limitations or liability associated with the use of products for which patent ownership or other intellectual property rights are claimed.

From time to time we are subject to claims or inquiries regarding alleged unauthorized use of a third party's intellectual property and cannot be certain that the conduct of our business does not and will not infringe the intellectual property rights of others. An adverse outcome in any intellectual property litigation could subject us to significant liabilities to third parties, require us to license technology or other intellectual property rights from others, require us to comply with injunctions to cease marketing or using certain products or brands, or require us to redesign, re-engineer, or re-brand certain products or packaging, any of which could affect our business, financial condition and operating results. Third-party intellectual property rights may also make it more difficult or expensive for us to meet market demand for particular product or design innovations. If we are required to seek licenses under patents or other intellectual property rights of others, we may not be able to acquire these licenses on acceptable terms, if at all. In addition, the cost of responding to an intellectual property infringement claim, in terms of legal fees and expenses and the diversion of management resources, whether or not the claim is valid, could have a material adverse effect on our business, results of operations and financial condition.

If the model of selling vehicles through dealerships in North America changes dramatically, our revenue could be impacted.

Generally, most vehicles in North America are sold through franchised new car dealerships. These dealerships have a strong profit motive and are historically very good at selling accessories and other products. Going forward, if the dealership model were to change in the form of fewer franchised dealerships, or the possibility of manufacturer owned distribution, the prospects in this channel may diminish. Manufacturer-owned sales of new cars might become harder to penetrate or more streamlined with fewer opportunities to sell accessories. This would make us more reliant on our independent installer, retail-oriented channel, which requires more work to create consumer awareness.

If ride-sharing or alternate forms of vehicle ownership gain in popularity, our revenue could be impacted.

If ride-sharing or alternate forms of vehicle ownership including rental, ride-sharing, or peer-to-peer car sharing gain in popularity, consumers may own fewer vehicles per household, which would reduce our revenue. More vehicles entering a ride-sharing or car-sharing fleet could have an uncertain impact on our revenue as consumers are more or less interested in accessorizing vehicles they own that are in the ride-sharing fleet.

Environmental regulation, changing fuel-economy standards and/or a drive toward electric vehicles could impact our revenue.

Many manufacturers have announced plans to transition from internal-combustion engines into electric vehicle platforms over the coming years. There is no assurance that consumers will respond positively to this fundamental shift in the auto industry, should it occur. If the change results in vehicles that are more utilitarian or otherwise less interesting to a large portion of our customers who are automotive enthusiasts, our revenue could be impacted.

Technology could render the need for some of our products obsolete.

We derive the majority of our revenue from surface and paint protection films, with the majority of products applied on painted surfaces of vehicles. If automotive paint technology were to improve substantially, such that newer paint did not chip, scratch or was generally not as susceptible to damage, our revenue could be impacted.

Similarly, our automotive and architectural window films could be impacted by changes or enhancements from automotive manufacturers or window manufacturers that would reduce the need for our products.

Risks Relating to our Securities

Our Common Stock price has been volatile in recent years and may continue to be volatile.

Our Common Stock trades in Canada on the TSX Venture Exchange under the trading symbol "DAP.U" and the over-the-counter market in the United States under the trading symbol "XPLT". We have applied to list our Common Stock on The NASDAQ Stock Market under the trading symbol "XPEL". A number of factors could influence the volatility in the trading price of our Common Stock, including changes in the economy or in the financial markets, after market automotive product industry related developments, and the impact of material events and changes in our operations. Each of these factors could lead to increased volatility in the market price of our Common Stock.

In addition, in recent years, the stock market in general has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies, including for reasons unrelated to their operating performance. These broad market fluctuations may adversely affect our common share price, notwithstanding our operating results. We expect that the market price of our securities will fluctuate and there can be no assurances about the levels of the market prices for our securities.

An active trading market for our Common Stock may not develop or continue to be liquid.

We expect our Common Stock to be listed and traded on The NASDAQ Stock Market. Prior to the listing on The NASDAQ Stock Market, our Common Stock has only traded in the over-the-counter market in the United States, and an active market for our Common Stock may not develop or be sustained after the listing, which could depress the market price of our Common Stock and could affect the ability of our stockholders to sell their shares. In the absence of an active public trading market, investors may not be able to liquidate their investments in our Common Stock. An inactive market may also impair our ability to raise capital by selling our Common Stock, our ability to motivate our employees through equity incentive awards and our ability to acquire other companies, products or technologies by using our Common Stock as consideration. In addition, we cannot predict the prices at which our Common Stock may trade on The NASDAQ Stock Market following the listing of our Common Stock, and the market price of our Common Stock may fluctuate significantly in response to various factors, some of which are beyond our control.

If research analysts do not publish research about our business or if they issue unfavorable commentary or downgrade our Common Stock, the price of our Common Stock and their trading volume could decline.

The trading market for our Common Stock may depend in part on the research and reports that research analysts publish about us and our business. If we do not maintain adequate research coverage, or if one or more analysts who covers us downgrades our Common Stock or publishes inaccurate or unfavorable research about our business, the price of our Common Stock could decline. If one or more of the research analysts ceases to cover us or fails to publish reports on us regularly, demand for our Common Stock could decrease, which could cause the price or trading volume to decline.

We may issue additional equity securities, or engage in other transactions that could dilute our book value or affect the priority of our Common Stock, which may adversely affect the market price of our Common Stock.

Our articles of incorporation allow our Board to issue up to 100,000,000 shares of Common Stock. Our Board may determine from time to time that we need to raise additional capital by issuing Common Stock or other equity securities. Except as otherwise described in this registration statement, we are not restricted from issuing additional securities, including securities that are convertible into or exchangeable for, or that represent the right to receive, shares of our Common Stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, or nature of any future offerings, or the prices at which such offerings may be affected. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our Common Stock, or both. Holders of our Common Stock are not entitled to pre-emptive rights or other protections against dilution. New investors also may have rights, preferences and privileges that are senior to, and that adversely affect, the then-current holders of our Common Stock. Additionally, if we raise additional capital by making offerings of debt or shares of preferred stock, upon our liquidation, holders of our debt securities and shares of preferred stock, and lenders with respect to other borrowings, may receive distributions of our available assets before the holders of our Common Stock.

We may issue shares of preferred stock with greater rights than our Common Stock.

Subject to the rules of The NASDAQ Capital Market, our articles of incorporation authorize our board of directors to issue one or more series of preferred stock and set the terms of the preferred stock without seeking any further approval from holders of our Common Stock. Any preferred stock that is issued may rank ahead of our Common Stock in terms of dividends, priority and liquidation premiums and may have greater voting rights than our Common Stock.

We have not paid any cash dividends in the past and have no plans to issue cash dividends in the future, which could cause our Common Stock to have a lower value than that of similar companies which do pay cash dividends.

We have not paid any cash dividends on our Common Stock to date and do not anticipate any cash dividends being paid to holders of our Common Stock in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board.

While our dividend policy will be based on the operating results and capital needs of the business, it is anticipated that any earnings will be retained to finance our future expansion. As we have no plans to issue cash dividends in the future, our Common Stock could be less desirable to other investors and as a result, the value of our Common Stock may decline, or fail to reach the valuations of other similarly situated companies that pay cash dividends.

Shares eligible for future sale may depress our stock price.

At April 24, 2019, we had 27,612,597 shares of Common Stock outstanding of which 11,088,229 shares were held by affiliates. All of the shares of Common Stock held by affiliates are restricted or are control securities under Rule 144 promulgated under the Securities Act of 1933 as amended (the “Securities Act”). Sales of shares of Common Stock under Rule 144 or another exemption under the Securities Act or pursuant to a registration statement could have a material adverse effect on the price of our Common Stock and could impair our ability to raise additional capital through the sale of equity securities. Furthermore, all Common Stock beneficially owned by persons who are not our affiliates and have beneficially owned such shares for at least one year may be sold immediately after our initial listing on The NASDAQ Stock Market by these existing stockholders in accordance with Rule 144 of the Securities Act. However, there can be no assurance that any of these existing stockholders will sell any or all of their Common Stock and there may initially be a lack of supply of, or demand for, our Common Stock on The NASDAQ Stock Market. In the case of a lack of supply of our Common Stock offered in the market, the trading price of our Common Stock may rise to an unsustainable level, particularly in instances where institutional investors may be discouraged from purchasing our Common Stock because they are unable to purchase a block of our Common Stock in the open market due to a potential unwillingness of our existing stockholders to sell the amount of Common Stock at the price offered by such investors and the greater influence individual investors have in setting the trading price. In the case of a lack of market demand for our Common Stock, the trading price of our Common Stock could decline significantly and rapidly after our listing.

Your percentage of ownership in our Common Stock may be diluted in the future.

In the future, your percentage ownership in our Common Stock may be diluted because of equity issuances for acquisitions, capital market transactions or otherwise, including equity awards that we expect to be granting to our directors, officers and employees. Such issuances may have a dilutive effect on our earnings per share, which could materially adversely affect the market price of our ordinary shares.

Anti-takeover provisions could make a third party acquisition of us difficult.

Our bylaws eliminate the ability of stockholders to call special meetings or take action by written consent. These provisions in our bylaws could make it more difficult for a third party to acquire us without the approval of our board. In addition, the Nevada corporate statute also contains certain provisions that could make an acquisition by a third party more difficult.

Our directors and officers have substantial control over us.

Our directors and executive officers, together with their affiliates and related persons, beneficially owned, in the aggregate, approximately 40.2% of our outstanding Common Stock as of March 1, 2019. These stockholders have the ability to substantially control our operations and direct our policies including the outcome of matters submitted to our stockholders for approval, such as the election of directors and any acquisition or merger, consolidation or sale of all or substantially all of our assets.

Our bylaws provide that the state and federal courts located in Bexar County, Texas will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our bylaws provide that, with certain limited exceptions, unless we consent in writing to the selection of an alternative forum, the state and federal courts located in Bexar County, Texas will be the sole and exclusive forum for any stockholder (including any beneficial owner) to bring any (i) derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of, or a claim based on, breach of a fiduciary duty owed by any current or former director, officer, employee or stockholder to us or our stockholders, (iii) any action asserting a claim against us or any current or former director, officer, employee or stockholder arising pursuant to any provision of Chapters 78 and 92 of the Nevada Revised Statutes or our articles of incorporation or bylaws or (iv) any action asserting a claim against us or any current or former director, officer, employee or stockholder (including any beneficial owner of stock) governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in our Common Stock is deemed to have notice of and consented to the foregoing provisions. This choice of forum provision may limit a stockholder's ability to bring claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, if a court were to find this choice of forum provision inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition or results of operations The choice of forum provision does not apply to any actions arising under the Securities Act or the Exchange Act.

Item 2 – Financial Information

The following discussion summarizes the significant factors affecting the operating results, financial condition and liquidity and cash flow of our Company for the years ended December 31, 2018 and 2017. You should read this discussion together with the consolidated financial statements, related notes and other financial information included in this registration statement. Except for historical information, the matters discussed in Item 2 - Financial Information are forward looking statements that involve risks and uncertainties, including those discussed under Part I, Item IA - "Risk Factors" and elsewhere in this *registration statement, and are based upon judgments concerning various factors, that are beyond our control. These risks could cause our actual results to differ materially from any future performance suggested below.*

Overview

Founded in 1997, XPEL has grown from an automotive product design software company to a global provider of after-market automotive products, including automotive surface and paint protection, headlight protection and automotive window films, as well as a provider of complementary proprietary software. In 2018, we expanded our product offerings to include window film (both commercial and residential) and security film protection for commercial and residential uses. Today, we employ approximately 180 employees and serve over 2,000 direct customers and several thousand indirect customers around the world.

XPEL began as a software company designing vehicle patterns used to produce cut-to-fit protective film for the painted surfaces of automobiles. In 2007, we began selling automobile protective film products to complement our software business. In 2011, we introduced the ULTIMATE protective film which, at the time, was the industry's first protective film with self-healing properties. The ULTIMATE technology allows the protective film to better absorb the impacts from rock impingement or other road debris, thereby fully protecting the painted surface of a vehicle. The film is described as "self-healing" due to its ability to return to its original state after debris impingement.

The launch of the ULTIMATE product catapulted XPEL into several years of strong revenue growth. In 2014, we began our international expansion by establishing an office in the United Kingdom. In 2015, we acquired Parasol Canada, a distributor of our products in Canada. In 2017, we established our European headquarters in The Netherlands, and expanded our product offerings to include an automotive protective window film branded as PRIME. We continued our international expansion in 2017 with the acquisition of Protex Canada, a leading franchisor of automotive protective film franchises serving Canada, as well as opened our XPEL Mexico office. In 2018, we launched our first product offering outside of the automotive industry, a window and security film protection for commercial and residential uses. Also in 2018, we launched the next generation of our highly successful ULTIMATE line, ULTIMATE PLUS.

Key Business Metrics - Non-GAAP Financial Measures

Our management regularly monitors certain financial measures to track the progress of our business against internal goals and targets. We believe that the most important measure to the Company is EBITDA.

EBITDA is a non-GAAP financial measure. We believe EBITDA provides helpful information with respect to our operating performance as viewed by management, including a view of our business that is not dependent on (i) the impact of our capitalization structure and (ii) items that are not part of our day-to-day operations. Management uses EBITDA (1) to compare our operating performance on a consistent basis, (2) to calculate incentive compensation for our employees, (3) for planning purposes including the preparation of our internal annual operating budget, (4) to evaluate the performance and effectiveness of our operational strategies, and (5) to assess compliance with various metrics associated with the agreements governing our indebtedness. Accordingly, we believe that EBITDA provides useful information in understanding and evaluating our operating performance in the same manner as management. We define EBITDA as net income (loss) plus (a) total depreciation and amortization, (b) interest expense, net, and (c) income tax expense.

The following table is a reconciliation of Net income to EBITDA:

	Year Ended Dec 31, 2018	Year Ended Dec 31, 2017
Net Income	$ 8,721,232	$ 994,330
Interest	168,389	328,402
Taxes	2,760,073	1,154,220
Depreciation	735,983	594,712
Amortization	642,801	537,334
EBITDA	$ 13,028,478	$ 3,608,998

Use of Non-GAAP Financial Measures

EBITDA should be considered in addition to, not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. It is not a measurement of our financial performance under GAAP and should not be considered as alternatives to revenue or net income (loss), as applicable, or any other performance measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other businesses. EBITDA has limitations as an analytical tool and you should not consider it in isolation or as a substitute for analysis of our operating results as reported under GAAP.

EBITDA does not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of ongoing operations; and other companies in our industry may calculate EBITDA differently than we do, limiting their usefulness as comparative measures.

Results of Operations

Comparison of Year Ended December 31, 2018 to year ended December 31, 2017

The following table summarizes the Company's results of operations for fiscal years 2018 and 2017:

	Year Ended December 31, 2018	% of Total Revenue	Year Ended December 31, 2017	% of Total Revenue	$ Change	% Change
Total revenue	$109,920,614	100.0%	$ 67,297,044	100.0%	$ 42,623,570	63.3%
Total cost of sales	76,484,009	69.6%	50,613,212	75.2%	25,870,797	51.1%
Gross margin	33,436,605	30.4%	16,683,832	24.8%	16,752,773	100.4%
Total operating expenses	21,604,869	19.7%	14,472,327	21.5%	7,132,542	49.3%
Operating income	11,831,736	10.8%	2,211,505	3.3%	9,620,231	435.0%
Other expenses	350,431	0.3%	62,955	0.1%	287,476	456.6%
Income tax	2,760,073	2.5%	1,154,220	1.7%	1,605,853	139.1%
Net income	$ 8,721,232	7.9%	$ 994,330	1.5%	$ 7,726,902	777.1%

Revenue. Total 2018 revenue increased approximately $42.6 million, or 63.3% over 2017 revenue. Approximately $38.1 million of this increase related to increased product revenue, approximately $2.3 million of this increase related to increased service revenue and approximately $2.2 million of this increase related to our acquisitions. The following table summarizes revenue results for fiscal years 2018 and 2017:

	Year Ended December 31,		%	% of Total Revenue	
	2018	2017	Inc (Dec)	2018	2017
Product Revenue					
Paint protection film	$ 85,495,382	$ 49,489,430	72.8 %	77.8%	73.5%
Window film	7,309,773	5,103,080	43.2 %	6.7%	7.6%
Other	2,721,195	1,755,639	55.0 %	2.5%	2.6%
Total	$ 95,526,350	$ 56,348,149	69.5 %	87.0%	83.7%
Service Revenue					
Software	$ 2,566,960	$ 2,820,709	(9.0)%	2.3%	4.2%
Cutbank credits	6,197,250	4,145,745	49.5 %	5.6%	6.2%
Installation labor	5,211,633	3,709,517	40.5 %	4.7%	5.5%
Training	418,421	272,924	53.3 %	0.4%	0.4%
Total	$ 14,394,264	$ 10,948,895	31.5 %	13.0%	16.3%
Total	$ 109,920,614	$ 67,297,044	63.3 %	100.0%	100.0%

Because many of our international customers require us to ship their orders to freight forwarders located in the United States, we cannot be certain about the ultimate destination of the product. The following table represents our estimate of sales by geographic regions based on our understanding of ultimate product destination based on customer interactions, customer locations and other factors:

	Year Ended December 31,		%	% of Total Revenue	
	2018	2017	Inc (Dec)	2018	2017
United States	$ 46,077,624	$ 33,134,851	39.1 %	41.9%	49.2%
China	32,279,335	11,873,582	171.9 %	29.4%	17.6%
Canada	15,146,869	10,693,002	41.7 %	13.8%	15.9%
Continental Europe	5,734,925	2,751,718	108.4 %	5.2%	4.1%
United Kingdom	2,725,925	1,690,664	61.2 %	2.5%	2.5%
Asia Pacific	2,754,495	2,293,285	20.1 %	2.5%	3.4%
Latin America	1,799,180	829,378	116.9 %	1.6%	1.2%
Middle East/Africa	2,806,502	3,331,376	(15.8)%	2.6%	5.0%
Other	595,759	699,188	(14.8)%	0.5%	1.1%
Total	$ 109,920,614	$ 67,297,044	63.3 %	100.0%	100.0%

Product Revenue. Product revenue grew 69.5% over 2017 product revenue and represented 87.0% of our total revenue. Revenue from our paint protection film product line increased 72.8% and represented 77.8% and 73.5% of our total 2018 and 2017 revenue, respectively. This increase was driven primarily by a 70.4% increase in the square footage of film product sold owing to the increased demand for our products. Revenue from our window film product line grew 43.2% and represented 6.7% and 7.6% of our total 2018 and 2017 revenue, respectively. These increases were due to continued strong demand for our products throughout the world. Approximately $1.1 million of this increase was acquisition related.

Service revenue. Service revenue consists of revenue from fees for DAP software access, cutbank credit revenue which represents per cut fees charged for the use of our DAP software, revenue from the labor portion of installation sales in our company-owned installation centers and revenue from training services provided to our customers. Service revenue grew 31.5% over 2017 service revenue and represented 13.0% and 16.3% of our total 2018 and 2017 revenue, respectively. Software revenue decreased (9.0)% and represented 2.3% and 4.2% of our total 2018 and 2017 revenue, respectively. This decrease was due mainly to the restructuring of DAP access fees commensurate with the implementation of our cutbank program . Cutbank credit revenue grew 49.5% and represented 5.6% and 6.2% of our total 2018 and 2017 revenue, respectively, due mainly to our growth in product revenue and the aforementioned restructuring of DAP access fees. Software and cutbank credit revenue combined grew 25.8% due mainly to the increased demand for our products and services. Installation labor increased 40.5% due mainly to increased strong demand in the areas in which our company-owned stores operate. Training revenue increased 53.3% versus 2017 due to increased demand consistent with the growth of the business. Approximately $1.1 million of the total service revenue increase was acquisition related.

Total installation revenue (labor and product combined) at our Company-owned installation centers increased 40.5% versus 2017 due mainly to increased demand for our products and services in our Company-owned installation facilities. This represented 5.6% and 6.6% of our total 2018 and 2017 revenue, respectively. Adjusted product revenue, which combines the cutbank credit revenue service component with product revenue, grew 68.2% versus 2017 due to an overall increase in demand for our products and services in most of the regions in which we operate.

Cost of Sales

Cost of sales consists of product costs and the costs to provide our services. Product costs consist of material costs, personnel costs related to warehouse personnel, shipping costs, warranty costs and other related costs to provide products to our customers. Cost of service includes the labor costs associated with installation of product in our Company-owned facilities, costs of labor associated with pattern design for our cutting software and the costs incurred to provide training for our customers. Cost of product sales in 2018 grew 53.3% over 2017 and represented 67.0% and 71.4% of total revenue in 2018 and 2017, respectively, commensurate with the growth in revenue. Cost of service grew 10.4% in 2018 due mainly to the increased installation labor costs associated with increased installation sales.

Gross Margin

Gross margin for 2018 grew $16.8 million, an improvement of 100.4% from 2017 and represented 30.4% of revenue. The following table summarizes gross margin for product and services for 2018 and 2017:

	Year Ended December 31,		%	% of Category Revenue	
	2018	**2017**	**Inc (Dec)**	**2018**	**2017**
Product	$ 21,869,961	$ 8,296,688	163.6%	22.9%	14.7%
Service	11,566,644	8,387,144	37.9%	80.4%	76.6%
Total	$ 33,436,605	$ 16,683,832	100.4%	30.4%	24.8%

Product gross margin increased $13.6 million, or 163.6% over 2017 and represented 22.9% and 14.7% of 2018 and 2017 total product revenue, respectively. Approximately 51.9% of the product gross margin percentage increase related to improvements in material costs related to increased volumes leading to lower per unit cost. Approximately 15.2% of the product gross margin percentage increase related to reductions in warranty costs commensurate with improvements in film quality from our suppliers and approximately 32.9% of the product gross margin percentage increase related to other operating efficiencies achieved related to our production activities.

Service gross margin increased $3.2 million, or 37.9% over 2017 and represented 80.4% and 76.6% of 2018 and 2017 total service revenue, respectively. The increase in service gross margin over 2017 was due mainly to installation labor efficiency gains commensurate with increased sales at our company owned installation centers. Sales from our Company-owned installation centers increased 40.5% primarily as a result of increased demand for our products and services in our Company-owned installation centers.

Operating Expenses

Sales and marketing expenses increased $1.9 million in 2018, or 37.5% over 2017, and represented 6.2% and 7.3% of 2018 and 2017 total revenue, respectively. This increase was primarily attributable to increases in sales staff and other marketing related expenses incurred to support the on-going growth of the business.

General and administrative expenses grew $5.3 million in 2018, or 55.4% over 2017, and represented 13.5% and 14.2% of 2018 and 2017 total revenue, respectively. The increase was due mainly to increases in personnel, occupancy costs, information technology costs and travel related costs to support the on-going growth of the business and increases in professional fees due mainly to the ancillary costs related to the preparation and filing of this registration statement.

Other (Income) Expense, Net

Other expense increased $0.3 million from 2017, primarily due to the impact from exchange rate fluctuations partially offset by reductions in interest cost due to overall lower debt levels in 2018.

Income Tax Expense

Income tax expense increased $1.6 million from 2017, primarily due to increased profitability in 2018. On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax cuts and Jobs Act or Tax Reform Act. The Tax Reform Act made broad and complex changes to the U.S. tax code that affected the Company, including but not limited to, a permanent reduction of the U.S. corporate income tax rate from 34% to 21% effective January 1, 2018.

Net Income

Net income for the period increased by $7.7 million from 2017, to $8.7 million in 2018 owing mainly to the aforementioned increases in revenue and gross margin.

Liquidity and Capital Resources

The primary source of liquidity for our business is cash flows provided by operations. We expect to continue to have cash requirements to support working capital needs, capital expenditures, and to pay interest and service debt, if applicable. We believe we have the ability and sufficient capacity to meet these cash requirements by using available cash and internally generated funds and borrowing under committed credit facilities. We are focused on continuing to generate positive operating cash to fund our operational and capital investment initiatives. We have sufficient liquidity to operate for at least the next 12 months from the date of filing this registration statement.

Operating activities. Cash flows provided by operations totaled approximately $6.8 million for the year, compared to $3.0 million in 2017 primarily as a result of strong positive cash flow due mainly to cash generated from increased revenues and gross margins.

Investing activities. Cash flows used in investing activities totaled approximately $3.1 million during the year compared to $2.3 million in the prior year. This increase includes approximately $0.8 million attributable to our acquisitions during the year ended December 31, 2018. Investments in property and equipment also increased by $0.5 million compared to prior year capital expenditures.

Financing activities. Cash flows used in financing activities during the year totaled approximately $3.1 million compared to a source of funds of $1.0 million in the prior year due primarily to $1.5 million in additional net principal reductions on the Company's revolving line of credit and the prior year net proceeds of $2.6 million from the issuance of Common Stock.

Debt obligations at December 31, 2018 totaled approximately $1.8 million compared with $4.0 million at December 31, 2017.

Credit Facilities

Our credit facilities consist of a $8.5 million revolving line of credit agreement with The Bank of San Antonio and a revolving credit facility maintained by our Canadian subsidiary. The Bank of San Antonio facility is utilized to fund our working capital needs and is secured by a security interest in substantially all of our current and future assets. The line has a variable interest rate of the Wall Street Journal prime rate plus 0.75% with a floor of 4.25% and matures in May 2020. The interest rate at December 31, 2018 and 2017 was 6.25% and 5.25%, respectively. As of December 31. 2018, no balance was outstanding on this line. As of December 31, 2017, the balance outstanding was $2.0 million.

The credit agreement contains customary covenants including covenants relating to complying with applicable laws, delivery of financial statements, payment of taxes and maintaining insurance. The credit agreement also requires that XPEL must maintain debt service coverage (EBITDA divided by the current portion of long-term debt plus interest) of 1.25:1 and debt to tangible net worth of 4.0:1 on a rolling four quarter basis. The credit agreement also contains customary events of default including the failure to make payments of principal and interests, the breach of any covenants, the occurrence of a material adverse change, and certain bankruptcy and insolvency events.

During 2018, XPEL Canada Corp., a wholly-owned subsidiary of XPEL, Inc. entered into an Canadian Dollar ("CAD") $4.5 million revolving credit facility through HSBC Bank Canada. This facility is utilized to fund our working capital needs in Canada. This facility bears interest at HSBC Canada Bank's prime rate plus .25% per annum and is guaranteed by the parent company. As of December 31, 2018, no balance was outstanding on this facility.

2017 Private Placement

On February 27, 2017, the Company issued 1,659,182 shares of common Stock at a price of $1.43 per share to accredited investors in reliance on the exemption from the registration requirements of the Securities Act set forth in Section 4(a)(2) of the Securities Act. On March 21 , 2017, the Company issued an additional 168,465 shares of Common Stock at a price of $1.43 share to accredited investors in reliance on the exemption from the registration requirements of the Securities Act set forth in Section 4(a)(2) of the Securities Act. The net proceeds from this private placement of $2.6 million were used to fund on-going operations. Issuance costs related to this private placement totaled $0.04 million and were recorded as a reduction in proceeds in additional paid-in-capital.

RECENTLY ADOPTED ACCOUNTING STANDARDS

On January 1, 2018, we adopted Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers", and all related amendments, using the full retrospective transition method. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments. Topic 606 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most prior revenue recognition guidance. This new standard requires an entity to recognize revenue for the transfer of promised goods or services to a customer in an amount that reflects the consideration that the entity expects to receive and consistent with the delivery of the performance obligation described in the underlying contract with the customer. There was no impact to the amount or timing of revenue that the Company had recognized in prior periods.

In November 2016, the FASB issued new standards on the statement of cash flows and restricted cash that change the presentation of restricted cash and cash equivalents on the statement of cash flows. Restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We adopted this standard effective January 1, 2017. The adoption of this standard did not have a material effect on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations – Clarifying the Definition of a Business." ASU 2017-01 narrows the definition of a business and provides a screen to determine when a set of the three elements of a business – inputs, processes, and outputs – are not a business. The screen requires that when substantially all the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. If the screen is not met, the amendments (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The amendments provide a framework to assist entities in evaluating whether both an input and a substantive process are present. We adopted this standard effective January 1, 2017. The adoption of this standard did not have a material effect on the consolidated financial statements.

In January 2017, the FASB issued new guidance on goodwill impairment intended to simplify the testing for goodwill impairment by the elimination of Step 2 in the determination on whether goodwill should be considered impaired. The annual and/or interim assessments are still required to be completed. This guidance is effective for fiscal years (including interim periods) beginning after December 15, 2019, which is the Company's fiscal year ending December 31, 2020. We adopted this standard effective January 1, 2017. The adoption of this standard did not have a material effect on the consolidated financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET ADOPTED

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, "Leases" ("the new lease standard" or "ASC 842"), which requires an entity to recognize both assets and liabilities arising from financing and operating leases, along with additional qualitative and quantitative disclosures. The new lease standard requirements are effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and early adoption is permitted. The Company has begun evaluating the new lease standard, including the review and implementation of the necessary changes to our existing processes and systems that will be required to implement this new standard. While we are unable to quantify the impact at this time, it is expected the adoption of this standard will lead to a material increase in the assets and liabilities recorded on the consolidated balance sheets. The Company expects to use the effective date of this standard as the date of initial application with no retrospective adjustments to prior comparative periods.

In August 2018, the FASB issued ASU 2018-15, "Intangibles – Goodwill and Other – Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract" in order to provide additional guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. This is an amendment to ASU 2015-05, "Intangibles—Goodwill and Other—Internal-Use Software: Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years.

The Company is still assessing this guidance and the impact it will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Changes to the Disclosure Requirements for Fair Value Measurement*, to amend the disclosure requirements related to fair value measurements. These amendments include, but are not limited to, additional disclosures related to the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The standard has an effective date for annual periods beginning after December 15, 2019, and interim periods within those annual periods, with early adoption permitted. The Company is still assessing this guidance and the impact it will have on its consolidated financial statements.

Critical Accounting Policies

We have adopted various accounting policies to prepare the consolidated financial statements in accordance with U.S. GAAP. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. We identified the critical accounting policies which affect our more significant estimates and assumptions used in preparing our consolidated financial statements.

Certain of the most critical estimates that require significant judgment are as follows:

Allowance for Doubtful Accounts

When evaluating the adequacy of the allowance for doubtful accounts, we analyze accounts receivable, historical write-offs of bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customer payment terms. We maintain an allowance for doubtful accounts at an amount estimated to be sufficient to provide adequate protection against losses resulting from collecting less than full payment on outstanding accounts receivable. An amount of judgment is required when assessing the ability to realize accounts receivable, including assessing the probability of collection and the current credit-worthiness of each customer. If the financial condition of our customers was to deteriorate, resulting in an impairment of their ability to make payments, an additional provision for uncollectible accounts may be required. Our allowance for doubtful accounts was $0.1 million and $0.3 million as of December 31, 2018 and 2017, respectively, and based on our analysis, we believe the reserve is adequate for any exposure to credit losses.

Inventory Reserves

Inventory reserves are maintained for the estimated value of the inventory that may have a lower value than stated or quantities in excess of future production needs. We have an evaluation process to assess the value of the inventory that is slow moving, excess or obsolete on a quarterly basis. We evaluate our inventory based on current usage and the latest forecasts of product demand and production requirements from our customers. Our inventory reserve was $0.2 million as of both December 31, 2018 and 2017, and based on our evaluation, we believe the reserve to be adequate.

Recoverability of Long-Lived Assets

The Company reviews its long-lived assets whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable and determines potential impairment by comparing the carrying value of the assets with expected net cash flows expected to be provided by operating activities of the business or related products. If the sum of the expected undiscounted future net cash flows were less than the carrying value, we would determine whether an impairment loss should be recognized. An impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value of the asset. No impairment losses were recorded in any year presented.

Goodwill and Intangible Assets

Goodwill represents the excess purchase price over the fair value of tangible net assets acquired in business combinations after amounts have been allocated to intangible assets. Goodwill is not amortized, but is reviewed for impairment during the last quarter of each year, or whenever events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount, using a discounted cash flow model and comparable market values of each reporting unit. Measuring the fair value of reporting units is a Level 3 measurement under the fair value hierarchy. See Note 12, Fair Value Measurements, for a discussion of levels.

Intangible assets primarily consist of capitalized software, customer relationships, trademarks and non-compete agreements. These assets are amortized on a straight-line basis over the period of time in which their expected benefits will be realized. Indefinite-lived intangible assets are not amortized but are tested at least annually for impairment.

Revenue Recognition

Our revenue is comprised primarily of product and services sales where we act as principal to the transaction. All revenue is recognized when the Company satisfies its performance obligation(s) by transferring the promised product or service to our customer when our customer obtains control of the product or service, with the majority of our revenue being recognized at a point in time. A performance obligation is a promise in a contract to transfer a distinct product or service to a customer. A contract's transaction price is allocated to each distinct performance obligation. Revenue is recorded net of returns, allowances. Sales, value add, and other taxes collected from customers and remitted to governmental authorities are accounted for on a net (excluded from revenues) basis. Shipping and handling costs are accounted for as a fulfillment obligation, on a net basis, and are included in cost of sales.

Business Combinations

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. Acquisition-related expenses are recognized separately from the business combination and are recognized as general and administrative expense as incurred.

There have been no other material changes to our critical accounting policies and estimates from those previously disclosed in our consolidated financial statements.

Related Party Relationships

There are no family relationships between or among any of our directors or executive officers. There are no arrangements or understandings between any two or more of our directors or executive officers, and there is no arrangement, plan or understanding as to whether non-management stockholders will exercise their voting rights to continue to elect the current Board. There are also no arrangements, agreements or understandings between non-management stockholders that may directly or indirectly participate in or influence the management of our affairs.

Off-Balance Sheet Arrangements

At December 31, 2018 and 2017, we did not have any relationships with unconsolidated organizations or special purpose entities, that were established for the purpose of facilitating off-balance sheet arrangements. We do not engage in off-balance sheet financing arrangements. In addition, we do not enaged in trading activities involving non-exchange contracts.

Item 3 – Properties

Our principal office is located in leased premises in San Antonio, Texas. Our operations are conducted in facilities throughout North America and Europe. These facilities house production, distribution and operations, as well as installation services, sales and marketing. A description of our principal facilities as of December 31, 2018 is set forth in the chart below.

Location	Leased or Owned	Square Footage	Facility Activity
Headquarters:			
San Antonio, Texas	Leased	16,651	Training/Admin functions
Other Properties:			
Austin, Texas	Leased	3,880	Sales/Installation
Boise, Idaho	Leased	4,986	Sales/Installation
Calgary, Alberta, Canada	Leased	5,680	Warehouse/Sales/Training
Dallas, Texas	Leased	1,625	Sales/Installation
Dallas, Texas	Leased	1,125	Sales/Installation
Guadalajara, Jalisco, Mexico	Leased	6,830	Warehouse/Sales/Training
Houston, Texas	Leased	7,780	Sales/Installation
Las Vegas, Nevada	Leased	6,864	Sales/Installation
Letchworth, United Kingdom	Leased	3,632	Sales/Installation/Training
San Antonio, Texas	Leased	48,770	Warehouse/production
San Antonio, Texas	Leased	4,992	Sales/Installation
Terrebonne, Quebec, Canada	Leased	12,440	Warehouse/Sales/Training
Tilburg, The Netherlands	Leased	21,527	Warehouse/Sales/Training
Yilan City, Yilan County, Taiwan	Leased	4,300	Warehouse/Sales

We believe that our facilities are suitable for their purpose and are sufficient to support our current business needs.

Item 4 – Security Ownership of Certain Beneficial Owners and Management

Based upon information received from the persons concerned, each person known to XPEL to be the beneficial owner of more than five percent of the outstanding shares of Common Stock of XPEL, each director, each of the executive officers and all directors and officers of XPEL as a group, owned beneficially as of April 24, 2019, the number and percentage of outstanding shares of Common Stock of XPEL indicated in the following table. Except as otherwise noted below, the address for each of the beneficial owners is c/o XPEL, Inc., 618 W. Sunset Road, San Antonio, Texas 78216. None of the shares listed below have been pledged as security. For the purpose of calculating beneficial ownership, the applicable percentage of ownership is based upon 27,612,597 common shares outstanding as of April 24, 2019.

Name	Number of Common Stock Beneficially Owned, or Controlled or Directed	%
Mark E. Adams	3,175,171	11.5%
John A. Constantine	1,834,332	6.6%
Richard K. Crumly	4,634,699(1)	16.8%
Michael Klonne	50,425	*
Ryan L. Pape	1,323,602	4.8%
Barry R. Wood	30,000	*
Directors and Executive Officers as a group	11,088,229	40.2%

* Less than one percent (1%)

(1) 2,079,793 Common Stock are held by Adamas, LLC; 2,329,906 shares of Common Stock are held by Carpe, LLC; and 225,000 shares of Common Stock are held by Crumly Family Partners, Ltd. Mr. Crumly has represented to the Company that he is the sole beneficial owner of all of these shares.

Item 5 – Directors and Officers

The following table sets forth the names, ages and positions of the directors and executive officers of the Company as of April 24, 2019:

Name	Age	Position(s) Presently Held
Ryan L. Pape	37	President, Chief Executive Officer and Director
Barry R. Wood	56	Senior Vice President and Chief Financial Officer
John A. Constantine	59	Director
Richard K. Crumly	62	Director
Michael A. Klonne	67	Director
Mark E. Adams	57	Director

The business experience and background of each of our directors and executive officers is provided below:

Executive Officers

Ryan L. Pape

Mr. Pape has served as our President and Chief Executive Officer since 2009 and as a director since 2010. In these roles, he is responsible for providing strategic leadership by working with the Board and the management team to establish long-term goals, growth strategies, and policies and procedures for the Company. Mr. Pape's primary objective is to ensure the Company's affairs are carried out competently, ethically, in accordance with the law, and in the best interest of employees, customers and stockholders. From 2008 to 2009, Mr. Pape served as our Vice President of Operations, and has previously also served in other positions in operations and technology within the Company. Prior to his initial employment with the Company in 2004, Mr. Pape started his career in technology consulting. Mr. Pape graduated from the University of Texas in Austin with a Bachelor of Science Degree in Computer Science.

Mr. Pape was appointed President and Chief Executive Officer of the Company in 2009. Our Board has determined that Mr. Pape is qualified to serve as a director and President and Chief Executive Officer based on his extensive experience with strategy, technology and product distribution and his proven ability to bring people together and develop a strong team of leaders.

Barry R. Wood

Mr. Wood joined the Company in June 2016 as Senior Vice President and Chief Financial Officer. In this role, he oversees the Company's finance functions, including accounting, risk management, treasury management, investor relations and corporate development, and human resources. Mr. Wood brings to the Company significant financial and operational expertise, having spent his entire professional career in the public accounting and finance fields. During his 4 year tenure as Vice President of Dispensing Operations with OptumRx, Inc. (previously Catamaran Home Delivery), from 2011 to 2016, Mr. Wood was responsible for back-end dispensing operations for four dispensing pharmacies. From 2008 to 2011, Mr. Wood served as the Chief Financial Officer of PTRX, Inc., a pharmacy benefits and prescription home delivery company, where he was responsible for all aspects of finance, treasury, audit, risk management, investor relations and human resources. Prior to this, Mr. Wood served in various executive finance roles with AT&T. Prior to that, Mr. Wood was as an audit manager for Ernst & Young. Mr. Wood graduated from Southern Illinois University - Edwardsville with a Bachelor of Science Degree in Accountancy, and obtained his Master of Business Administration with a Finance Concentration (MBA) at the University of Texas - Dallas. He earned his Certified Public Accountant designation in 1986 and his Chartered Global Management Accountant designation in 2010, and is currently licensed in Texas.

Our Board has determined that Mr. Wood is qualified to serve as Senior Vice President and Chief Financial Officer based on his strong expertise in a wide variety of financial skills and his many years of executive-level financial leadership.

Non-Employee Directors

John A. Constantine

Mr. Constantine is the co-founder and managing partner of two ambulatory surgical centers, a national employee benefits company and an international direct sales company with over 3,500 distributors. John has held these roles since 2011. Currently, Mr. Constantine serves as a director for two non-profit organizations: Affordable Housing Development Fund, Inc., an organization with a mission to facilitate the development of affordable rental and homeownership opportunities, and Small Business United, an organization that promotes the interests of small businesses on a national scale. Mr. Constantine graduated from the University of Texas at Austin with a Bachelor of Business Administration, with a minor in Real Estate Development.

Mr. Constantine became a director of the Company in 2010. Mr. Constantine brings to our Board his extensive background in company building as well as a strategic and visionary approach to leadership.

Richard K. Crumly

Mr. Crumly has been investing in start-up companies and other entrepreneurial ventures for more than 35 years.

Mr. Crumly also has years of experience investing in various real estate ventures, from raw land to developed properties. Mr. Crumly has been involved in ventures ranging from product manufacturing, industrial and consumer goods to telecommunications and technology from early-stage funding to transitioning to the public market. Mr. Crumly has also advised some privately held companies. He graduated from Trinity University in San Antonio with a Bachelor of Science in Business Administration. Mr. Crumly has served on the Board since 2010.

We believe that Mr. Crumly's qualifications to serve on our Board include his entrepreneurial experience and broad investment background.

Michael A. Klonne

Mr. Klonne built a successful career from entry level sales to President and CEO. From 1993 to 1996, Mr. Klonne played a major part in the growth of Findley Adhesives from a $20 million, regional company to a $300 million global company leading to the ultimate sale of the company to Bostik, S.A. From 1996 to 2010, Mr. Klonne served as Chief Executive Officer of Bostik, Inc, a subsidiary of Bostik, S.A., of Paris France, helping grow Bostik, Inc.'s revenue to $1 billion with over 1,000 employees at 20 sites across North America, Latin America, Europe and Asia. He received his Bachelor of Science in Business Education at the University of Cincinnati, and his Master of Business Administration from Duke University.

Since 2013, Mr. Klonne has been serving as an industry leading consultant in the adhesives and polymers industries. His clients have included private equity firms, top global consumer companies and other industry leaders. Mr. Klonne is also active in the support of non-profit education startup companies and schools. Mr. Klonne also serves as board chairman for the Right Step, Inc., a 501(c)(3) Choice School in Milwaukee, WI. Mr. Klonne has served on the Board since 2017.

We believe that Mr. Klonne's qualifications to serve on our Board include his broad and deep senior-level experience in the products and sales industry as well as his general business acumen.

Mark E. Adams

Mr. Adams is a successful serial entrepreneur and visionary who has founded, led, built, and sold several companies he has created in a variety of different industries including Health Care, Finance, Manufacturing, Electric Vehicles, Restaurants, Insurance, Software, Real Estate, Medical Products, Nutritional Products, Digital Communications, Farming, and others. Mr. Adams spent the first 17 years of his career working for large public companies such as Xerox, Johnson & Johnson and Bostik, and has spent the last 16 years creating, building, running and selling several successful companies in a variety of different industries.

After graduating from Texas State University with a BBA in Marketing in 1985, Mr. Adams spent the next 17 years working for three global market leading companies including Xerox, Johnson & Johnson and Bostik. Mr. Adams spent 12 years at Bostik where he held a variety of senior sales management and business management roles in the US, Latin America, Europe and Asia. During his tenure at Bostik, Mr. Adams also managed the company's two largest global customer relationships, and he also spent 3 years as the General Manager and a Director of Bostik's largest joint venture company headquartered in Osaka, Japan.

Then in 2000, Mr. Adams decided to leave Bostik to pursue an entrepreneurial path and bought a minority interest in a small Industrial distribution business. There he grew sales and net income by almost 300% in 3 years. Upon selling his interest in that company in 2003, Mr. Adams then founded Advocate, MD Financial Group, Inc., which created and operated what became one of the largest medical liability insurance underwriting companies in Texas and Mississippi. Mr. Adams sold that company in 2009 and continued running the company as President and CEO until 2011. In 2007, Mr. Adams co-founded Murphy Adams Restaurant Group, Inc. which today owns over 40 restaurants including Mama Fu's Asian House restaurants in the US and internationally, and Austin's Pizza restaurants in Central Texas. In 2008, Mr. Adams co-founded Kind Health, Inc., which is today one of the nation's fastest growing on-line health insurance companies. Mr. Adams is the co-founder of Sustainability initiatives, LLC., Austin Electric Vehicles, Inc., Direct Biologics, LLC, Tru-EV Financial, Inc., Evergreen Farms, LLC and is a co-founder and large owner of at least 12 other successful companies in a variety of industries all currently in operation today.

Mr. Adams is a past winner of the prestigious Ernst & Young Entrepreneur of the Year Award for Central Texas and was named an Outstanding Texas Entrepreneur by the Governor of Texas and the Texas House of Representatives. Mr. Adams serves on the board of directors of numerous companies including public (NASDAQ & TSX), private and non-profit boards. Mr. Adams is a long serving member of the McCoy College of Business Advisory Board at Texas State University and was named a 2018 Distinguished Alumnus of Texas State University. Mr. Adams is a large individual XPEL stock holder and has served on the XPEL Board of Directors since 2010.

Independence of Directors

The Board has determined that Messrs. Constantine, Crumly, Klonne and Adams are "independent" as defined in Rule 5605(a)(2) of The NASDAQ Stock Market Rules. Our Board currently consists of four independent directors and one non-independent director.

Board of Directors and Committees

The Board is responsible for directing and overseeing the business and affairs of the Company. The Board represents the Company's stockholders and its primary purpose is to build long-term stockholder value. The Board meets on a regularly scheduled basis during the year to review significant developments affecting the Company and to act on matters that, in accordance with good corporate governance, require Board approval. It also holds annual meetings and acts by unanimous written consent when an important matter requires Board action between scheduled meetings.

Leadership Structure and Risk Oversight

Our Board recognizes that it is important to determine an optimal board leadership structure to ensure the independent oversight of management as the Company continues to grow.

The Board is actively involved in overseeing our risk management processes. The Board focuses on our general risk management strategy and ensures that appropriate risk mitigation strategies are implemented by management. Further, operational and strategic presentations by management to the Board include consideration of the challenges and risks of our businesses, and the Board and management actively engage in discussion on these topics. In addition, each of the Board's committees considers risk within its area of responsibility. For example, the Audit Committee provides oversight to legal and compliance matters and assesses the adequacy of our risk-related internal controls. The Compensation Committee considers risk and structures our executive compensation programs to provide incentives to reward appropriately executives for growth without undue risk taking.

Board Committees

The Board has the following committees:

Audit Committee. The Audit Committee is appointed by the Board to assist the Board in its duty to oversee the Company's accounting, financial reporting and internal control functions and the audit of the Company's consolidated financial statements. The role of the Audit Committee is to oversee management in the performance of its responsibility for the integrity of the Company's accounting and financial reporting and its systems of internal controls, the performance and qualifications of the Company's independent auditor, including the independent registered accounting firm's independence, and the Company's compliance with legal and regulatory requirements.

Our Board has adopted an audit committee charter. The audit committee charter defines its primary duties to include the following oversight responsibilities with respect to the following principal areas:

- Serve as an independent and objective party to monitor the Company's financial reporting and internal control systems and review the Company's consolidated financial statements;
- Review and appraise the performance of the Company's independent registered public accounting firm; and
- Provide an open avenue of communication among the Company's independent registered public accounting firm, financial and senior management and the Board

The current members of the Audit Committee are Messrs. Constantine, Crumly and Klonne. The Audit Committee met four times during the fiscal year ended December 31, 2018.

Additionally, the SEC requires that at least one member of the Audit Committee have a heightened level of financial and accounting sophistication. Such a person is known as the audit committee financial expert under the SEC's rules. Our Board has determined that Mr. Klonne is an audit committee financial expert, as the SEC defines that term, and is an independent member of our Board and our Audit Committee. Please see Mr. Klonne's biography included in this registration statement for a description of his relevant experience.

Corporate Governance Committee. The Corporate Governance Committee's primary duties include:

- identifying individuals qualified to become members of our Board and recommending director candidates for election or re-election to our Board;
- maintaining oversight of our Board and our governance functions and effectiveness;
- considering and making recommendations to our Board regarding board size and composition, committee composition and structure and procedures affecting directors, and each director's independence;
- establishing standards for service on our Board; and
- advising the Board on candidates for our executive offices, and conducting appropriate investigation of such candidates.

Our Corporate Governance Committee consists of Messrs. Adams, Constantine and Klonne. The Corporate Governance Committee met four times during the fiscal year ended December 31, 2018.

Compensation Committee. The Compensation Committee reviews and recommends to the full Board (i) the adequacy and form of compensation of the Board; (ii) the compensation of the President and Chief Executive Officer, including base salary, incentive bonus, stock option and other grant, award and benefits upon hiring and on an annual basis; (iii) after obtaining the recommendation of the President and Chief Executive Officer, the compensation of other senior management, including the Senior Vice President and

Chief Financial Officer, upon hiring and on an annual basis; and (iv) the Company's incentive compensation and other equity-based plans and recommends changes to such plans to our Board when necessary.

The current members of the Compensation Committee are Messrs. Adams, Constantine and Crumly. The Compensation Committee met four times during the fiscal year ended December 31, 2018.

Compensation Committee Interlocks and Insider Participation

None of the members of our Compensation Committee is or has been an officer or employee of our Company. None of our executive officers currently serves, or in the past year has served, as a member of the Board or Compensation Committee (or other Board committee performing equivalent functions) of any entity that has one or more of its executive officers serving on our Board or Compensation Committee.

Code of Business Conduct and Ethics Policy

In 2018, our Board adopted a Code of Business Conduct and Ethics Policy which is applicable to all of our directors, officers and employees, including our President and Chief Executive Officer and Senior Vice President and Chief Financial Officer.

Compensation of Directors

The Compensation Committee is responsible for all forms of compensation to be granted to the directors of the Company. The Compensation Committee's mandate includes reviewing and recommending director compensation proposals for approval by the Board. The level of compensation for directors is determined after consideration of various relevant factors, including the expected nature and quantity of duties and responsibilities, past performance, comparison with compensation paid by other issuers of comparable size and scope, and the availability of financial and other resources of the Company.

Non-executive directors receive annual directors' fees of $60,000, plus $350 per month for each committee in which they participate. The chairman for each committee receives $500 per month.

The following table summarizes the compensation paid to directors, other than directors who are also named executive officers and whose compensation as directors is reflected in the Summary Compensation Table in the "Executive Compensation" section of this registration statement, for the fiscal year ended December 31, 2018.

Name(1)	Fee Earned ($)	Total ($)
Mark Adams	63,000	63,000
John A. Constantine	67,100	67,100
Richard K. Crumly	61,150	61,150
Mike Klonne(2)	62,700	62,700

(1) Information for Ryan Pape, the Chief Executive Officer of the Company is provided under "Summary Compensation Table". Mr. Pape does not receive any compensation for acting as a director of the Company.
(2) Mr. Klonne was appointed to the Board on June 30, 2017

Item 6 – Executive Compensation

Compensation of Named Executive Officers of the Company

As of the date of this registration statement, the Company had two named executive officers, Ryan L. Pape, President and Chief Executive Officer; and Barry R. Wood, Senior Vice President and Chief Financial Officer.

The following table provides compensation information for the Company's two most recently completed financial years in respect of the named executive officers.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock awards ($)	Option awards ($)	Nonequity incentive plan compensation ($)	Nonqualified deferred compensation earnings ($)	All other compensation ($)(1)	Total ($)
Ryan L. Pape President and CEO	2018	350,000	162,750	—	—	—	—	23,760	536,510
	2017	260,000	91,000	—	—	—	—	21,695	372,695
Barry R. Wood Senior Vice President and CFO	2018	260,000	90,675	—	—	—	—	12,000	362,675
	2017	225,000	36,562	—	—	—	—	12,000	273,562

(1) All other compensation represents matching contributions for 401K and health insurance premiums.

Incentive Bonus Compensation

In addition to base salaries, the Company may award discretionary bonuses to executive officers. The bonus element of the Company's Executive Compensation Program is designed to retain top quality talent and reward both corporate and individual performance during the Company's last completed financial year. Bonuses are determined at the discretion of the Compensation Committee and are based on overall Company revenue, net income performance and other factors. The proposed bonus amounts and targets for executive officers are recommended by the Compensation Committee for review, discussion, and approval by the Board. The discretionary bonuses paid to each executive officer are included in the summary compensation table above under "Bonus."

Stock Option Plan

The 2018 XPEL, Inc. Stock Option Plan ("Stock Option Plan") authorizes us to grant incentive stock options and non-qualified stock options to our directors, executive officers, employees, consultants and any affiliate of the Company. Option grants generally have a term of less than 10 years, and no single participant in the plan may be granted more than 5% of the issued and outstanding shares of Common Stock of the Company in any 12-month period, unless we have obtained the approval of disinterested stockholders. The maximum number of shares allocated to and made available to be issued under the Plan shall not exceed 10% of the common shares issued and outstanding (on a non-diluted basis) at any time. There are currently no options issued under our Stock Option Plan.

The Stock Option Plan is administered by our Board and the grant of stock options are determined by an assessment of an individual's current and expected future performance, level of responsibilities, and the importance of his or her position with and contribution to the Company. The number of shares of Common Stock issued under the Stock Option Plan and any other stock options of the Company may not exceed 10% of all of our issued and outstanding shares. The Stock Option Plan also requires us reserves sufficient shares of Common Stock to satisfy all outstanding options. The Board determines the exercise price of options issued pursuant to the Stock Option Plan, provided that such price meets the requirements of The NASDAQ Stock Market.

Item 7 – Certain Relationships and Related Transactions, and Director Independence

The Board has determined that Messrs. Constantine, Crumly, Klonne and Adams are "independent" as defined in Rule 5605(a)(2) of The NASDAQ Stock Market Rules. Our Board currently consists of four independent directors and one non-independent director.

There were no related party transactions during 2018.

Item 8 – Legal Proceedings

From time to time, we are made parties to actions filed or have been given notice of potential claims relating to the ordinary conduct of our business, including those pertaining to commercial disputes, product liability, patent infringement and employment matters.

While we believe that a material impact on our financial position, results of operations or cash flows from any such future claims or potential claims is unlikely, given the inherent uncertainty of litigation, it is possible that an unforeseen future adverse ruling or unfavorable development could result in future charges that could have a material adverse impact. We do and will continue to periodically reexamine our estimates of probable liabilities and any associated expenses and receivables and make appropriate adjustments to such estimates based on experience and developments in litigation. As a result, the current estimates of the potential impact on our financial position, results of operations and cash flows for the proceedings and claims described in the notes to our consolidated financial statements could change in the future.

Item 9 – Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters

Our Common Stock commenced trading on the TSX-V on February 27, 2006 and have been listed under the symbol "DAP.U".

The closing price of our Common Stock on the TSX-V on April 23, 2019 was USD $4.73 per share. As of April 24, 2019, there were approximately 52 record holders of our Common Stock.

Dividend Policy

Holders of our Common Stock are entitled to receive such dividends as may be declared by our Board. No dividends have been paid with respect to our Common Stock and no dividends are anticipated to be paid in the foreseeable future. Any future decisions as to the payment of dividends will be at the discretion of our Board, subject to applicable law.

Equity Compensation Plan Information

For a description of our Stock Option Plan, see Item 6—"Executive Compensation—Stock Option Plan".

(Shares in million) Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Approved by Stockholders
Equity compensation plans approved by stockholders	—	—	—
Equity compensation plans not approved by stockholders	—	—	—
Total	—	—	—

Item 10 – Recent Sales of Unregistered Securities

On February 27, 2017, the Company issued 1,659,182 shares of common Stock at a price of $1.43 per share to accredited investors in reliance on the exemption from the registration requirements of the Securities Act set forth in Section 4(a)(2) of the Securities Act. On March 21 , 2017, the Company issued an additional 168,465 shares of Common Stock at a price of $1.43 share to accredited investors in reliance on the exemption from the registration requirements of the Securities Act set forth in Section 4(a)(2) of the Securities Act. The net proceeds from this private placement of $2.6 million were used to fund on-going operations. Issuance costs related to this private placement totaled $0.04 million.

Item 11 – Description of Registrant's Securities to be Registered

As of the date of this registration statement, our authorized capital stock consisted of 100,000,000 shares of Common Stock and 10,000,000 shares of preferred stock. As of the date of this registration statement, 27,612,597 shares of Common Stock were issued and outstanding with approximately 52 stockholders of record.

Common Stock

Holders of Common Stock are entitled to receive notice of and to attend all meetings of stockholders of the Company. Holders of Common Stock are entitled to cast one vote for each share held of record on all matters submitted to a vote of stockholders and are not entitled to cumulate votes for the election of directors. Holders of our Common Stock do not have preemptive rights to subscribe for additional shares of Common Stock issued by us.

Holders of our Common Stock are entitled to receive dividends as may be declared by the board of directors out of funds legally available for that purpose.

In the event of liquidation, holders of Common Stock are entitled to share pro rata in any distribution of our assets remaining after payment of liabilities, subject to the preferences and rights of the holders of any outstanding shares of preferred stock. All of the outstanding shares of our Common Stock are fully paid and non-assessable.

Preferred Stock

Our articles of incorporation authorize the issuance of up to 10,000,000 shares of preferred stock, par value $0.001 per share, in one or more series with such voting powers, designations, preferences and rights or qualifications as adopted by the Board of Directors. Upon issuance, the shares of preferred stock will be fully paid and nonassessable, which means that its holders will have paid their purchase price in full and we may not require them to pay additional funds. Holders of preferred stock will not have any preemptive rights.

Anti-takeover Effects of Certain Provisions of Bylaws

On May 15, 2018, the Board adopted Amended and Restated Bylaws of the Company (the “Amended and Restated Bylaws”), which were approved by the stockholders of the Company on June 29, 2018. Certain provisions in our Amended and Restated Bylaws summarized below may be deemed to have an anti-takeover effect and may delay, deter or prevent a tender offer or takeover attempt that a stockholder might consider to be in its best interests, including attempts that might result in a premium being paid over the market value for the Common Stock. Such provisions include:

- Authorizing our Board to adopt, amend or repeal our Amended and Restated By-Laws without stockholder approval;
- Requiring advance notice of any stockholder nomination for the election of directors or any stockholder proposal;
- Requiring any stockholder action to be taken only at a duly called annual or special meeting of the stockholders, and not by written consent;
- Authorizing only our Board, and not stockholders, to fix the number of directors; and
- Authorizing only our Board to fill director vacancies and newly created directorships.

Exclusive Forum

Our Amended and Restated Bylaws provide that, with certain limited exceptions, unless we consent in writing to the selection of an alternative forum, the state and federal courts located in Bexar County, Texas will be the sole and exclusive forum for any (i) derivative action or proceeding brought on our behalf, (ii) action asserting a claim of, or a claim based on, breach of a fiduciary duty owed by any current or former director, officer, employee or stockholder to us or our stockholders, (iii) action asserting a claim against us or any current or former director, officer, employee or stockholder arising pursuant to any provision of Chapters 78 and 92 of the Nevada Revised Statutes or our Amended and Restated Bylaws or (iv) action assert a claim against us or any current or former director, officer, employee or stockholder (including any beneficial owner of stock) governed by the internal affairs doctrine. The enforceability of similar forum provisions in other companies’ certificates of incorporation has been challenged in legal proceedings, and it is possible that a court could find these types of provisions to be inapplicable or unenforceable. The choice of forum provision does not apply to any actions arising under the Securities Act or the Exchange Act.

Anti-Takeover Statutes

Chapter 78 of the Nevada Revised Statutes, which we refer to as the Nevada GCL, contains two provisions, described below as “Combination Provisions” and the “Control Share Act,” that may make the unsolicited or hostile attempts to acquire control of a corporation through certain types of transactions more difficult.

Restrictions on Certain Combinations between Nevada Resident Corporations and Interested Stockholders

The Nevada GCL includes certain provisions (the “Combination Provisions”) prohibiting certain “combinations” (generally defined to include certain mergers, disposition of assets transactions, and share issuance or transfer transactions) between a resident domestic corporation and an “interested stockholder” (generally defined to be the beneficial owner of 10% or more of the voting power of the outstanding shares of the corporation), except those combinations which are approved by the board of directors before the interested stockholder first obtained a 10% interest in the corporation’s stock. There are additional exceptions to the prohibition, which apply to combinations if they occur more than three years after the interested stockholder's date of acquiring shares. The Combination Provisions apply unless the corporation elects against their application in its original articles of incorporation or an amendment thereto or timely elected against their application in its bylaws no later than October 31, 1991. Our articles of incorporation and bylaws do not currently contain a provision rendering the Combination Provisions inapplicable.

Nevada Control Share Act

Nevada Revised Statutes 78.378 through 78.3793, inclusive, which we refer to as the Control Share Act, imposes procedural hurdles on and curtails greenmail practices of corporate raiders. The Control Share Act temporarily disenfranchises the voting power of "control shares" of a person or group ("Acquiring Person") purchasing a "controlling interest" in an "issuing corporation" (as defined in the Nevada GCL) not opting out of the Control Share Act. In this regard, the Control Share Act will apply to an "issuing corporation" unless, before an acquisition is made, the articles of incorporation or bylaws in effect on the tenth day following the acquisition of a controlling interest provide that it is inapplicable. Our articles of incorporation and bylaws do not currently contain a provision rendering the Control Share Act inapplicable.

Under the Control Share Act, an "issuing corporation" is a corporation organized in Nevada which has 200 or more stockholders, at least 100 of whom are stockholders of record and residents of Nevada, and which does business in Nevada directly or through an affiliated company. Our status at the time of the occurrence of a transaction governed by the Control Share Act (assuming that our articles of incorporation or bylaws have not theretofore been amended to include an opting out provision) would determine whether the Control Share Act is applicable.

The Control Share Act requires an Acquiring Person to take certain procedural steps before such Acquiring Person can obtain the full voting power of the control shares. "Control shares" are the shares of a corporation (1) acquired or offered to be acquired which will enable the Acquiring Person to own a "controlling interest," and (2) acquired within 90 days immediately preceding that date. A "controlling interest" is defined as the ownership of shares which would enable the Acquiring Person to exercise certain graduated amounts (beginning with one-fifth) of all voting power of the corporation. The Acquiring Person may not vote any control shares without first obtaining approval from the stockholders not characterized as "interested stockholders" (as defined below).

To obtain voting rights in control shares, the Acquiring Person must file a statement at the registered office of the issuer ("Offeror's Statement") setting forth certain information about the acquisition or intended acquisition of stock. The Offeror's Statement may also request a special meeting of stockholders to determine the voting rights to be accorded to the Acquiring Person. A special stockholders' meeting must then be held at the Acquiring Person's expense within 30 to 50 days after the Offeror's Statement is filed. If a special meeting is not requested by the Acquiring Person, the matter will be addressed at the next regular or special meeting of stockholders.

At the special or annual meeting at which the issue of voting rights of control shares will be addressed, "interested stockholders" may not vote on the question of granting voting rights to control the corporation or its parent unless the articles of incorporation of the issuing corporation provide otherwise. Our articles of incorporation do not currently contain a provision allowing for such voting power.

If full voting power is granted to the Acquiring Person by the disinterested stockholders, and the Acquiring Person has acquired control shares with a majority or more of the voting power, then (unless otherwise provided in the articles of incorporation or bylaws in effect on the tenth day following the acquisition of a controlling interest) all stockholders of record, other than the Acquiring Person, who have not voted in favor of authorizing voting rights for the control shares, must be sent a "dissenter's notice" advising them of the fact and of their right to receive "fair value" for their shares. Our articles of incorporation and bylaws do not provide otherwise. By the date set in the dissenter's notice, which may not be less than 30 or more than 60 days after the dissenter's notice is delivered, any such stockholder may demand to receive from the corporation the “fair value” for all or part of his shares. “Fair value” is defined in the Control Share Act as “not less than the highest price per share paid by the Acquiring Person in an acquisition.”

The Control Share Act permits a corporation to redeem the control shares in the following two instances, if so provided in the articles of incorporation or bylaws of the corporation in effect on the tenth day following the acquisition of a controlling interest: (1) the Acquiring Person fails to deliver the Offeror’s Statement to the corporation within 10 days after the Acquiring Person’s acquisition of the control shares; or (2) an Offeror’s Statement is delivered, but the control shares are not accorded full voting rights by the stockholders. Our articles of incorporation and bylaws do not address this matter.

Transfer Agents and Registrar

Our transfer agent for our Common Stock is TSX Trust Company. Our non-record keeping US co-agent is Continental Stock Transfer and Trust Company.

Item 12. – Indemnification of Directors and Officers

Subsection 7 of Section 78.138 of the Nevada Revised Statutes (the “Nevada Law”) provides that, subject to certain limited statutory exceptions, a director or officer is not individually liable to the corporation or its stockholders or creditors for any damages as a result of any act or failure to act in his or her capacity as a director or officer, unless it is proven that the act or failure to act constituted a breach of his or her fiduciary duties as a director or officer and such breach of those duties involved intentional misconduct, fraud or a knowing violation of law. The statutory standard of liability established by Section 78.138 controls even if there is a conflicting provision in the corporation’s articles of incorporation unless an amendment to XPEL’s Articles of Incorporation were to provide for greater individual liability.

Subsection 1 of Section 78.7502 of the Nevada Law empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise (any such person, a “Covered Person”), against expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the Covered Person in connection with such action, suit or proceeding if the Covered Person is not liable pursuant to Section 78.138 of the Nevada Law or the Covered Person acted in good faith and in a manner the Covered Person reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceedings, had no reasonable cause to believe the Covered Person’s conduct was unlawful.

Subsection 2 of Section 78.7502 of the Nevada Law empowers a corporation to indemnify any Covered Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person acted in the capacity of a Covered Person against expenses, including amounts paid in settlement and attorneys’ fees actually and reasonably incurred by the Covered Person in connection with the defense or settlement of such action or suit, if the Covered Person is not liable pursuant to Section 78.138 of the Nevada Law or the Covered Person acted in good faith and in a manner the Covered Person reasonably believed to be in or not opposed to the best interests of the corporation. However, no indemnification may be made in respect of any claim, issue or matter as to which the Covered Person shall have been adjudged by a court of competent jurisdiction (after exhaustion of all appeals therefrom) to be liable to the corporation or for amounts paid in settlement to the corporation unless and only to the extent that the court in which such action or suit was brought or other court of competent jurisdiction determines upon application that in view of all the circumstances of the case, the Covered Person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper.

Section 78.7502 of the Nevada Law further provides that to the extent a Covered Person has been successful on the merits or otherwise in the defense of any action, suit or proceeding referred to in Subsection 1 or 2 of Section 78.7502, as described above, or in the defense of any claim, issue or matter therein, the corporation shall indemnify the Covered Person against expenses (including attorneys' fees) actually and reasonably incurred by the Covered Person in connection with the defense.

Subsection 1 of Section 78.751 of the Nevada Law provides that any discretionary indemnification pursuant to Section 78.7502 of the Nevada Law, unless ordered by a court or advanced pursuant to Subsection 2 of Section 78.751, may be made by a corporation only as authorized in the specific case upon a determination that indemnification of the Covered Person is proper in the circumstances. Such determination must be made (a) by the stockholders, (b) by the board of directors of the corporation by majority vote of a quorum consisting of directors who were not parties to the action, suit or proceeding, (c) if a majority vote of a quorum of such nonparty directors so orders, by independent legal counsel in a written opinion, or (d) by independent legal counsel in a written opinion if a quorum of such nonparty directors cannot be obtained.

Subsection 2 of Section 78.751 of the Nevada Law provides that a corporation's articles of incorporation or bylaws or an agreement made by the corporation may require the corporation to pay as incurred and in advance of the final disposition of a criminal or civil action, suit or proceeding, the expenses of officers and directors in defending such action, suit or proceeding upon receipt by the corporation of an undertaking by or on behalf of the officer or director to repay the amount if it is ultimately determined by a court of competent jurisdiction that he or she is not entitled to be indemnified by the corporation. Subsection 2 of Section 78.751 further provides that its provisions do not affect any rights to advancement of expenses to which corporate personnel other than officers and directors may be entitled under contract or otherwise by law.

Subsection 3 of Section 78.751 of the Nevada Law provides that indemnification pursuant to Section 78.7502 of the Nevada Law and advancement of expenses authorized in or ordered by a court pursuant to Section 78.751 does not exclude any other rights to which the Covered Person may be entitled under the articles of incorporation or any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, for either an action in his or her official capacity or in another capacity while holding his or her office. However, indemnification, unless ordered by a court pursuant to Section 78.7502 or for the advancement of expenses under Subsection 2 of Section 78.751 of the Nevada Law, may not be made to or on behalf of any director or officer of the corporation if a final adjudication establishes that his or her acts or omissions involved intentional misconduct, fraud or a knowing violation of the law and were material to the cause of action. Additionally, the scope of such indemnification and advancement of expenses shall continue for a Covered Person who has ceased to be a director, officer, employee or agent of the corporation, and shall inure to the benefit of his or her heirs, executors and administrators.

Section 78.752 of the Nevada Law empowers a corporation to purchase and maintain insurance or make other financial arrangements on behalf of a Covered Person for any liability asserted against such person and liabilities and expenses incurred by such person in his or her capacity as a Covered Person or arising out of such person's status as a Covered Person whether or not the corporation has the authority to indemnify such person against such liability and expenses.

Our Amended and Restated Bylaws provide for indemnification of Covered Persons substantially identical in scope to that permitted under the Nevada Law. Such Bylaws provide that the expenses of directors and officers of XPEL incurred in defending any action, suit or proceeding, whether civil, criminal, administrative or investigative, must be paid by XPEL as they are incurred and in advance of the final disposition of the action, suit or proceeding, upon receipt of an undertaking by or on behalf of such director or officer to repay all amounts so advanced if it is ultimately determined by a court of competent jurisdiction that the director or officer is not entitled to be indemnified by XPEL.

XPEL has a contract for insurance coverage under which XPEL and certain Covered Persons (including the directors and officers of XPEL) are covered under certain circumstances with respect to litigation and other costs and liabilities arising out of actual or alleged misconduct of such Covered Persons.

The above-described provisions of the Nevada Law relating to the indemnification of directors and officers do not prohibit the indemnification of such persons in certain circumstances against liabilities (including reimbursement of expenses incurred) arising under the Securities Act.

Insofar as indemnification for liabilities under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Item 13. – Financial Statements and Supplementary Data

Item 14 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 15. – Financial Statements and Exhibits

(a) Consolidated Financial Statements.

The consolidated financial statements are filed as part of this registration statement and begin on page F-2 and an index thereto is included in Item 13.

(b) Exhibits. The following exhibits are included as part of this registration statement:

Number	Description
3.1	Articles of Incorporation of the Company, filed with the Nevada Secretary of State on October 14, 2003.**
3.2	Certificate of Amendment to the Articles of Incorporation of the Company, filed with the Nevada Secretary of State on December 29, 2003.**
3.3	Certificate of Amendment to the Articles of Incorporation of the Company, filed with the Nevada Secretary of State on June 3, 2018.**
3.4	Amended and Restated Bylaws of the Company, effective as of May 11, 2018.**
4.1	Form of Common Stock Certificate.**
10.1	Business Loan Agreement, dated as of August 5, 2017, between XPEL Technologies Corp., as borrower, and The Bank of San Antonio, as lender.**
10.2	Change in Terms Agreement, dated as of May 5, 2018, modifying that certain Business Loan Agreement dated as of August 5, 2017, between XPEL Technologies, Corp., as borrower, and The Bank of San Antonio, as lender.**
10.3	Credit Facility Letter, dated September 11, 2018, by and among XPEL Canada Corp., as borrower, XPEL, Inc., as guarantor, and HSBC Bank Canada, as lender.**
10.4	Amended and Restated Supply Agreement by and between XPEL Technologies Corp., and entrotech, inc.*
10.5	Form of Distribution Agreement of the Company.**
10.6	Stock Option Plan of the Company.**
14.1	Code of Business Conduct and Ethics.*
21.1	Subsidiaries of the Company.**

* Filed herewith
** Previously filed

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the board of directors of XPEL, Inc.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of XPEL, Inc. (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows, for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ Baker Tilly Virchow Krause, LLP

We have served as the Company's auditor since 2017.

Minneapolis, Minnesota

March 12, 2019

XPEL, INC.

Consolidated Balance Sheets

	December 31, 2018	December 31, 2017
Assets		
Current		
Cash and cash equivalents	$ 3,971,226	$ 3,498,904
Accounts receivable, net	5,554,313	5,445,036
Inventory, net	10,799,611	10,520,794
Prepaid expenses and other current assets	706,718	774,762
Total current assets	21,031,868	20,239,496
Property and equipment, net	3,384,206	2,153,233
Intangible assets, net	3,804,026	3,562,772
Goodwill	2,322,788	1,856,642
Total assets	$ 30,542,888	$ 27,812,143
Liabilities		
Current		
Revolving line of credit	$ —	$ 2,000,000
Current portion of notes payable	853,150	1,024,434
Accounts payable and accrued liabilities	6,292,093	9,718,833
Income tax payable	1,337,599	1,171,618
Total current liabilities	8,482,842	13,914,885
Deferred tax liability, net	478,864	474,440
Notes payable	968,237	927,432
Total liabilities	9,929,943	15,316,757
Stockholders' equity		
Preferred stock, $0.001 par value; authorized 10,000,000; none issued and outstanding	—	—
Common stock, $0.001 par value; authorized 100,000,000; as of December 31, 2018 and 2017, 27,612,597 issued and outstanding	27,613	27,613
Additional paid-in-capital	11,348,163	11,348,163
Accumulated other comprehensive loss	(1,190,055)	(596,683)
Retained earnings	10,617,253	1,904,719
	20,802,974	12,683,812
Non-controlling interest	(190,029)	(188,426)
Total stockholders' equity	20,612,945	12,495,386
Total liabilities and stockholders' equity	$ 30,542,888	$ 27,812,143

See notes to consolidated financial statements.

XPEL, INC.

Consolidated Statements of Income

	Year Ended December 31, 2018	Year Ended December 31, 2017
Revenue		
Product revenue	$ 95,526,350	$ 56,348,149
Service revenue	14,394,264	10,948,895
Total revenue	109,920,614	67,297,044
Cost of Sales		
Cost of product sales	73,656,389	48,051,461
Cost of service	2,827,620	2,561,751
Total cost of sales	76,484,009	50,613,212
Gross Margin	33,436,605	16,683,832
Operating Expenses		
Sales and marketing	6,802,241	4,945,390
General and administrative	14,802,628	9,526,937
Total operating expenses	21,604,869	14,472,327
Operating Income	11,831,736	2,211,505
Interest expense	168,389	328,402
Loss (gain) on sale of property, plant and equipment	25,733	(13,251)
Foreign exchange loss (gain)	156,309	(252,196)
Income before income taxes	11,481,305	2,148,550
Income tax expense	2,760,073	1,154,220
Net income	8,721,232	994,330
Income (loss) attributed to non-controlling interest	8,698	(53,001)
Net income attributable to stockholders of the Company	$ 8,712,534	$ 1,047,331
Earnings per share attributable stockholders of the Company		
Basic and diluted	$ 0.32	$ 0.04
Weighted Average Number of Common Shares		
Basic and diluted	27,612,597	27,326,261

See notes to consolidated financial statements.

XPEL, INC.

Consolidated Statements of Comprehensive Income

	Year Ended December 31,	
	2018	2017
Other comprehensive income		
Net income	$ 8,721,232	$ 994,330
Foreign currency translation	(603,673)	238,410
Total comprehensive income	8,117,559	1,232,740
Total comprehensive income attributable to:		
Stockholders of the Company	8,119,162	1,268,409
Non-controlling interest	(1,603)	(35,669)
Total comprehensive income	$ 8,117,559	1,232,740

See notes to consolidated financial statements.

XPEL, INC.

Consolidated Statements of Changes in Stockholders' Equity

Year ended December 31, 2018

	Common Stock		Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Equity attributable to Stockholders of the Company	Non-Controlling Interest	Total Stockholders' Equity
	Shares	Amount						
Balance as of December 31, 2016	25,784,950	$ 25,785	$ 8,774,478	$ 857,388	$ (817,761)	$ 8,839,890	$ (152,757)	$ 8,687,133
Issuance of common stock	1,827,647	1,828	2,611,701	—	—	2,613,529	—	2,613,529
Common stock issuance costs	—	—	(38,016)	—	—	(38,016)	—	(38,016)
Net income	—	—	—	1,047,331	—	1,047,331	(53,001)	994,330
Foreign currency translation	—	—	—	—	221,078	221,078	17,332	238,410
Balance as of December 31, 2017	27,612,597	27,613	11,348,163	1,904,719	(596,683)	12,683,812	(188,426)	12,495,386
Net income	—	—	—	8,712,534	—	8,712,534	8,698	8,721,232
Foreign currency translation	—	—	—	—	(593,372)	(593,372)	(10,301)	(603,673)
Balance as of December 31, 2018	27,612,597	$ 27,613	$ 11,348,163	$10,617,253	$ (1,190,055)	$ 20,802,974	$ (190,029)	$ 20,612,945

See notes to consolidated financial statements.

XPEL, INC.

Consolidated Statements of Cash Flows

	Year Ended December 31, 2018	Year Ended December 31, 2017
Cash flows from operating activities		
Net income	$ 8,721,232	$ 994,330
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	735,983	594,712
Amortization of intangible assets	642,801	537,334
Loss (gain) on sale of property and equipment	25,733	(13,251)
Bad debt expense	190,230	308,891
Deferred income tax	(86,218)	(221,873)
Accretion on notes payable	43,416	78,957
Changes in current assets and liabilities:		
Accounts receivable	(261,256)	(788,524)
Inventory, net	11,148	(2,546,671)
Prepaid expenses and other current assets	132,682	(244,716)
Accounts payable and accrued liabilities	(3,635,246)	3,472,092
Income tax payable	276,280	846,175
Net cash provided by operating activities	6,796,785	3,017,456
Cash flows used in investing activities		
Purchase of property, plant and equipment	(2,030,314)	(1,499,762)
Proceeds from sale of property, plant and equipment	155,277	39,500
Acquisition of subsidiaries, net of cash acquired and notes payable (Note 6)	(831,934)	(659,132)
Development of intangible assets	(386,985)	(207,787)
Net cash used in investing activities	(3,093,956)	(2,327,181)
Cash flows from financing activities		
Net repayments on revolving credit agreement	(2,000,000)	(500,000)
Repayment of bank loan payable	(440,126)	(565,240)
Repayments of notes payable - acquisitions	(658,055)	(468,484)
Proceeds from issuance of common stock	—	2,613,529
Common share issuance costs	—	(38,016)
Net cash (used in) provided by financing activities	(3,098,181)	1,041,789
Net change in cash and cash equivalents	604,648	1,732,064
Foreign exchange impact on cash and cash equivalents	(132,326)	(94,249)
Increase in cash and cash equivalents during the period	472,322	1,637,815
Cash and cash equivalents at beginning of year	3,498,904	1,861,089
Cash and cash equivalents at end of year	$ 3,971,226	$ 3,498,904
Supplemental schedule of non-cash activities		
Notes payable issued for acquisitions	$ 998,668	$ 382,141
Contingent consideration	$ —	$ 157,724
Forgiveness of debt for acquired entities	$ 88,216	$ —
Supplemental cash flow information		
Cash paid for income taxes	$ 2,514,727	$ 452,173
Cash paid for interest	$ 86,417	$ 245,986

See notes to consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Nature of Business - XPEL, Inc. (the "Company") is based in San Antonio, Texas and sells, distributes, and installs after-market automotive products, including automotive paint protection film, headlight protection film, automotive window films and other related products.

The Company was incorporated in the state of Nevada, U.S.A. in October 2003 and its registered office is 618 W. Sunset Road, San Antonio, Texas, 78216.

Basis of Presentation - The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of XPEL, Inc. and its wholly owned or majority owned subsidiaries ("XPEL" or "the Company"). The ownership interest of non-controlling participants in subsidiaries that are not wholly-owned is included as a separate component of stockholders' equity. The non-controlling participants' share of the net income is included as "Income attributable to noncontrolling interest" on the Consolidated Statements of Income and Comprehensive Income. Intercompany accounts and transactions have been eliminated.

The functional currency for the Company is the United States dollar. The assets and liabilities of each of its foreign subsidiaries are translated int U.S dollars using the exchange rate at the end of the balance sheet date. Revenues and expenses are translated at the average exchange rates for the period. Gains and losses from translations are recognized in foreign currency translation included in accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets. Foreign currency exchange gains and losses are recorded in other expense, net in the accompanying consolidated statements of income. The ownership percentages and functional currencies of the entities included in these consolidated financial statements are as follows:

Subsidiaries	Functional Currency	% Owned by XPEL, Inc.
XPEL, Ltd.	UK Pound Sterling	85%
Armourfend CAD, LLC	US Dollar	100%
XPEL Canada Corp.	Canadian Dollar	100%
XPEL B.V.	Euro	100%
XPEL de Mexico S. de R.L. de C.V.	Peso	100%
XPEL Acquisition Corp.	Canadian Dollar	100%
Protex Canada, Inc.	Canadian Dollar	100%
Apogee Corp.	New Taiwan Dollar	100%

Fiscal Year - The Company's fiscal year ends on December 31. We report our interim quarterly periods on a calendar quarter basis.

Segment Reporting - Management has concluded that our chief operating decision maker (CODM) is our chief executive officer. The Company's CODM reviews the entire organization's consolidated results as a whole on a monthly basis to evaluate performance and make resource allocation decisions. Management views the Company's operations and manages its business as one operating segment.

Use of Estimates - The preparation of these consolidated financial statements in conformity to U.S. GAAP requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and underlying assumptions are reviewed on an ongoing basis. Actual outcomes may differ from these estimates under different assumptions and conditions.

Foreign Currency Translation - The financial statements of subsidiaries located outside of the U.S. are generally measured using the local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date. Income and expense items are translated at average monthly rates of exchange. The resultant translation adjustments are included in accumulated other comprehensive income, a separate component of stockholders' equity.

Cash and Cash Equivalents - Cash and cash equivalents consist of cash and highly liquid investments with an original maturity of three months or less at the date of purchase. The balance, at times, may exceed federally insured limits.

Accounts Receivable - Accounts receivable are shown net of an allowance for doubtful accounts of $133,696 and $308,660 as of December 31, 2018 and 2017, respectively. The Company evaluates the adequacy of its allowances by analyzing the aging of receivables, customer financial condition, historical collection experience, the value of any collateral and other economic and industry factors. Actual collections may differ from historical experience, and if economic, business or customer conditions deteriorate significantly, adjustments to these reserves may be required. When the Company becomes aware of factors that indicate a change in a specific customer's ability to meet its financial obligations, the Company records a specific reserve for credit losses.

Inventory - Inventory is comprised of film, film based products and supplies which are valued at lower of cost or net realizable value, with cost determined on a weighted average cost basis. We provide reserves for discontinued and excess inventory based upon historical demand, forecasted usage, estimated customer requirements and product line updates. As of December 31, 2018 and 2017, inventory reserves were $185,056 and $243,888, respectively.

Property, Plant and Equipment - Property and equipment are recorded at cost, except property and equipment acquired in connection with the Company's business combinations, which are recorded at fair value on the date of acquisition. Expenditures which improve or extend the life of the respective assets are capitalized, whereas expenditures for normal repairs and maintenance are charged to operations as incurred. Depreciation expense is computed using the straight-line method as follows:

Furniture and fixtures	-	5 years
Computer equipment	-	3-4 years
Vehicles	-	5 years
Equipment	-	5-7 years
Leasehold improvements	-	shorter of lease term or estimate useful life
Plotters	-	4 years

The following table presents geographic property, plant and equipment, net by region as of December 31:

	2018	2017
United States	$ 2,288,792	$ 1,429,829
Canada	421,588	153,206
Europe	475,345	554,236
Other	198,481	15,962
Consolidated	$ 3,384,206	$ 2,153,233

Goodwill - Goodwill represents the excess purchase price over the fair value of tangible net assets acquired in business combinations after amounts have been allocated to intangible assets. Goodwill is not amortized, but is reviewed for impairment during the last quarter of each year, or whenever events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount, using a discounted cash flow model and comparable market values of each reporting segment. The Company uses push down accounting for acquired assets, and goodwill balances are assessed at the subsidiary level. Measuring the fair value of reporting units is a Level 3 measurement under the fair value hierarchy. See Note 12, Fair Value Measurements, for a discussion of levels.

The following table presents geographic Goodwill by region as of December 31:

	2018	2017
United States	$ 617,334	$ 490,788
Canada	1,701,826	1,365,854
Other	3,628	—
Consolidated	$ 2,322,788	$ 1,856,642

Intangible Assets - Intangible assets consist primarily of software, customer relationships, trademarks and non-compete agreements. These assets are amortized on a straight-line basis over the period of time in which their expected benefits will be realized. Indefinite-lived trade names are not amortized but are tested at least annually for impairment. No impairment losses were recorded within the years ended December 31, 2018 and 2017.

The following table presents geographic Intangible assets, net by region as of December 31:

	2018	2017
United States	$ 1,891,479	$ 1,775,273
Canada	1,652,347	1,787,499
Europe	1,773	—
Other	258,427	—
Consolidated	$ 3,804,026	$ 3,562,772

The following table presents the anticipated useful lives of intangible assets:

Trademarks	- 10 years
DAP software platform	- 5 years
Trade name	- 10-15 years
Contractual and customer relationships	- 9-10 years
Non-compete	- 3-5 years
Other	- 10 years

Impairment of Long-Lived Assets - The Company reviews and evaluates long-lived assets for impairment when events or circumstances indicate that the carrying amount of an asset may not be recoverable. When the undiscounted expected future cash flows are not sufficient to recover an asset's carrying amount, the fair value is compared to the carrying value to determine the impairment loss to be recorded. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value, less the cost to sell. Fair values are determined by independent appraisals or expected sales prices based upon market participant data developed by third party professionals or by internal licensed real estate professionals. Estimates of future cash flows and expected sales prices are judgments based upon the Company's experience and knowledge of operations. These estimates project cash flows several years into the future and are affected by changes in the economy, real estate market conditions and inflation.

There were no impairment charges recorded for identifiable intangible assets in any year presented.

Revenue Recognition - Our revenue is comprised primarily of product and services sales where we act as principal to the transaction. All revenue is recognized when the Company satisfies its performance obligation(s) by transferring the promised product or service to our customer when our customer obtains control of the product or service, with the majority of our revenue being recognized at a point in time. A performance obligation is a promise in a contract to transfer a distinct product or service to a customer. A contract's transaction price is allocated to each distinct performance obligation. Revenue is recorded net of returns and allowances. Sales, value add, and other taxes collected from customers and remitted to governmental authorities are accounted for on a net (excluded from revenues) basis. Shipping and handling costs are accounted for as a fulfillment obligation, on a net basis, and are included in cost of sales. See Note 2, Revenue Recognition, for additional accounting policies and transition disclosures.

Research and Development - Research costs are charged to operations when incurred. Software development costs, including costs associated with developing software patterns, are expensed as incurred unless the Company incurred these expenses in the development of a a new product or long-lived asset. Research and development costs were $223,886 and $0 in the years ended December 31, 2018 and 2017, respectively.

Advertising costs - Advertising costs are charged to operations when incurred. Advertising costs were $572,218 and $286,442 in the years ended December 31, 2018 and 2017, respectively.

Provisions and Warranties - We provide a warranty on our products. Liability under the warranty policy is based on a review of historical warranty claims. Adjustments are made to the accruals as claims data experience warrant. Our liability for warranties as of December 31, 2018 and 2017, was $70,250 and $95,882, respectively.

Income Taxes - Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred and other tax assets and liabilities.

Accumulated Other Comprehensive Income (Loss) ("AOCI") - The Company reports comprehensive income (loss) that includes net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to expenses, gains and losses that are not included in net earnings. These amounts are also presented in the consolidated statements of comprehensive income. As of December 31, 2018 and December 31, 2017, AOCI relates to foreign currency translation adjustments.

Earnings Per Share - Basic earnings per share amounts are calculated by dividing net income for the year attributable to common stockholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share amounts are calculated by dividing the net income attributable to common stockholders by the weighted average number of shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares.

Business Combinations - Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. Acquisition-related expenses are recognized separately from the business combination and are recognized as general and administrative expense as incurred.

Fair Value - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are classified using the following hierarchy, which is based upon the transparency of inputs to the valuation as of the measurement date:

Level 1:	Valuation is based on observable inputs such as quoted market prices (unadjusted) for identical assets or liabilities in active markets.
Level 2:	Valuation is based on inputs such as quoted market prices for similar assets or liabilities in active markets or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3:	Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

In making fair value measurements, observable market data must be used when available. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

RECENTLY ADOPTED ACCOUNTING STANDARDS

On January 1, 2018, we adopted Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers", and all related amendments, using the full retrospective transition method. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments. Topic 606 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most prior revenue recognition guidance. This new standard requires an entity to recognize revenue for the transfer of promised goods or services to a customer in an amount that reflects the consideration that the entity expects to receive and consistent with the delivery of the performance obligation described in the underlying contract with the customer. There was no impact to the amount or timing of revenue that the Company had recognized in prior periods.

In November 2016, the FASB issued new standards on the statement of cash flows and restricted cash that change the presentation of restricted cash and cash equivalents on the statement of cash flows. Restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We adopted this standard effective January 1, 2017. The adoption of this standard did not have a material effect on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations – Clarifying the Definition of a Business." ASU 2017-01 narrows the definition of a business and provides a screen to determine when a set of the three elements of a business – inputs, processes, and outputs – are not a business. The screen requires that when substantially all the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. If the screen is not met, the amendments (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The amendments provide a framework to assist entities in evaluating whether both an input and a substantive process are present. We adopted this standard effective January 1, 2017. The adoption of this standard did not have a material effect on the consolidated financial statements.

In January 2017, the FASB issued new guidance on goodwill impairment intended to simplify the testing for goodwill impairment by the elimination of Step 2 in the determination on whether goodwill should be considered impaired. The annual and/or interim assessments are still required to be completed. This guidance is effective for fiscal years (including interim periods) beginning after December 15, 2019, which is the Company's fiscal year ending December 31, 2020. We adopted this standard effective January 1, 2017. The adoption of this standard did not have a material effect on the consolidated financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET ADOPTED

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, "Leases" ("the new lease standard" or "ASC 842"), which requires an entity to recognize both assets and liabilities arising from financing and operating leases, along with additional qualitative and quantitative disclosures. The new lease standard requirements are effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and early adoption is permitted. The Company has begun evaluating the new lease standard, including the review and implementation of the necessary changes to our existing processes and systems that will be required to implement this new standard. While we are unable to quantify the impact at this time, we expect the primary impact to our consolidated financial position upon adoption will be the recognition, on a discounted basis, of our minimum commitments under noncancelable operating leases on our consolidated balance sheets resulting in the recording of right of use assets and lease obligations. While the Company is still in the process of evaluating the effect of adoption on our financial statements, it is expected the adoption of this standard will lead to a material increase in the assets and liabilities recorded on the consolidated balance sheets. The Company expects to use the effective date of this standard as the date of initial application with no retrospective adjustments to prior comparative periods.

In August 2018, the FASB issued ASU 2018-15, "Intangibles – Goodwill and Other – Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract" in order to provide additional guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. This is an amendment to ASU 2015-05, "Intangibles—Goodwill and Other—Internal-Use Software: Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is still assessing this guidance and the impact it will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Changes to the Disclosure Requirements for Fair Value Measurement*, to amend the disclosure requirements related to fair value measurements. These amendments include, but are not limited to, additional disclosures related to the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The standard has an effective date for annual periods beginning after December 15, 2019, and interim periods within those annual periods, with early adoption permitted. The Company is still assessing this guidance and the impact it will have on its consolidated financial statements.

2. REVENUE

Revenue recognition

The Company recognizes revenue when it satisfies a performance obligation by transferring control of the promised goods and services to a customer, in an amount that reflects the consideration that it expects to receive in exchange for those goods or services. This is achieved through applying the following five-step model:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

The Company generates substantially all of its revenue from contracts with customers, whether formal or implied. Sales taxes collected from customers are remitted to the appropriate taxing jurisdictions and are excluded from sales revenue as the Company considers itself a pass-through conduit for collecting and remitting sales taxes, with the exception of taxes assessed during the procurement process of select inventories. Shipping and handling costs are included in cost of sales.

Revenues from product and services sales are recognized when control of the goods is transferred to the customer which occurs at a point in time typically upon shipment to the customer or completion of the service. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments.

Based upon the nature of the products the Company sells, its customers have limited rights of return which are immaterial. Discounts provided by the Company to customers at the time of sale are recognized as a reduction in sales as the products are sold.

Warranty obligations associated with the sale of our products are assurance-type warranties that are a guarantee of the product's intended functionality and, therefore, do not represent a distinct performance obligation within the context of the contract. Warranty expense is included in cost of sales.

We apply a practical expedient to expense direct costs of obtaining a contract when incurred because the amortization period would have been one year or less.

Under its contracts with customers, the Company stands ready to deliver product upon receipt of a purchase order. Accordingly, the Company has no performance obligations under its contracts until its customers submit a purchase order. The Company does not enter into commitments to provide goods or services that have terms greater than one year. In limited cases, the Company does require payment in advance of shipping product. Typically, product is shipped within a few days after prepayment is received. These prepayments are recorded as contract liabilities on the consolidated balance sheet and are included in Accounts payable and accrued liabilities (Note 10). As the performance obligation is part of a contract that has an original expected duration of less than one year, the Company has applied the practical expedient under ASC 606 to omit disclosures regarding remaining performance obligations.

When the Company transfers goods or services to a customer, payment is due - subject to normal terms - and is not conditional on anything other than the passage of time. Typical payment terms range from due upon receipt to 30 days, depending on the type of customer and relationship. At contract inception, the Company expects that the period of time between the transfer of goods to the customer and when the customer pays for those goods will be less than one year, which is consistent with the Company's standard payment terms. Accordingly, the Company has elected the practical expedient under ASC 606 to not adjust for the effects of a significant financing component. As such, these amounts are recorded as receivables and not contract assets.

The Company had no material contract assets or liabilities for any period presented.

The table below sets forth the disaggregation of revenue by product category:

	Year Ended December 31,	
	2018	**2017**
Product Revenue		
Paint protection film	$ 85,495,382	$ 49,489,430
Window film	7,309,773	5,103,080
Other	2,721,195	1,755,639
Total	95,526,350	56,348,149
Service Revenue		
Software	$ 2,566,960	2,820,709
Cutbank credits	6,197,250	4,145,745
Installation labor	5,211,633	3,709,517
Training	418,421	272,924
Total	14,394,264	10,948,895
Total	$ 109,920,614	$ 67,297,044

Because many of our international customers require us to ship their orders to freight forwarders located in the United States, we cannot be certain about the ultimate destination of the product. The following table represents our estimate of sales by geographic regions based on our understanding of ultimate product destination based on customer interactions, customer locations and other factors:

	Year Ended December 31,	
	2018	**2017**
United States	$ 46,077,624	$ 33,134,851
China	32,279,335	11,873,582
Canada	15,146,869	10,693,002
Continental Europe	5,734,925	2,751,718
United Kingdom	2,725,925	1,690,664
Asia Pacific	2,754,495	2,293,285
Latin America	1,799,180	829,378
Middle East/Africa	2,806,502	3,331,376
Other	595,759	699,188
Total	$ 109,920,614	$ 67,297,044

Our largest customer accounted for 29.2% and 17.0% of our net sales during the year ended December 31, 2018 and 2017, respectively.

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31, 2018	December 31, 2017
Furniture and fixtures	$ 956,467	$ 691,799
Computer equipment	939,979	729,288
Vehicles	730,765	647,200
Equipment	1,079,503	895,223
Leasehold improvements	941,627	696,023
Plotters	544,080	392,111
Construction in Progress	646,576	—
Total property and equipment	5,838,997	4,051,644
Less accumulated depreciation	2,454,791	1,898,411
Property and equipment, net	$ 3,384,206	$ 2,153,233

Depreciation expense for the years ended December 31, 2018 and 2017 was $735,983 and $594,712, respectively.

4. INTANGIBLE ASSETS

For the years ended December 31, 2018 and 2017, intangible assets are comprised of the following balances:

	December 31,	
	2018	2017
Trademarks	$ 289,734	$ 286,812
DAP software platform	1,635,731	1,244,397
Trade name	457,766	465,670
Contractual and customer relationships	2,947,264	2,496,963
Non-compete	261,914	274,074
Other	150,267	148,135
Total cost	5,742,676	4,916,051
Less: Accumulated amortization	1,938,650	1,353,279
Intangible assets, net	$ 3,804,026	$ 3,562,772

Amortization expense for the years ended December 31, 2018 and 2017 was $642,801 and $537,334, respectively. Based on the carrying value of definite-lived intangible assets as of December 31, 2018, we estimate our future amortization expense will be as follows:

2019	$ 674,772
2020	577,263
2021	487,205
2022	426,043
2023	392,190
Thereafter	$ 1,246,553

5. GOODWILL

The following table summarizes goodwill transactions for the years ended December 31, 2018 and 2017:.

Balance December 31, 2016	$ 1,365,158
Additions	406,013
Foreign Exchange	85,471
Balance December 31, 2017	1,856,642
Additions	576,173
Foreign Exchange	(110,027)
Balance December 31, 2018	$ 2,322,788

6. ACQUISITION OF BUSINESSES

The Company completed the following acquisitions during the years ended December 31, 2018 and 2017:

Acquisition Date	Name/Location/Description	Purchase Price	Acquisition Type	Acquisition Purpose
April 1, 2017	Stratashield Customs, LLC, Dallas, TX, USA - Paint protection and window film installation shop	$175,000	Asset Purchase	Local market expansion
November 1, 2017	Transguard, Inc., Boise, ID, USA -Paint protection and window film installation shop	$207,724	Asset Purchase	Local market expansion
November 30, 2017	Protex Canada, Inc., Montreal, Quebec, Canada - Paint protection and window film franchisor	$816,273	Share Purchase	Add distribution channel
April 1, 2018	9352-4692, Quebec, Inc., Quebec City, Quebec, Canada - Paint protection and window film installation shop	$87,248	Share Purchase	Local market expansion
June 1, 2018	eShields, LLC, La Verne, CA, USA - Antimicrobial film distributor	$496,982	Asset Purchase	Product line expansion
August 1, 2018	9341-9182 Quebec, Inc., Pointe Claire, Quebec, Canada - Paint protection and window film installation shop	$363,239	Share Purchase	Local market expansion
August 1, 2018	9846905 Canada, Inc., Calgary, Alberta, Canada - Paint protection and window film installation shop	$332,798	Share Purchase	Local market expansion
November 1, 2018	Apogee, Corp., Yilan City, Yilan County, Taiwan - Paint protection and window film distributor	$638,552	Share Purchase	Local market expansion

The total purchase price for acquisitions completed during the years ended December 31, 2018 and 2017 are as follows:

	December 31,			
	2018	2017		
	2018 Acquisitions	Protex Canada, Inc.	Other 2017 Acquisitions	Total
Purchase Price				
Cash	$ 831,934	$ 434,132	$ 225,000	$ 659,132
Promissory note	998,668	382,141	—	382,141
Contingent payable agreements	—	—	157,724	157,724
Forgiveness of debt	88,216	—	—	—
	$ 1,918,818	$ 816,273	$ 382,724	$ 1,198,997
Allocation				
Cash	$ 41,407	$ 32,378	$ 409	$ 32,787
Accounts receivable	155,434	44,454	767	45,221
Inventory	494,663	17,843	5,963	23,806
Prepaid expenses and other assets	78,631	10,142	—	10,142
Property and equipment	167,622	30,339	7,500	37,839
Non-compete	—	—	15,000	15,000
Customer relationships	609,751	444,985	173,000	617,985
Trade name	—	187,607	—	187,607
Goodwill	576,173	215,516	190,497	406,013
Accounts payable	(126,715)	(69,866)	(4,065)	(73,931)
Other accrued liabilities	(78,148)	(97,125)	(6,347)	(103,472)
	$ 1,918,818	$ 816,273	$ 382,724	$ 1,198,997

Intangible assets acquired in 2018 have estimated useful lives of 9 years with the same weighted average life. Intangible assets acquired in the Protex acquisition have useful lives of between 9 and 15 years with a weighted average amortization period of 10 years. Acquired intangible assets for other 2017 acquisitions have estimated useful lives of between 5 and 9 years with a weighted-average amortization period of 8 years.

Goodwill for these acquisitions relates to the expansion into new geographical areas as well as the addition of a new distribution channel. The goodwill represents the acquired employee knowledge of the various markets, distribution knowledge by the employees of the acquired businesses, as well as the expected synergies resulting from the acquisitions.

Acquisition costs incurred related to these acquisitions were immaterial and were included in selling, general and administrative expenses.

The Company entered into contingent payable agreements in conjunction with a 2017 acquisition. According to this agreement, the Company will make future payments for the acquired business if certain revenue thresholds were met by the acquired entity. The maximum amount that can be paid under this arrangement is $157,724. These liabilities are recorded within accounts payables and accrued liabilities as of December 31, 2018 and 2017.

The acquired companies were consolidated into our financial statements on their respective acquisition dates. The amount of revenue and operating income of Protex Canada, Inc consolidated into our financial statements for the year ended December 31, 2017 was $138,807 and $34,314, respectively. The aggregate revenue and operating income (loss) of our other 2017 acquisitions consolidated into our financial statements since the respective dates of acquisition were $202,483 and ($98,544), respectively. The aggregate revenue and operating income (loss) of our other 2018 acquisitions consolidated into our financial statements since the respective dates of acquisition were $613,701 and 43,030, respectively.. The following unaudited financial information presents our results, including the estimated expenses relating to the amortization of intangibles purchased, as if the acquisitions during the years ended December 31, 2018 and 2017 had occurred on January 1, 2018 and 2017, respectively:

	Twelve Months Ended December 31,	
	2018 (Unaudited)	2017 (Unaudited)
Revenue	$ 111,048,518	$ 70,596,459
Net income	$ 8,480,919	$ 1,027,217

The pro forma unaudited results do not purport to be indicative of the results which would have been obtained had the acquisition been completed as of the beginning of the earliest period presented or of results that may be obtained in the future. In addition, they do not include any benefits that may result from the acquisition due to synergies that may be derived from the elimination of any duplicative costs.

7. DEBT

BANK TERM NOTE PAYABLE

In 2015, the Company entered into a loan agreement with the Company's primary lender, The Bank of San Antonio, to help fund its acquisition of its Canadian business in the principle amount of $1,900,000. This loan had a fixed interest rate of 4.25% and matured on September 3, 2018 at which time it was fully paid. The Bank of San Antonio was granted a security interest in substantially all of the Company's current and future assets.

REVOLVING FACILITIES

The Company has entered into a $8,500,000 revolving line of credit agreement with The Bank of San Antonio to support its continuing working capital needs. The Bank of San Antonio has been granted a security interest in substantially all of the Company's current and future assets. The line of credit has a variable interest rate of the Wall Street Journal prime rate plus 0.75% with a floor of 4.25% and matures on May 5, 2020. The interest rate at December 31, 2018 and 2017 was 6.25% and 5.25%, respectively. As of December 31, 2018, no balance was outstanding on this line. As of December 31, 2017, the balance outstanding on this line was $2,000,000.

The credit agreement contains customary covenants including covenants relating to complying with applicable laws, delivery of financial statements, payment of taxes and maintaining insurance. The credit agreement also requires that XPEL must maintain debt service coverage (EBITDA divided by the current portion of long-term debt +interest) of 1.25:1 and debt to tangible net worth of 4.0:1 on a rolling four quarter basis. The credit agreement also contains customary events of default including the failure to make payments of principal and interests, the breach of any covenants, the occurrence of a material adverse change, and certain bankruptcy and insolvency events.

At December 31, 2018 and 2017, the Company was in compliance with all debt covenants.

XPEL Canada, Corp., a wholly owned subsidiary of XPEL, Inc. has also entered into a CAD $4,500,000 revolving line of credit agreement with HSBC Bank Canada to support its continuing working capital needs. The line has a variable interest rate of the HSBC Canada Bank's prime rate plus 0.25%. The interest rate at December 31, 2018 was 5.75%. As of December 31, 2018, no balance was outstanding on this line of credit. This facility is guaranteed by the parent company.

NOTES PAYABLE – ACQUISITIONS

As part of its acquisition strategy, the Company uses a combination of cash and unsecured non-interest bearing promissory notes payable to fund its business acquisitions. The Company issued non-interest bearing notes with fair values of $998,668 and $382,141 in relation to acquisition activity in the years ended December 31, 2018 and 2017, respectively. The Company discounts the promissory note to fair value using market interests rates at the time of the acquisition. See Note 6, "Acquisition of Businesses" for a more details.

Notes payable are summarized as follows:

	Weighted Average Interest Rate	Matures	December 31, 2018	December 31, 2017
Bank Term Note Payable	4.25%	—	$ —	$ 440,126
Acquisition Notes Payable	4.49%	2022	1,821,387	1,511,740
Total Debt			1,821,387	1,951,866
Current Portion			853,150	1,024,434
Total Long-term debt			$ 968,237	$ 927,432

The approximate future principal payments on the notes payable are as follows:

2019	$ 853,150
2020	612,523
2021	355,551
2022	115,446
2023	—
Thereafter	—
	$ 1,936,670

The approximate future principal payments include $115,283 which will be recognized as interest expense and represent the difference between the fair value and carrying value.

8. EMPLOYEE BENEFIT PLAN

The Company sponsors defined contribution plans for substantially all employees. Annual Company contributions under the plans are discretionary. Company contribution expense during the years ended December 31, 2018 and 2017 was $124,431 and $65,132, respectively.

9. INVENTORIES

The components of inventory are summarized as follows:

	December 31, 2018	December 31, 2017
Film and film based products	$ 9,399,067	$ 9,781,486
Other products	1,264,862	750,657
Packaging and supplies	320,738	232,539
Inventory Reserve	(185,056)	(243,888)
	$ 10,799,611	$ 10,520,794

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following table presents significant accounts payable and accrued liability balances as of December 31,

	2018	2017
Trade payables	$ 3,905,187	$ 6,475,224
Payroll liabilities	1,194,237	304,741
Customer deposits	136,213	1,701,356
Other liabilities	1,056,456	1,237,512
	$ 6,292,093	$ 9,718,833

11. CAPITAL STOCK

Issued and outstanding – common shares:

	Number of shares	Amount
Balance, December 31, 2016	25,784,950	$ 25,785
Issuance of common shares	1,827,647	1,828
Balance, December 31, 2017	27,612,597	$ 27,613
Issuance of common shares	—	—
Balance, December 31, 2018	27,612,597	$ 27,613

During the year ended December 31, 2017, the Company announced its intention to issue, by way of a non-brokered private placement up to 2,097,903 of its Common Shares at a purchase price of $1.43 USD per share for gross proceeds of up to $3,000,000. The Company completed a first tranche of this private placement in February 2017 resulting in the issuance of 1,659,182 Common Shares at a price of $1.43 USD per share for gross proceeds of $2,372,630. In connection with this offering,1,260,000 Common Shares were issued to certain directors and officers of the Company.

In March 2017 the Company completed a second tranche of this private placement resulting in the issuance of an additional 168,465 Common Shares at a price of $1.43 USD per share for gross proceeds of $240,899.

Total direct issuance costs related to this private placement were $38,016.

12. STOCK OPTIONS

The Company has an Incentive Stock Option Plan (the "Plan"). The Plan provides for options to be granted to the benefit of employees, directors and third parties. The maximum number of shares allocated to and made available to be issued under the Plan shall not exceed 10% of the common shares issued and outstanding (on a non-diluted basis) at any time. The exercise price of options granted under the Stock Option Plan will be determined by the directors, but will at least be equal to the closing trading price of the common shares on the last trading day prior to the grant and otherwise the fair market price as determined by the Board of Directors. The term of any option granted shall not exceed ten years. Except as otherwise provided elsewhere in the Stock Option Plan, the options shall be cumulatively exercisable in installments over the option period at a rate to be fixed by the Board of Directors. The Company will not provide financial assistance to any optionee in connection with the exercise of options. The Company has not issued stock options during the years ended December 31, 2018 and 2017, respectively.

13. FAIR VALUE MEASUREMENTS

Financial instruments include cash and cash equivalents (level 1), accounts receivable, accounts payable and long-term debt. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings approximate fair value because of the near-term maturities of these financial instruments. For discussion of the fair value measurements related to goodwill refer to Note 5, Goodwill. At December 31, 2018 and 2017, the book value and estimated fair value of the Company's debt instruments were as follows:

Notes payable	December 31, 2018	December 31, 2017
Current maturities of notes payable	$ 853,150	1,024,434
Long-term portion of notes payable	968,237	927,432
Fair Value of notes payable	$ 1,821,387	$ 1,951,866

The estimated fair value of debt is based on market quotes for instruments with similar terms and remaining maturities (Level 2 inputs and valuation techniques).

ASC 820 prioritizes the inputs to valuation techniques used to measure fair value into the following hierarchy:

Level 1 – Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than the quoted prices in active markets that are observable either directly or indirectly, including: quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market data and require the reporting entity to develop its own assumptions.

14. INCOME TAXES

Income before income taxes classified by source of income was as follows:

	2018	2017
Domestic	$ 10,008,013	$ 2,719,855
International	1,473,292	$ (571,305)
Income before income taxes	$ 11,481,305	$ 2,148,550

On December 22, 2017, the 2017 Tax Cut and Jobs Act (the "Tax Act") was enacted into law and the new legislation contains several key tax provisions, including a one-time mandatory transition tax on accumulated foreign earnings and a reduction of the corporate income tax rate to 21% effective January 1, 2018, among others. We are required to recognize the effect of the tax law changes in the period of enactment, such as determining the estimated transition tax, re-measuring our U.S. deferred tax assets and liabilities at a 21% rate as well as reassessing the net realizability of our deferred tax assets and liabilities. The amount of this one-time transition tax was not material. The provisional amount related to the re-measurement of our deferred tax balance was $0.1 million.

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118) which allows companies to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. Since the Tax Act was passed late in the fourth quarter of 2017, and ongoing guidance and accounting interpretation was yet to be issued, our accounting of the deferred tax re-measurements were incomplete as of December 31, 2017. The 2017 Federal corporate income tax return was filed in fourth quarter of 2018. The final analysis and impact of the Tax Act is reflected in the tax provision and related tax disclosures for the year ended December 31, 2018. There were no material differences to the originally estimated $0.1 million remeasurement of our net deferred tax balances.

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income ("GILTI") provisions of the Tax Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance indicates that either accounting for deferred taxes related to GILTI inclusions or treating any taxes on GILTI inclusions as period cost are both acceptable methods subject to an accounting policy election. For the year ended December 31, 2018, the Company has elected to treat any potential GILTI inclusions as a period cost.

Income Tax Expense

The provision for income taxes differs from the United States federal statutory rate as follows:

	2018	2017
Income before income taxes	$ 11,481,305	$ 2,148,550
Statutory rate	21%	34%
	2,411,074	730,507
State taxes net of federal benefit	183,468	49,533
Nondeductible/nontaxable items	—	71,585
Foreign tax rate differential	81,474	151,085
Change in deferred tax rate		(100,654)
Return to provision estimated revision	—	87,596
Other - net	84,057	164,568
Income tax expense	$ 2,760,073	$ 1,154,220

The foreign tax rate differential reflects the impact of the differences in our various international tax rates and our US statutory rate.

The components of the income tax provision (benefit) are as follows:

	Years ended December 31	
	2018	2017
Current Income Tax Expense/(Benefit)		
Federal	$ 2,182,415	$ 1,039,363
Foreign	431,638	261,680
State	232,238	75,050
Total Current Income Tax Expense/(Benefit)	2,846,291	1,376,093
Deferred Income Tax Expense/(Benefit)		
Federal	(65,801)	7,503
Foreign	(20,417)	(229,376)
Total Deferred Income Tax Expense/(Benefit)	(86,218)	(221,873)
Total	$ 2,760,073	$ 1,154,220

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred income taxes are as follows:

	Years ended December 31	
	2018	2017
DEFERRED TAX ASSETS:		
Allowance for Doubtful Accounts	$ 16,823	$ 27,868
263(A) Adjustment	17,421	15,779
Accrued Expenses	9,485	—
Inventory Reserve	34,978	—
Accretion of Acquisition Notes	8,156	—
State Tax Credit	48,770	—
NOL Carryforward and Other	249,772	352,743
Deferred tax assets	385,405	396,390
Less valuation allowance	—	—
Total deferred tax assets	$ 385,405	$ 396,390
DEFERRED TAX LIABILITIES:		
Fixed and Intangible Assets	$ 824,822	$ 811,642
Unrealized Gain	14,146	30,197
Accretion	8,639	—
Allowance for Doubtful Accounts	16,662	28,991
Total deferred tax liabilities	864,269	870,830
Total net deferred tax assets/(liabilities)	$ (478,864)	$ (474,440)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company regularly assesses the likelihood tha the deferred tax assets will be recovered from future taxable income. The Company considers projected future taxable income and ongoing tax planning strategies, then records a valuation allowance, if deemed necessary, to reduce the carrying value of the net deferred taxes to an amount that is more likely than not able to be realized. Based upon the Company's assessment of all available evidence, including the previous two years of taxable income and loss after permanent items, estimates of future profitability, and the Company's overall prospects of future business, the Company determined that it is more likely than not that the Company will realize all of its deferred tax assets in the future. The Company will continue to assess the potential realization of deferred tax assets on an annual basis, or an interim basis if circumstances warrant. If the Company's actual results and updated projections vary significantly from the projections used as as basis for this determination, the Company may need to change the valuation allowance against the gross deferred tax assets.

The Company, through XPEL Ltd. and XPEL B.V., has net operating losses of approximately $1,112,785 and $566,396, respectively, available to apply against future taxable income. The losses in XPEL Ltd. have no expiration date. If not utilized, the net operating losses in XPEL B.V. will expire in 2027.

Uncertain Tax Positions

The Company recognizes the tax effects of an uncertain tax position only if it is more likely than not to be sustained based solely upon its technical merits at the reporting date. Interest and penalties associated with unrecognized tax benefits are recorded within income tax expense. The unrecognized tax benefit is the difference between the tax benefit recognized and the tax benefit claimed on the Company's income tax return. The Company has reviewed its prior year returns and believes that all material tax positions in the current and prior years have been analyzed and properly accounted for and that the risk that additional material uncertain tax positions have not been identified is remote.

Goodwill and other intangibles acquired in taxable asset purchases are amortized for tax purposes over allowable periods as prescribed by applicable regulatory jurisdictions.

The Company is subject to income taxes in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The Company is still subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years 2011 and after. There are no on-going or pending IRS, state or foreign examinations.

15. COMMITMENTS AND CONTINGENCIES

(a) Operating Lease Commitment

The Company has entered into lease agreements for premises housing warehousing, installation, administrative, and sales operations. The remaining term for these leases ranges from between one to ten years. Monthly payments for these agreements range between $1,295 and $18,591. Rent expense incurred for the years ended December 31, 2018 and 2017 was $1,209,208 and $796,497, respectively. The combined future minimum payments for the following five years are as follows:

2019	$ 869,492
2020	736,169
2021	667,551
2022	601,593
2023	528,427
Thereafter	1,372,388
	$ 4,775,620

(b) Contingencies

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Management also has determined that the likelihood of any litigation and claims having a material impact on our results of operations, cash flows or financial position is remote.

(c) Supply Agreement

Through our Amended and Restated Supply Agreement that we entered into with our primary supplier in March 2017, we have exclusive rights to commercialize, market, distribute and sell its automotive aftermarket products through March 21, 2020, which term automatically renews for successive two year periods thereafter unless terminated at the option of either party with two months' notice. During such term, we have agreed to use commercially reasonable efforts to purchase a minimum of $5,000,000 of products quarterly from this principal supplier, with a yearly minimum purchasing requirement of $20,000,000.

EXHIBITS

Number	Description
3.1	Articles of Incorporation of the Company, filed with the Nevada Secretary of State on October 14, 2003.**
3.2	Certificate of Amendment to the Articles of Incorporation of the Company, filed with the Nevada Secretary of State on December 29, 2003.**
3.3	Certificate of Amendment to the Articles of Incorporation of the Company, filed with the Nevada Secretary of State on June 3, 2018.**
3.4	Amended and Restated Bylaws of the Company, effective as of May 11, 2018.**
4.1	Form of Common Stock Certificate.**
10.1	Business Loan Agreement, dated as of August 5, 2017, between XPEL Technologies Corp., as borrower, and The Bank of San Antonio, as lender.**
10.2	Change in Terms Agreement, dated as of May 5, 2018, modifying that certain Business Loan Agreement dated as of August 5, 2017, between XPEL Technologies, Corp., as borrower, and The Bank of San Antonio, as lender.**
10.3	Credit Facility Letter, dated September 11, 2018, by and among XPEL Canada Corp., as borrower, XPEL, Inc., as guarantor, and HSBC Bank Canada, as lender.**
10.4	Amended and Restated Supply Agreement by and between XPEL Technologies Corp., and entrotech, inc.*
10.5	Form of Distribution Agreement of the Company.**
10.6	Stock Option Plan of the Company.**
14.1	Code of Business Conduct and Ethics.*
21.1	Subsidiaries of the Company.**

* Filed herewith
** Previously filed

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

XPEL, Inc. (Registrant)

By: /s/ Barry R. Wood

Barry R. Wood
Senior Vice President and Chief Financial Officer
(Authorized Officer and Principal Financial and Accounting Officer)

April 24, 2019

AMENDED AND RESTATED
SUPPLY AGREEMENT

This SUPPLY AGREEMENT ("Agreement") is made and entered into effective as of March 2l, 2017 (the "Effective Date"), by and between XPEL Technologies Corp., a Nevada corporation, having a place of business at 618 W. Sunset Road, San Antonio, Texas 78216 ("Purchaser"), and entrotech, inc., an Ohio corporation, having a place of business at 1245 Kinnear Road, Columbus, Ohio 43212 ("Seller"). Purchaser and Seller may be referred to individually as a "Party" and collectively as the "Parties."

RECITALS

A. The parties hereto entered into a Supply Agreement on February 12, 2013, and now desire to amend and restate that Agreement as set forth below;

B. Purchaser is a leading supplier of automotive protective films;

C. Seller is a technological leader in developing and manufacturing advanced material solutions for a variety of high-tech industries and has developed innovative subject matter related to protective films and application thereof in the automotive industry(the "Field"):

D. Purchaser and Seller desire to solidify a business relationship, whereby Purchaser will commercialize, market, distribute and sell technology and products relating to protective films for application in the Field, with Purchaser having exclusive rights to commercialize, market, distribute and sell such products within a subset of the Field defined to be the automotive aftermarket, which specifically includes automotive dealerships (the "Exclusive Field"), and Seller will supply Product (as defined below) to Purchaser:

E. Outside of the Exclusive Field, Purchaser understands that Seller will retain all rights to Seller's technology and products relating to protective films for any application;

F. Purchaser understands that Seller will also retain all rights to commercialize, market, distribute and sell technology and products with respect to any solution-cast core layer product useable or used within such protective films, including the rights to manufacture and sell solution-cast core layer product (not assembled by Seller as a multi-layer automotive paint protection film);

G. Purchaser desires to purchase certain Product from Seller for the period described herein; and

H. Seller possesses certain manufacturing capabilities, facilities, equipment, technology, know-how and expertise to manufacture the Product and desires to supply the Product to Purchaser on the terms set forth herein.

AGREEMENT

NOW, THEREFORE. in consideration of the mutual covenants set forth below and for other good and valuable consideration, the receipt and sufficiency of which the Parties hereby acknowledge, the Parties agree as follows:

l. Definitions.

(a) "Affiliate" means, with regard to any Party, any individual who or Entity (as defined below) that in whatever country organized or resident directly or indirectly through or one or more intermediaries, is Controlled by, or is under common Control with, or Controls such Party ("Control" and "Controlled" being defined herein below).

(b) "Confidential Information" means: (i) confidential and/or proprietary information and materials, including tangible samples, disclosed orally or in writing or otherwise provided to the receiving Party by the disclosing Party or an Affiliate thereof; (ii) all information set forth in Exhibit A to this Agreement; and (iii) the terms of this Agreement. All customer lists developed or used in connection with any sales of the Product pursuant to this Agreement shall be Purchasers Confidential Information for purposes of this Agreement and Purchaser shall own all right, title and interest therein.

(c) "Control" or "Controlled" as used herein mean with respect to any specified individual or Entity the possession, directly or indirectly, of the power to direct or cause the direction or the management and policies of such individual or Entity, whether through ownership of securities, by contract or otherwise.

(d) "Cost of Goods" means the direct costs and expenses, including but not limited to material, tooling manufactured or purchased solely to enable Seller to manufacture a Product, labor, packaging, and transportation costs and expenses (including all freight, insurance, duties, landing charges, taxes, tariffs or other related expenses, whether incurred before or at arrival of the Product at the Delivery Location), actually incurred by Seller or its designated Affiliate with respect to its manufacturing and supply of Product to Purchaser hereunder, all of which shall be reasonable, documented, and calculated in accordance with U.S. generally accepted accounting principles.

(e) ·"Delivery Location" means, unless otherwise specified in a Purchase Order (as referenced herein below), 618 *N.* Sunset Road, San Antonio, Texas 78216.

(f) ·"Developed Product" means a product related to protective films for application in the Exclusive Field that one or both of Seller and Purchaser, directly or indirectly through one or more of their Affiliates, may develop during the Term of this Agreement.

(g) ·"Entity" means any corporation, firm, partnership, limited liability company, proprietorship, or other form of business organization.

(h) "Exclusive Field" has the meaning set forth in the Recitals.

(i) "Field" has the meaning set forth in the Recitals.

(j) "Territory" means the entire world.

(k) "Patent Right" has the meaning set forth in Section 26.

(l) "Losses" means any loss, liability, cost damage, expense (including costs of investigation and defense and reasonable attorneys' fees and expenses), judgment, or royalties paid to a third party (without giving effect to any materiality qualification or any similar qualification contained or incorporated directly or indirectly in any representation or warranty for purposes of determining the dollar amount of Losses).

(m) "Product" refers to one or more of the surface protection films developed or manufactured by Seller, including, without limitation, as described in Exhibit A attached hereto (as amended hereafter by mutual written agreement of the Parties or in accordance with Section Section 25(a)) or any similar or next-generation products developed or manufactured by Seller. Unless explicitly set forth otherwise in this Agreement, any change in Exhibit A shall be reduced to writing and agreed to by the Parties.

(n) "Specifications" means the Product information and requirements, if any, set forth in a Purchase Order (as hereinafter defined).

2. Supplv and Minimum Requirement. During the Term (as defined below), Seller agrees to supply Purchaser (as set forth below) the type and amount of Product ordered by Purchaser from time to time pursuant to a purchase order or other written document for the purchase of Product (each, a "Purchase Order"). During the Term, Purchaser will purchase and Seller will sell a minimum of $20,000,000 of Product per annum (the "Minimum Requirement"). In meeting its obligations hereunder in regards to the Minimum Requirement, Purchaser will use commercially reasonable efforts to purchase a minimum of $5,000,000 of Product quarterly. Each Purchase Order shall contain instructions concerning quantity, delivery schedule and other relevant information. In the event of any conflict between the terms of this Agreement and the terms of a Purchase Order, this Agreement shall govern. Except as otherwise expressly provided for herein. Seller shall bear the sole responsibility for all Cost of Goods.

3. Purchase Price. The purchase price for Product supplied hereunder (the "Purchase Price") shall be as indicated on Exhibit A attached hereto. Payment terms are net sixty (60) days from receipt of invoice; provided, however, that if Purchaser pays within thirty (30) clays of receipt of invoice then Purchaser shall receive a five percent (5%) discount on the Product set forth in such invoice.

4. Shipment and Delivery. Unless otherwise specified in the applicable Purchase Order, shipments of Product will be made FOB Seller's dock. Seller shall ship all Product in accordance with the instructions in Purchasers Purchase Order. In the absence of contrary shipping instructions in a Purchase Order, Seller shall ship the Product FOB Sellers dock to the default Delivery Location specified in Section l.

5. Term. This Agreement shall continue for a term of three (3) years from the Effective Date (the "Initial Term") and automatically renew for successive two (2) year periods thereafter (each successive period a "Renewal Term," and collectively with the Initial Term, the "Term"), unless earlier terminated in accordance with the terms hereof.

6. Co-Exclusive/Exclusive Rights. Seller shall sell the Product to Purchaser and, at Seller's sole discretion, to any other person or Entity for application within the Field, except the Exclusive Field. Within the Exclusive Field, Seller shall exclusively sell the Product to Purchaser and shall not directly or indirectly, through an Affiliate or third party, market, sell, offer to sell, give, lend, transfer, consign, or provide Product, or any derivative thereof, to any other person or Entity for application within the Exclusive Field. Purchaser will exclusively purchase the Product from Seller and will not market, sell, give, lend, transfer, consign, make, have made, export, or provide the Product, or any derivative thereof, to any person or Entity for application in the Field except for Product purchased from Seller. In the event Seller is contacted by any third party soliciting the purchase of Product for use in the Exclusive Field, Seller shall promptly refer such third party to Purchaser.

7. Specifications. Any material change or modification to the Specifications shall be mutually agreed upon in writing, except that Purchaser's consent may not be unreasonably withheld in the event that a raw material supplier goes out of business, goes bankrupt, ceases production or ceases sales to Seller. For any such change or modification in the Specifications that results in an increased cost to Seller of supplying the Product hereunder, there shall be a corresponding upward adjustment to the Purchase Price for the Product; provided, however, that Purchaser shall have the right to terminate this Agreement effective immediately upon notice to Seller in the event that the Purchase Price for the Product increases by an aggregate of 10 percent (10%) or more in any given calendar year during the Term, for any reason other than as a result of changes to the Specifications requested by Purchaser.

8. Warranties and Representations.

(a) Compliance with Law. Each Party represents, warrants and covenants to the other Party that it is and will remain in material compliance with all applicable law as it may apply to this Agreement and such Party's performance under this Agreement, non-compliance with which would have a material adverse effect upon either Party.

(b) Authorization. Each Party represents and warrants for itself that (i) it is duly incorporated and validly existing and in good standing under the laws of the jurisdiction of its incorporation, (ii) it has the full right, power, and authority to execute and perform this Agreement, (iii) this Agreement does not conflict with or otherwise result in a breach of any agreement to which such Party is a party or to which it is bound, and (iv) this Agreement represents a valid, legally binding obligation of it, enforceable against it in accordance with its terms.

(c) Warranty of Noninfringement. Seller represents and warrants that no intellectual property right in any country, which is owned by, controlled by, or licensed to any third party, has been or would be infringed or misappropriated by the practice of Patent Rights or export, offer for sale, or sale of Product by Purchaser.

(d) No Warranty Regarding Scope and Validity of Patent Rights. Purchaser acknowledges that Seller provides no representation or warranty that Seller's Patent Rights will include any patents, including patents of sufficient scope to deter competitors, nor that any such patents would be valid and enforceable.

(e) Information Acquired Subsequent to Effective Date. If, subsequent to the Effective Date, a Party obtains information that affects, conflicts with, or is inconsistent with any representation made or warranty given by that Party in this Agreement, then that Party covenants to promptly advise the other Party of such information acquired subsequent to the Effective Date. However, the provision of such information shall not affect the scope of any representation or warranty given by a Party under this Agreement.

9. Relationship of the Parties. The Parties acknowledge that they are independent contractors and no other relationship, including partnership, joint venture, employment, franchise, master/servant or principal/agent is intended by this Agreement. Neither Party shall have the right to bind or obligate the other or represent itself in any manner, whether written, verbal or otherwise, as the other Party.

10. Delivery Terms and Risk of Loss. All deliveries to Purchaser shall be FOB Seller's dock. Risk of loss or damage shall pass to Purchaser at the time a delivery arrives at the Delivery Location.

11. Taxes. Seller's pricing includes all applicable taxes (including but not limited to, income, sales, use, excise, value-added, and other similar taxes), duties, and charges. Seller is solely responsible for collection and payment of all such taxes, duties, and charges resulting from this Agreement or as a result of Seller's performance hereunder, whether now or hereafter imposed, levied, collected, withheld, or assessed. In no event will Purchaser be liable for taxes payable by Seller.

12. Packing. Seller will pack Product shipped to Purchaser in accordance with commercially reasonable general packing practices.

13. Delays.

(a) Force Majeure. Except for payment obligations, neither Party will be liable to the other Party for any failure to meet its obligations due to any Force Majeure Event. If the inability to perform continues for longer than thirty (30) days, either Party may terminate this Agreement by providing written notice to the other Party, and Purchaser will pay Seller for Product delivered and services performed prior to termination. For purposes of this Section 13, "Force Majeure Event" means a cause for non-performance that is beyond the non-performing Party's reasonable control, including without limitation, those arising from: (i) government embargoes; (ii) blockades; (iii) seizure or freezing of assets; (iv) delays or refusals to grant an export license or the suspension or revocation thereof; (v) any other acts of any government that would limit the ability for contract performance; (vi) fires, earthquakes, floods, or severe weather conditions; (vii) any other acts of God; (viii) quarantines or regional medical crises; (ix) labor strikes or lockouts; (x) riots, strife, insurrection, civil disobedience, armed conflict, acts of piracy, terrorism or war, declared or not (or impending threat of any of the foregoing, if such threat might reasonably be expected to cause injury to people or property); and (xi) inability or refusal by Purchaser's directed third party suppliers, if any, to provide Seller parts, services, manuals, or other information necessary for Product to be provided by Seller under this Agreement.

(b) Order Adjustment. If a Force Majeure Event causes a delay, then the date of performance will be extended by the period of time that the non-performing Party is actually delayed or for any other period as the Parties may agree to in writing.

14. Inspection and Acceptance. Unless other acceptance criteria have been agreed to by the Parties under this Agreement, Purchaser will inspect Product within a reasonable period, not to exceed thirty (30) calendar days, after delivery. Product will be presumed accepted unless Seller receives written notice of rejection explaining the basis for rejection within such timeframe. Seller will replace rejected Product by shipping the applicable replacement Product to Purchaser within ten (10) calendar days following its receipt of Purchaser's written notice of rejection. Seller assumes shipping costs in an amount not to exceed normal surface shipping charges to Seller's designated facility for the return of properly rejected Product. As to all properly rejected Product, Seller will bear the risk of loss or damage to Product in transit.

15. Product Warranty. Seller represents and warrants to Purchaser that Product shall, at the time of delivery, (a) be free from any material defects in materials, workmanship or design, and (b) be delivered to Purchaser free and clear from any security interest, lien or other encumbrance. EXCEPT AS OTHERWISE EXPLICITLY SET FORTH HEREIN, EACH PARTY EXPRESSLY DlSCLAIMS TO THE OTHER PARTY ANY EXPRESS OR IMPLIED WARRANTY, INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. ARISING OUT OF ITS PERFORMANCE OR ATTEMPTED DEVELOPMENT, MANUFACTURE, OR SUPPLY OF A PRODUCT PURSUANT TO THIS AGREEMENT.

16. Compliance with Law: Product Complaints and Recalls.

(a) Compliance with Law. Seller will, at its sole expense, ensure that the manufacture and supply of the Product, including all facilities and processes used to manufacture the Product and all labeling and packaging of the Product, comply fully with any applicable laws, rules, regulations, order of any jurisdiction or any other requirement of any governmental, regulatory or administrative agency or authority or court or tribunal.

(b) Product Complaints / Reports. Purchaser shall handle all complaints and inquiries related to the Product made by users of the Product and any reporting requirements related thereto. Each Party shall reasonably cooperate with the other in sharing any information that may constitute a complaint related to the Product. Seller will reimburse Purchaser for all direct expenses reasonably related to complaints related to materially defective Product.

(c) Recalls. In the event Seller or Purchaser believe a recall or similar corrective action may be necessary pursuant to any Product provided under this Agreement, the Party believing there is a need for such recall or corrective action shall immediately notify the other in writing. If such recall or corrective action is necessary, each Party shall provide all necessary cooperation and assistance to the other in taking such action. Seller will not act to initiate a recall or take similar corrective action without the express prior written approval of Purchaser. Purchaser will not act to initiate a recall or take similar corrective action without first consulting with Seller in good faith, unless such consultation would be impracticable under the circumstances. The responsibility to conduct and the cost of any recall or similar corrective action will be borne by Seller, and Seller agrees to reimburse Purchaser for all direct expenses reasonably related to such recall or corrective action.

17. Indemnification.

(a) By Purchaser. Purchaser shall indemnify, defend and hold Seller and any of its officers, directors, Affiliates, employees, agents, successors and permitted assigns (each, a "Seller Indemnified Party") harmless from and against any and all third party claims, causes of action, and liabilities for any Losses arising out or or resulting from: (i) any Purchaser breach of a representation, warranty, covenant or obligation in this Agreement; or (ii) any gross negligence, recklessness or wrongful intentional acts or omissions of Purchaser or another Purchaser Indemnified Party (as defined in the following sub-paragraph (b)) in connection with the activities contemplated under this Agreement; but only in each case to the extent not due to the gross negligence, recklessness or wrongful intentional acts or omissions of a Seller Indemnified Party.

(b) By Seller. Seller shall indemnify, defend and hold Purchaser and any of its officers, directors, Affiliates, employees, sales agents, successors and permitted assigns (each, a "Purchaser Indemnified Party") harmless from and against any and all third party claims, causes of action, and liabilities for any Losses arising out of or resulting from: (i) any Seller breach of a representation, warranty, covenant or obligation in this Agreement; (ii) any gross negligence, recklessness or wrongful intentional acts or omissions of Seller or another Seller Indemnified Party in connection with the activities contemplated under this Agreement; or (iii) any alleged infringement of any patent, trademark, copyright, trade secret or other intellectual property rights by any Product furnished to Purchaser by Seller (excluding claims arising from any specifications provided by Purchaser, hereafter agreed to in writing by the Parties), and the use thereat: and any services and deliverables provided by Seller hereunder; but only in each case to the extent not due to the gross negligence, recklessness or wrongful intentional acts or omissions or a Purchaser lndemnified Party.

(c) Procedure. A Party who receives service of process or the receipt of actual notice of a claim with regard to which such Party desires to seek indemnification hereunder shall promptly notify the other Party (the "Indemnifying Party") of the receipt of such notice or service of process for which such indemnification is sought. The Indemnifying Party shall promptly assume full responsibility for the defense of any such suit, claim or proceedings. The Party seeking indemnification shall cooperate in such defense at the expense of the Indemnifying Party. Failure to give timely notice of any claims which may give rise to an indemnification claim under this Agreement shall not affect the rights of the Party seeking indemnification to collect indemnification from the Indemnifying Party so long as such failure does not materially and substantially adversely affect the Indemnifying Party's ability to defend such claim against a third party. Each Party seeking indemnification agrees that it will offer reasonable assistance to the Indemnifying Party in defending, prosecuting or resolving, any claim, action, charge, or compliant.

18. Termination.

(a) By Seller. Seller shall have the right, but not the obligation, to terminate this Agreement prior to the expiration of the Term: (i) effective immediately on written notice to

Purchaser if any of the following occurs: (1) failure of Purchaser to pay the Purchase Price within the sixty (60) day period specified in Section 3 above, which failure continues for a period of ten (l0) business days after Seller gives written notice thereof to Purchaser, (2) Seller's or Purchaser's sale of Product violates any applicable law or legal right of a third party, and such violation is reasonably likely to materially and adversely affect Seller, or (3) Purchaser does not have a material permission, permit, or license necessary to perform any activity required by this Agreement, including any permission, permit, or license from any local, state, or federal government agency or other public or private authority necessary to operate its businesses, or any such permission, permit, or license is suspended, withdrawn, or revoked, and Purchaser fails to cure such failure, suspension, withdrawal, or revocation within sixty (60) days following written notice thereof, and such failure, suspension, withdrawal or revocation, if not cured, is reasonably likely to materially and adversely affect Seller; (ii) effective immediately on written notice to Purchaser if Purchaser terminates its existence, discontinues business, has a receiver appointed for any of its property, makes any assignment for the benefit of creditors, or has any proceedings under any bankruptcy, reorganization, or similar laws commenced by or against it; (iii) effective immediately on written notice to Purchaser if Purchaser commits any material breach of this Agreement and fails to cure the breach, if it is capable of being cured, within sixty (60) days following written notice of the breach: or (iv) effective upon expiration of the then current Term if written notice of the same is provided to Purchaser at least two (2) months prior to such expiration.

(b) By Purchaser. Purchaser shall have the right, but not the obligation, to terminate this Agreement prior to the expiration of the Term: (i) effective immediately on written notice to Seller if any of the following occurs: (1) Purchaser's or Seller's sale of Product violates any applicable law or legal right of a third party and such violation is reasonably likely to materially and adversely affect Purchaser, or (2) Seller does not have a material permission, permit, or license necessary to perform an) activity required by this Agreement, including any permission, permit, or license from any local, state, or federal government agency or other public or private authority necessary to operate its businesses, or any such permission, permit, or license is suspended, withdrawn, or revoked, and Seller fails to cure such failure, suspension, withdrawal, or revocation within sixty (60) days following written notice thereof, and such failure, suspension, withdrawal or revocation, if not cured, is reasonably likely to materially and adversely affect Purchaser: (ii) effective immediately on written notice to Seller if Seller terminates its existence, discontinues business, has a receiver appointed for any of its property, makes any assignment for the benefit of creditors, or has any proceedings under any bankruptcy, reorganization, or similar laws commenced by or against it; (iii) effective immediately on written notice to Seller if Seller commits any material breach of this Agreement and fails to cure the breach, if it is capable of being cured, within sixty (60) days following written notice of the breach; or (iv) effective upon expiration of the then current Term if written notice of the same is provided to Seller at least two (2) months prior to such expiration.

(c) Effect of Termination. Upon termination or expiration of this Agreement for any reason, nothing herein shall be construed to release either Party from any obligation, which matured prior to the effective date of such expiration or termination. Without limitation of the foregoing, expiration or termination of this Agreement shall not relieve Purchaser's obligation to pay all fees and other amounts that are owed by Purchaser as of or after the elate of expiration or termination.

19. Audit and Inspection Rights. Either Party and its agents shall have the right, upon five (5) business days· notice to the other Party and during regular business hours, to examine at its sole cost and expense such other Party's records and systems related to this Agreement or the Product, provided that such audits shall not occur more than once in any six-month period and shall be conducted by the examining Party in a manner that minimizes any disruption to the normal business operations of the other Party. The provisions of this Section 19 will survive any expiration or termination of this Agreement for a period of five (5) years.

20. Insurance. Seller shall, at its own expense, obtain and maintain throughout the Term commercial general liability insurance including coverage for product liability/completed operations against any claims, suits, Losses or damages arising as a result of this Agreement. Seller shall, at its own expense, obtain and maintain throughout the Term workers compensation insurance with a minimum coverage that is consistent with state statutory limits. If and when requested, Seller shall provide to Purchaser insurance certificates showing compliance with this Section 20.

21. Mediation. Except as required in the course of legal process, before proceeding to legal action, all disputes between the Parties relating to this Agreement shall first be submitted to non-binding mediation with a mediator and at a location mutually agreed upon by the Parties. The mediation shall be conducted before a single mediator to be agreed upon by Purchaser and Seller. Such mediation shall be concluded within forty-five (45) days following the initial request by either Party to commence such mediation, and if not concluded within such time period, either Party may proceed directly to legal action.

22. Compliance With Import and Export Laws. Each Party shall be responsible for compliance with all import and export control laws and regulations. Each Party will obtain any import, export, and re-export approvals and licenses required for goods, transfers, services and technical data delivered by that Party and will retain documentation to support compliance with those laws and regulations.

23. Confidential Information.

(a) Obligations. For the term of this Agreement plus five (5) years thereafter, each Party and its Affiliate(s) will protect the confidentiality of the Confidential Information disclosed by the other Party with no less care than it protects the confidentiality of its own proprietary and confidential information and materials of like kind, but in no event will the Party receiving Confidential Information protect such Confidential Information with less than a reasonable standard of care. During this time period, each Party and its Affiliate(s) will protect the existence and terms of this Agreement by, for example, not advertising the fact that Seller is supplying Product for Purchaser according to this Agreement in order to fulfill an objective inconsistent with this Agreement. A Party receiving tangible samples embodying Confidential Information agrees not to analyze such tangible samples (for composition or structure) without the written consent of the disclosing Party. Each Party receiving Confidential Information will take (and, to the extent it is able, will cause its Affiliates, employees, and agents to take) any reasonable steps required to comply with the obligations of this is sub-paragraph (a).

(b) Exceptions. The obligations of the preceding sub-paragraph shall not apply when and to the extent such information: (i) was known to the receiving Party or its Affiliates(s) prior to receipt from the transmitting Party or its Affiliate, as documented in written records or publications that lawfully are in the possession of the receiving Party or its Affiliate(s) or known to them prior to such receipt; (ii) was lawfully available to the trade or to the public prior to receipt from the transmitting Party or its Affiliates(s): (iii) through no act on the part of the receiving Party or its Affiliate(s) thereafter becomes lawfully available to the trade or to the public; (iv) is independently developed by an employee or agent of the receiving Party or its Affiliate(s), subsequent to receipt of such information from the transmitting Party or its Affiliate(s); or (v) is required to be disclosed a part or any state or federal securities filing, (vi) is required to be disclosed to a third party by law or legal process, provided that the Party required to make such disclosure takes reasonable steps to inform the transmitting Party of such disclosure before it takes place and provides the transmitting Party an opportunity to object or otherwise act.

(c) Return of Confidential Information. The Parties agree to return or destroy all extant Confidential Information (including tangible products or materials) received from the other Party at that other Party's request. The receiving Party may retain in the office of its legal counsel one copy of written Confidential Information for record purposes only.

(d) Prior Confidential Disclosure Agreement. Unless indicated otherwise herein, the terms of this Agreement supersede those of the Confidential Disclosure Agreement between the Parties effectively dated June 1, 2010. As such, the Parties hereby terminate the Confidential Disclosure Agreement dated June 1, 2010, including, without limitation, any provision thereof implying survivability.

24. Non-Solicitation of Employees.

(a) Each Party agrees that during the period beginning on the Effective Date and ending one (1) year following the termination of this Agreement (the "Protected Period"), such Party (the "Restricted Party") will not directly or indirectly solicit, or contact for the purpose of soliciting, any employee(s) of the other Party (the "Protected Party") (i) to terminate their employment, contractual, or other relationship with the Protected Parry to work for any business, individual, partnership, firm, corporation, or other entity, or (ii) to work for the Restricted Party or its Affiliate: provided, however, that the foregoing restrictions and prohibitions shall not apply to advertisements in newspapers or other widely distributed publications, media, or mail, including Internet websites. For purposes of this Section 24, employee(s) of a Protected Party shall include any individual who has been retained by such Protected Party as an employee, consultant or contractor to provide services to or on behalf of such Protected Party within the preceding twenty-four (24) months or, in the event this Agreement is terminated, within the twenty-four (24) months prior to the date of such termination, in each case regardless of whether the relationship of such person with the Protected Party has been subsequently terminated.

(b) Each Party agrees that the covenants contained in this Section 24 are appropriate and reasonable when considered in light of the nature and extent of the business conducted by the Parties. Each Party further agrees that the periods of time during which such Party is prohibited from engaging in the business practices contemplated by this Section 24 shall be extended by any length of time during which such Party is in breach of any of such covenants.

(c) The Parties hereby acknowledge and agree that money damages would not be a sufficient remedy for any breach of this Agreement by either Party, and each Party shall be entitled to seek injunctive or other equitable relief to remedy any such breach or threatened breach by the other Party. Such remedy shall not be deemed to be the exclusive remedy for any breach of this Agreement, but shall be in addition to all other rights and remedies available at law or in equity.

25. Product Development.

(a) During Term 1 of Agreement. Exhibit A shall be automatically amended to include any film-based Developed Product. Each Party shall promptly advise the other Party in writing of any Developed Product developed solely by such Party and/or that Party's Affiliate(s).

(b) Costs. Each party shall be responsible for its own costs associated with development of Developed Product.

(c) Devotion of Resources. Any obligations regarding a duty to devote resources and efforts to the development of Developed Product are contained in this Agreement. There is no implied obligation to devote any other level of resources or effort,

(d) Risk of Failure. The Parties recognize and assume the risks associated with designing, developing, and manufacturing Developed Product, including the risk that such Developed Product will not fulfill market expectations or customer demands.

26. Patent Rights.

(a) Definition of Patent Rights.

(i) "Patent Right" means all United States and foreign patents that have issued or may in the future issue (including utility, utility model and design patents, supplementary protection certificates, certificates of invention and the like), all patent applications (including applications for utility, utility model and design patents supplementary protection certificates, certificates or invention and the like), and all divisionals, continuations, continuations-in-part, reissues, reexaminations, renewals, extensions or additions to any such patents and patent applications, heretofore or hereafter filed or having legal force in any country of the world.

(ii) "Invention" means all inventions and improvements disclosed in the Patent Rights.

(iii) "Purchaser Patent Rights" means those Patent Rights solely owned by, or directed to an Invention conceived solely by employees, agents, and/or consultants of, Purchaser or its Affiliate(s) without reference to Seller's Confidential Information.

(iv) "Seller Patent Rights" means those Patent Rights solely owned by, or directed to an Invention conceived solely by employees, agents, and/or consultants of, Seller or its Affiliate(s) without reference to Purchaser's Confidential Information.

(b) Ownership. Ownership of Patent Rights directed to Inventions conceived during the Term of this Agreement shall be owned as follows:

(i) Ownership by Seller. Seller or its designated Affiliate shall own all right, title, and interest in Seller Patent Rights.

(ii) Ownership by Purchaser. Purchaser or its designated Affiliate shall own all right, title, and interest in Purchaser Patent Rights.

(c) Handling of Patent Rights. The Parties desire that a mechanism be established to handle their respective rights and responsibilities for the filing, prosecution, issuance, maintenance and licensing of all Patent Rights under this Agreement.

(i) Right to File on a Party's Patent Rights. Each Party or its designated Affiliate shall have the exclusive right in the first instance, and at that Party's sole expense, to file, prosecute, issue, maintain, license (to the extent not inconsistent with this Agreement), enforce, and defend that Party's sole Patent Rights. Each Party shall have no liability to the other Party or its Affiliate(s) for that Party's acts or failure to act with respect to such Patent Rights.

(ii) Enforcement of Patent Rights. Seller shall diligently enforce Seller Patent Rights at its sole cost and expense, and Purchaser will join and reasonably cooperate with Seller in such enforcement action. Any damages or other recovery, whether by settlement or otherwise, from an action hereunder to enforce such Patent Rights shall first be applied pro rata to each Party to pay such Party's costs and expenses of litigation in such action. Any amounts from damages or other recovery remaining after payment of costs and expenses (the "Net Proceeds") shall be allocated to Purchaser. Seller may not settle any such enforcement action without Purchaser's written approval, 11 Seller fails to timely or reasonably enforce any such Patent Rights, then Purchaser (A) may, at its sole discretion and expense from that time forward, individually pursue and resolve such enforcement action for such Patent Rights, (B) will solely own such Patent Rights, and Seller will be deemed to have assigned all right, title and interest therein to Purchaser, and (C) may retain all damages or other recovery, whether by settlement or otherwise, from its action to enforce such Patent Rights.

(d) Notification After Patent Filing. Within a reasonable period of time after a Party or its designated Affiliate files any patent application during or after the Term of this Agreement that claims any Patent Rights, the Party or its designated Affiliate filing such an application shall provide the other Party with a copy of the application. The Party receiving the copy of the application shall then have thirty (30) days to notify the filing Party (the "Patent Notice") as to whether it believes that any Confidential Information disclosed by that Party is disclosed in the application. In the event that within fifteen (15) days after receipt of a Patent Notice, the Parties are unable to agree as to whether or not the application contains Confidential Information, the Parties agree to submit the dispute to arbitration in Columbus, Ohio pursuant to the Rules of American Arbitration Association. If the application contains any such Confidential Information, then the filing Party shall take all necessary steps to cause withdrawal of such application (without retaining a residual right to claim priority) before any publication thereof, unless the filing Party is given the permission of the Party disclosing such Confidential Information, which permission shall only be withheld if disclosure of such Confidential Information has a significant adverse impact upon the interests of the Party owning such

Confidential Information.

(e) Licenses.

(i) License Granted by Purchaser. Purchaser hereby grants to Seller a non-exclusive license continuing until the end of the Term of this Agreement under Purchaser Patent Rights to make, have made, use, import, sell, offer for sale or otherwise transfer Product exclusively for Purchaser throughout the Exclusive Territory in accordance with purposes of this Agreement. This grant includes the right for Seller to grant sublicenses of this scope to one or more of Seller's Affiliates.

(ii) License Granted by Seller. Seller hereby grants to Purchaser an exclusive license continuing until the end of the Term of this Agreement under Seller Patent Rights to make, have made, use, import, sell, offer for sale or otherwise transfer Product in the Exclusive Field throughout the Exclusive Territory in accordance with the purposes of this Agreement. This grant includes the right for Purchaser to grant sublicenses of this scope to one or more of Purchaser's Affiliates. Upon any breach of the Minimum Requirement by Purchaser which remains uncured after 90 days' written notice from Seller to Purchaser, the exclusive license granted to Purchaser under this sub-paragraph shall be automatically converted to a non-exclusive license of the same scope.

27. Miscellaneous Provisions.

(a) Severability. If any provision of this Agreement is determined to be illegal, invalid, or unenforceable, the validity and enforceability of the remaining, provisions of this Agreement will not be affected and, in lieu of such illegal, invalid, or unenforceable provision, there will be added as part of this Agreement one or more provisions as similar in terms as may be legal, valid, and enforceable under applicable law.

(b) Waiver. The failure of either Party to enforce at any time any of the provisions or this agreement shall not be construed to be a continuing waiver of any provisions hereunder nor shall any such failure prejudice the right of such Party to take any action in the future to enforce any provision, hereunder.

(c) Set-off. Purchaser may set-off or recoup invoiced amounts or any portion thereof against sums that are due or may become due from Seller.

(d) Succession. This Agreement and the rights and obligations granted and undertaken hereunder shall be binding upon and inure to the benefit of the Parties hereto, and their successors, trustee(s) or receiver(s) in bankruptcy and permitted assigns.

(e) Guarantee of Performance. Each Party hereby guarantees the performance of its Affiliates under this Agreement.

(f) Negotiation and Drafting. This Agreement was negotiated among the Parties, each of whom had the opportunity to consult with legal counsel during the negotiation, drafting, and execution of this Agreement, and the Parties agree that this Agreement shall not be construed against any Party as the drafter.

(g) Representations and Warranties. No Party has relied on any representation or warranty of any kind in entering into this Agreement, or as an inducement to enter into this Agreement, except for those representations and warranties expressly set forth herein.

(h) Authority. Each Party represents and warrants that the person or persons executing this Agreement on its behalf are duly authorized and empowered to do so.

(i) Notices. Every notice between the Parties relating to the performance or administration of this Agreement shall be made in writing and if to Purchaser, to Purchaser's authorized representative or, if to Seller, to Seller's authorized representative. All notices required under this Agreement shall be deemed received either three (3) calendar days after mailing by certified mail, return receipt requested and postage prepaid, or one (1) business day after deposit for next day delivery with a commercial overnight carrier, and shall be sent to the following addresses:

If to Seller:

entrotech, Inc.
1245 Kinnear Road
Columbus, Ohio 43212
Attn. President

To Purchaser:

XPEL Technologies Corp.
618 W. Sunset Road
San Antonio, Texas 78216
Attn. Chief Executive Officer

(j) Applicable Law and Forum. This Agreement will be governed by the laws of the State of Ohio and the United States of America, without regard to conflicts of law principles, with the federal and or state courts located in Columbus, Ohio having exclusive jurisdiction to adjudicate any dispute arising out of or related to this Agreement.

(k) Attorneys' Fees and Expenses. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing Party in an adjudicated action shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such Party may be entitled.

(l) Assignment. Neither Party will assign any rights or obligations under this Agreement without the advance written consent of the other Party, provided that notwithstanding the foregoing, either Party may assign this Agreement in connection with (i) a merger or change in control of such Party or (ii) the sale or transfer of all or substantially all of the assets of the business to which it pertains. Any attempt to otherwise assign or delegate in violation of this sub-paragraph will be void.

(m) Entire Agreement. This Agreement and the exhibits hereto contain the entire agreement between Purchaser and Seller. No other agreement or understanding purporting to add to or modify the terms and conditions hereof shall be binding upon Purchaser or Seller or their Affiliates unless agreed to by both Parties in writing on or subsequent to the date of this Agreement.

(n) Survival. The obligations of Parties undertaken pursuant to Sections 8, 11, 13, 15, 16, 17, 18, 19, 21, 22, 23, 24, and 25, as well as the definitions of any term used in those Sections, shall survive any expiration or termination of this Agreement.

(o) No Implied Licenses Granted. Except as expressly provided in this Agreement, a Party does not acquire any license to any Confidential Information or intellectual property rights of the other Party or its Affiliate(s).

(p) Counterparts. This Agreement may be executed in one or more counterparts, all of which taken together will constitute one and the same instrument.

(q) Headings. Section headings used in this Agreement are for convenience only and form no part or in any way modify or define the text or meaning of any provision of this Agreement.

(r) Construction. Except where the context requires otherwise, whenever used in this Agreement, the singular includes the plural, the plural includes the singular, the use of any gender is applicable to all genders and the word “or” has the inclusive meaning represented by the phrase “and/or.” The words “include” and “including” and variations thereof, shall not be deemed to be terms of limitation, but rather shall be deemed to be followed by the words “without limitation.”

[SIGNATURES TO FOLLOW]

IN WITNESS WHEREOF. the Parties hereto have executed this Agreement through their duly authorized representatives as of the date first written above.

SELLER

ENTROTECH, INC.,
an Ohio corporation

/s/ James E. McGuire, Jr.
By: James E. McGuire, Jr.
Its: President

PURCHASER

XPEL TECHNOLOGIES CORP.
a Nevada corporation

/s/ Ryan L. Pape
By: Ryan L. Pape
Its: President & Chief Executive Officer

EXHIBIT A

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All Pricing on P.O. Basis

XPEL INC.

CODE OF BUSINESS CONDUCT AND ETHICS

A. Scope.

This Code of Business Conduct and Ethics applies to all XPEL Inc. directors, officers and employees, as well as to directors, officers and employees of each subsidiary of XPEL, Inc. Such directors, officers and employees are referred to herein collectively as the "Covered Parties." XPEL, Inc and its subsidiaries are referred to herein collectively as the "Company."

B. Purpose.

The Company is proud of the values with which it conducts business. It has and will continue to uphold the highest levels of business ethics and personal integrity in all types of transactions and interactions. To this end, this Code of Business Conduct and Ethics serves to (1) emphasize the Company's commitment to ethics and compliance with the law; (2) set forth basic standards of ethical and legal behavior; (3) provide reporting mechanisms for known or suspected ethical or legal violations; and (4) help prevent and detect wrongdoing.

Given the variety and complexity of ethical questions that may arise in the Company's course of business, this Code of Business Conduct and Ethics serves only as a rough guide. Confronted with ethically ambiguous situations, the Covered Parties should remember the Company's commitment to the highest ethical standards and seek advice from supervisors, managers or other appropriate personnel to ensure that all actions they take on behalf of the Company honor this commitment.

C. Ethical Standards.

1. Conflicts of Interest.

   A conflict of interest exists when a person's private interest interferes in any way with the interests of the Company. A conflict can arise when a Covered Party takes actions or has interests that may make it difficult to perform his or her work for the Company objectively and effectively. Conflicts of interest may also arise when a Covered Party, or members of his or her family, receive improper personal benefits as a result of his or her position at the Company. Loans to, or guarantees of obligations of, Covered Parties and their family members may create conflicts of interest. It is almost always a conflict of interest for a Covered Party to work simultaneously for a competitor, customer or supplier. The best policy is to avoid any direct or indirect business connection with the Company's customers, suppliers or competitors, except on the Company's behalf.

   Conflicts of interest are prohibited as a matter of Company policy, except under guidelines approved by the Board of Directors. Conflicts of interest may not always be clear-cut, so if you have a question, you should consult with your supervisor or manager or, if circumstances warrant, the chief financial officer or chief executive officer of the Company. Any Covered Party who becomes aware of a conflict or potential conflict should bring it to the attention of a supervisor, manager or other appropriate personnel or consult the procedures described in Section E of this Code.

All directors and executive officers of the Company shall disclose any material transaction or relationship that reasonably could be expected to give rise to such a conflict to the Chairman of the Company's Audit Committee. No action may be taken with respect to such transaction or party unless and until such action has been approved by the Audit Committee.

2. Corporate Opportunities.

Covered Parties are prohibited from taking for themselves opportunities that are discovered through the use of corporate property, information or position, except for opportunities as to which management or the Board of Directors have been fully informed and have expressly found consistent with the Company's business objectives. Covered Parties owe a duty to the Company to advance its legitimate interests whenever possible. No Covered Party may use corporate property, information or position for improper personal gain, and no employee may compete with the Company directly or indirectly.

3. Competition and Fair Dealing.

We seek to outperform our competition fairly and honestly. We seek competitive advantages through superior performance, never through unethical or illegal business practices. Covered Parties shall behave honestly and ethically at all times and with all people. They shall act in good faith, with due care, and shall engage only in fair and open competition, by treating ethically competitors, suppliers, customers and colleagues. Stealing proprietary information, possessing trade secret information that was obtained without the owner's consent, or inducing such disclosures by past or present employees of other companies is prohibited. Each Covered Party should endeavor to respect the rights of and deal fairly with the Company's customers, suppliers, competitors and employees. No Covered Party should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair practice.

The purpose of business entertainment and gifts in a commercial setting is to create goodwill and sound working relationships, not to gain unfair advantage with customers. No gift or entertainment should ever be offered or accepted by a Covered Party or any family member of a Covered Party unless it (1) is consistent with customary business practices, (2) is not excessive in value, (3) cannot be construed as a bribe or payoff and (4) not violate any laws or regulations. The offer or acceptance of cash gifts by any Covered Party is prohibited. Covered Parties should discuss with their supervisors, managers or other appropriate personnel any gifts or proposed gifts which they think may be inappropriate.

4. Insider Trading.

Covered Parties who have access to confidential information are not permitted to use or share that information for securities trading purposes ("insider trading") or for any other purpose except the conduct of the Company's business. All non-public information about the Company should be considered confidential information. It is always illegal to trade in XPEL securities while in possession of material, non-public information, and it is also illegal to communicate or "tip" such information to others. While all Covered Parties are prohibited from insider trading, the Company has adopted a specific "Insider Trading Policy" applicable to the Company's directors, executive officers and key employees ("Directors and Covered Employees"). This document is sent periodically to Directors and Covered Employees in connection with certification of compliance.

5. Confidentiality.

Covered Parties must maintain the confidentiality of confidential information entrusted to them by the Company, its customers, partners or business associates, except when disclosure is authorized by an appropriate officer of the Company or required by laws or regulations. Confidential information includes all non- public information that might be of use to competitors, or that might be harmful to the Company or its customers, partners or business associates if disclosed. It also includes information that suppliers and customers have entrusted to the Company or that the Company has obligated itself to maintain in confidence. The obligation to preserve confidential information continues even after employment ends.

6. Protection and Proper Use of Company Assets.

All Covered Parties should endeavor to protect the Company's assets and ensure their proper use. Theft, carelessness and waste have a direct impact on the Company's profitability. All Company assets should be used only for legitimate business purposes. Any suspected incident of fraud or theft should be immediately reported for investigation. Company charge accounts, credit cards, bank accounts and other resources are strictly limited to Company use. The Company's equipment should not be used for non-Company business, though incidental personal use is permitted.

The obligation of Covered Parties to protect the Company's assets includes its proprietary information. Proprietary information includes intellectual property such as trade secrets, patents, trademarks, and copyrights, as well as business, marketing and service plans, engineering and manufacturing ideas, designs, databases, records, salary information and any unpublished financial data and reports. Unauthorized use or distribution of this information would violate Company policy. It could also be illegal and result in civil or criminal penalties.

7. Compliance with Laws, Rules and Regulations.

Obeying the law, both in letter and in spirit, is the foundation on which the Company's ethical standards are built. In conducting the business of the Company, the Covered Parties shall comply with applicable governmental laws, rules and regulations at all levels of government in the United States and in any non-U.S. jurisdiction in which the Company does business. Although not all Covered Parties are expected to know the details of these laws, it is important to know enough about the applicable local, state and national laws to determine when to seek advice from supervisors, managers or other appropriate personnel (see Section F).

8. Timely and Truthful Public Disclosure.

In reports and documents filed with or submitted to regulators by the Company, and in other public communications made by the Company, the Covered Parties involved in the preparation of such reports and documents (including those who are involved in the preparation of financial or other reports and the information included in such reports and documents) shall make disclosures that are full, fair, accurate, timely and understandable. Where applicable, these Covered Parties shall provide thorough and accurate financial and accounting data for inclusion in such disclosures. They shall not knowingly conceal or falsify information, misrepresent material facts or omit material facts necessary to avoid misleading the Company's independent public auditors or investors.

9. Significant Accounting Deficiencies.

The CEO, the CFO and each senior financial officer shall promptly bring to the attention of the Audit Committee any information he or she may have concerning (a) significant deficiencies in the design or operation of internal control over financial reporting which could adversely affect the Company's ability to record, process, summarize and report financial data or (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's financial reporting, disclosures or internal control over financial reporting.

10. Discrimination and Harassment.

The diversity of the Company's employees is a tremendous asset. The Company is firmly committed to providing equal opportunity in all aspects of employment and will not tolerate any illegal discrimination or harassment of any kind.

Examples include derogatory comments based on racial or ethnic characteristics and unwelcome sexual advances. Please refer to the Company's Policies and Procedures for more information on discrimination and harassment.

11. Health and Safety.

The Company strives to provide each employee with a safe and healthy work environment. Each employee has a responsibility to maintain a safe and healthy workplace for all other employees by following safety and health rules and practices and reporting accidents, injuries and unsafe equipment, practices or conditions. Violence and threatening behavior are not permitted. Employees should report to work in a condition to perform their duties, free from the influence of alcohol or illegal drugs. The use, sale, transfer or possession of alcohol, illegal drugs or other illegal substances is strictly prohibited while on Company property or while on Company business and will not be tolerated. This prohibition also includes illegal or improper use of controlled substances. Reporting to work while impaired by any such substance is also strictly prohibited.

12. Record-Keeping.

The Company requires honest and accurate recording and reporting of information in order to make responsible business decisions. For example, only the true and actual number of hours worked should be reported. Many employees regularly use business expense accounts, which must be documented and recorded accurately. If you are not sure whether a specific expense may be legitimately charged to the Company, ask your supervisor. All of the Company's books, records, accounts and financial statements must be maintained in reasonable detail, must appropriately reflect the Company's transactions and must conform both to applicable legal requirements and the Company's system of internal controls. Unrecorded or "off the books" funds or assets should not be maintained unless permitted by applicable law or regulation. Periodic and other reports (financial or otherwise) to foreign, federal, state, and local government agencies must present a full, fair, accurate, timely and understandable disclosure by the Company. Business records and communications often become public, and we should avoid exaggeration, derogatory remarks, guesswork, or inappropriate characterizations of people and companies that can be misunderstood. This applies equally to e-mail, internal memos and formal reports. Records should always be retained or destroyed according to the Company's record retention policies.

13. Payments to Government Personnel.

The U.S. Foreign Corrupt Practices Act prohibits giving anything of value, directly or indirectly, to officials of foreign governments or foreign political candidates in order to obtain or retain business. It is strictly prohibited to make illegal payments to government officials of any country. In addition, the U.S. government has a number of laws and regulations regarding business gratuities that may be accepted by U.S. government personnel. The promise, offer or delivery to an official or employee of the U.S. government of a gift, favor or other gratuity in violation of these rules would not only violate Company policy but could also be a criminal offense. State and local governments, as well as foreign governments, may have similar rules. Consult your supervisor if you have any questions.

D. Waivers.

Waivers of this Code will not be granted except in limited circumstances, so as to protect the Company to the greatest extent possible. Any waiver of this Code for executive officers or directors may be made only by the Company's Board of Directors or its Audit Committee after disclosure of all material facts by the individual seeking the waiver, and any waiver granted will be promptly disclosed as required by law or stock exchange regulations.

E. Violations of Ethical Standards.

1. Reporting Known or Suspected Violations.

The Company's directors, chief executive officer and chief financial officer shall promptly report any known or suspected violations of this Code to the Chairman of the Company's Audit Committee. All other Covered Parties should talk to supervisors, managers or other appropriate personnel about known or suspected illegal or unethical behavior. No retaliatory action of any kind will be permitted against anyone making such a report in good faith, and the Company's Audit Committee will strictly enforce this prohibition. "Good faith" does not mean you have to be right, but it does mean that you must believe that you are providing truthful information. Covered Parties are expected to cooperate in internal investigations of misconduct.

2. Accountability for Violations.

If the Company's Audit Committee or its designee determines that this Code has been violated, either directly, by failure to report a violation, or by withholding information related to a violation, the offending Covered Party may be disciplined for non-compliance with penalties up to and including removal from office or dismissal. Such penalties may include written notices to the individual involved that a violation has been determined, censure by the Audit Committee, demotion or re-assignment of the individual involved and suspension with or without pay or benefits. Violations of this Code may also constitute violations of law and may result in criminal penalties and civil liabilities for the offending Covered Party and the Company.

F. Compliance Procedures.

We must all work together to ensure prompt and consistent action against violations of this Code. In some situations, however, it is difficult to know if a violation has occurred. Because we cannot anticipate every situation that will arise, it is important that we have a way to approach a new question or problem. These are the steps to keep in mind:

- Make sure you have all the facts. In order to reach the right solutions, we must be as informed as possible.

- Ask yourself: What specifically am I being asked to do? Does it seem unethical or improper? This will enable you to focus on the specific question you are faced with, an the alternatives you have. Use your judgment and common sense. If something seems unethical or improper, it probably is.

- Clarify your responsibility and role. In most situations, there is shared responsibility. Are your colleagues informed? It may help to get others involved and discuss the problem.

- Discuss the problem with your supervisor. This is the basic guidance for all situations. In many cases, your supervisor will be more knowledgeable about the questions, and he or she will appreciate being consulted as part of the decision-making process.

- Seek help from Company resources. In rare cases where it would be inappropriate or uncomfortable to discuss an issue with your supervisor, or where you believe your supervisor has given you an inappropriate answer, discuss it with your local leadership or a member of the Audit Committee.

- You may report ethical violations in confidence and without fear of retaliation. If your situation requires that your identity be kept secret, your anonymity will be protected to the maximum extent consistent with the Company's legal obligations. The Company in all circumstances prohibits retaliation of any kind against those who report ethical violations in good faith.

- Ask first, act later. If you are unsure of what to do in any situation, seek guidance before you act.

Notwithstanding any of the principles and guidelines set forth above, any Covered Party that is convinced that this Code has been violated must immediately report that information to the Audit Committee of the Board of Directors by contacting any of the following members of the Audit Committee at the address shown below:

John A. Constantine	c/o Corporate Secretary
Richard K. Crumly	XPEL, Inc.
Michael A. Klonne	618 W. Sunset Road
	San Antonio, Texas 78216

The Audit Committee of the Board of Directors (or its designee) will be responsible for the enforcement of this Code relating to Covered Parties. This Code sets forth guidelines that all Covered Parties will be required to follow and any failure to comply with this Code may result in discipline, up to and including termination. However, nothing in this Code shall be construed to create a contractual right to employment where non previously existed, nor shall it in any way alter the at-will nature of any employee's employment. The Company reserves the right to amend, alter or terminate this Code or its policies at any time for any reason.