

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2020

OR

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

For the transition period from to

Commission file number 001-38858

XPEL, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

20-1117381

(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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	XPEL	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes No

The registrant had 27,612,597 shares of common stock outstanding as of November 10, 2020.

TABLE OF CONTENTS

	<u>Page</u>
<u>Part I - Financial Information</u>	
<u>Item 1. Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets</u>	<u>1</u>
<u>Condensed Consolidated Statements of Income</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>3</u>
<u>Condensed Consolidated Statement of Changes in Equity</u>	<u>4</u>
<u>Condensed Consolidated Statement of Cash Flows</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>29</u>
<u>Item 4. Controls and Procedures</u>	<u>30</u>
<u>Part II - Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>30</u>
<u>Item 1A. Risk Factors</u>	<u>31</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>31</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>31</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>31</u>
<u>Item 5. Other Information</u>	<u>32</u>
<u>Item 6. Exhibits</u>	<u>32</u>
<u>Signatures</u>	<u>32</u>

Part I. Financial Information

Item 1. Financial Statements

XPEL, INC.

Condensed Consolidated Balance Sheets

	(Unaudited)	(Audited)
	September 30, 2020	December 31, 2019
Assets		
Current		
Cash and cash equivalents	\$ 27,224,471	\$ 11,500,973
Accounts receivable, net	8,967,710	7,154,084
Inventory, net	18,961,093	15,141,153
Prepaid expenses and other current assets	2,803,733	2,391,340
Income tax receivable	—	93,150
Total current assets	57,957,007	36,280,700
Property and equipment, net	4,591,787	4,014,653
Right-of-Use lease assets	5,100,499	5,079,110
Intangible assets, net	4,510,161	3,820,460
Other assets	478,291	—
Goodwill	3,559,614	2,406,512
Total assets	\$ 76,197,359	\$ 51,601,435
Liabilities		
Current		
Current portion of notes payable	\$ 2,554,529	\$ 462,226
Current portion lease liabilities	1,326,466	1,126,701
Accounts payable and accrued liabilities	16,692,018	10,197,353
Income tax payable	326,590	—
Total current liabilities	20,899,603	11,786,280
Deferred tax liability, net	851,329	604,715
Non-current portion of lease liabilities	3,826,003	4,009,949
Non-current portion of notes payable	4,193,436	307,281
Total liabilities	29,770,371	16,708,225
Stockholders' equity		
Preferred stock, \$0.001 par value; authorized 10,000,000; none issued and outstanding	—	—
Common stock, \$0.001 par value; 100,000,000 shares authorized; 27,612,597 issued and outstanding	27,613	27,613
Additional paid-in-capital	10,412,471	11,348,163
Accumulated other comprehensive loss	(801,266)	(908,764)
Retained earnings	36,788,170	24,594,878
	46,426,988	35,061,890
Non-controlling interest	—	(168,680)
Total stockholders' equity	46,426,988	34,893,210
Total liabilities and stockholders' equity	\$ 76,197,359	\$ 51,601,435

See notes to condensed consolidated financial statements.

XPEL, INC.

Condensed Consolidated Statements of Income (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue				
Product revenue	\$ 39,528,383	\$ 30,815,251	\$ 94,240,296	\$ 77,295,463
Service revenue	6,594,413	4,802,747	16,076,821	13,142,135
Total revenue	46,122,796	35,617,998	110,317,117	90,437,598
Cost of Sales				
Cost of product sales	28,369,882	22,283,771	67,687,991	56,522,834
Cost of service	1,723,082	1,061,197	4,563,329	2,865,641
Total cost of sales	30,092,964	23,344,968	72,251,320	59,388,475
Gross Margin	16,029,832	12,273,030	38,065,797	31,049,123
Operating Expenses				
Sales and marketing	2,326,900	1,805,038	6,989,678	5,468,980
General and administrative	5,289,277	4,798,833	15,038,140	13,466,690
Total operating expenses	7,616,177	6,603,871	22,027,818	18,935,670
Operating Income	8,413,655	5,669,159	16,037,979	12,113,453
Interest expense	68,368	23,851	173,480	81,631
Foreign currency exchange loss	709	136,951	420,427	151,859
Income before income taxes	8,344,578	5,508,357	15,444,072	11,879,963
Income tax expense	1,736,330	999,072	3,250,780	2,503,365
Net income	6,608,248	4,509,285	12,193,292	9,376,598
Income attributed to non-controlling interest	—	6,602	—	9,311
Net income attributable to stockholders of the Company	\$ 6,608,248	\$ 4,502,683	\$ 12,193,292	\$ 9,367,287
Earnings per share attributable to stockholders of the Company				
Basic and diluted	\$ 0.24	\$ 0.16	\$ 0.44	\$ 0.34
Weighted Average Number of Common Shares				
Basic and diluted	27,612,597	27,612,597	27,612,597	27,612,597

See notes to condensed consolidated financial statements.

XPEL, INC.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Other comprehensive income				
Net income.....	\$ 6,608,248	\$ 4,509,285	\$ 12,193,292	\$ 9,376,598
Foreign currency translation.....	419,298	(143,535)	102,965	69,029
Total comprehensive income.....	7,027,546	4,365,750	12,296,257	9,445,627
Total comprehensive income attributable to:				
Stockholders of the Company.....	7,027,546	4,365,735	12,300,790	9,444,102
Non-controlling interest.....	—	15	(4,533)	1,525
Total comprehensive income.....	\$ 7,027,546	\$ 4,365,750	\$ 12,296,257	\$ 9,445,627

See notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Changes in Stockholders' Equity

Stockholders' Equity - Three Months Ended September 30

	Common Stock		Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Equity Attributable to Stockholders of the Company	Non- Controlling Interest	Total Stockholders' Equity
	Shares	Amount						
Balance as of June 30, 2019	27,612,597	\$ 27,613	\$ 11,348,163	\$15,481,857	\$ (976,292)	\$ 25,881,341	\$ (188,519)	\$ 25,692,822
Net income.....	—	—	—	4,502,683	—	4,502,683	6,602	4,509,285
Foreign currency translation.....	—	—	—	—	(136,948)	(136,948)	(6,587)	(143,535)
Balance as of September 30, 2019	27,612,597	27,613	11,348,163	19,984,540	(1,113,240)	30,247,076	(188,504)	30,058,572
Balance as of June 30, 2020	27,612,597	27,613	10,412,471	30,179,922	(1,220,564)	39,399,442	—	39,399,442
Net income.....	—	—	—	6,608,248	—	6,608,248	—	6,608,248
Foreign currency translation.....	—	—	—	—	419,298	419,298	—	419,298
Balance as of September 30, 2020	27,612,597	\$ 27,613	\$ 10,412,471	\$36,788,170	\$ (801,266)	\$ 46,426,988	\$ —	\$ 46,426,988

Stockholders' Equity - Nine Months Ended September 30

	Common Stock		Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Equity Attributable to Stockholders of the Company	Non- Controlling Interest	Total Stockholders' Equity
	Shares	Amount						
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
Net income.....	—	—	—	9,367,287	—	9,367,287	9,311	9,376,598
Foreign currency translation.....	—	—	—	—	76,815	76,815	(7,786)	69,029
Balance as of September 30, 2019	27,612,597	27,613	11,348,163	19,984,540	(1,113,240)	30,247,076	(188,504)	30,058,572
Balance as of December 31, 2019..	27,612,597	27,613	11,348,163	24,594,878	(908,764)	35,061,890	(168,680)	34,893,210
Net income.....	—	—	—	12,193,292	—	12,193,292	—	12,193,292
Foreign currency translation.....	—	—	—	—	107,498	107,498	(4,533)	102,965
Purchase of minority interest.....	—	—	(935,692)	—	—	(935,692)	173,213	(762,479)
Balance as of September 30, 2020	27,612,597	\$ 27,613	\$ 10,412,471	\$ 36,788,170	\$ (801,266)	\$ 46,426,988	\$ —	\$ 46,426,988

See notes to condensed consolidated financial statements.

XPEL, INC.

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities		
Net income.....	\$ 12,193,292	\$ 9,376,598
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment.....	889,820	655,385
Amortization of intangible assets.....	705,692	570,954
Impairments.....	—	66,364
(Gain) loss on sale of property and equipment.....	(3,101)	1,521
Bad debt expense.....	85,535	153,949
Deferred income tax.....	(47,886)	135,221
Accretion on notes payable.....	36,760	50,346
Changes in assets and liabilities:		
Accounts receivable.....	(1,692,396)	(1,883,620)
Inventory, net.....	(3,803,836)	(5,679,694)
Prepaid expenses and other current assets.....	(413,354)	(1,372,894)
Income tax receivable.....	94,729	—
Other assets.....	(468,400)	61,795
Accounts payable and accrued liabilities.....	6,361,659	4,308,679
Income tax payable.....	300,582	(799,052)
Net cash provided by operating activities	14,239,096	5,645,552
Cash flows used in investing activities		
Purchase of property, plant and equipment.....	(1,358,108)	(994,074)
Proceeds from sale of property and equipment.....	50,809	41,197
Acquisition of a business, net of cash acquired.....	(1,247,843)	—
Development of intangible assets.....	(306,635)	(534,720)
Net cash used in investing activities	(2,861,777)	(1,487,597)
Cash flows from financing activities		
Borrowings on revolving credit agreements.....	8,932,016	—
Repayments of revolving credit agreements.....	(8,932,016)	—
Borrowing on term loan.....	6,000,000	—
Repayments of notes payable.....	(1,043,818)	(908,909)
Purchase of minority interest.....	(784,653)	—
Net cash provided by (used in) financing activities	4,171,529	(908,909)
Net change in cash and cash equivalents	15,548,848	3,249,046
Foreign exchange impact on cash and cash equivalents	174,650	75,634
Increase in cash and cash equivalents during the period	15,723,498	3,324,680
Cash and cash equivalents at beginning of period	11,500,973	3,971,226
Cash and cash equivalents at end of period	\$ 27,224,471	\$ 7,295,906
Supplemental schedule of non-cash activities		
Notes payable issued for acquisitions	\$ 893,317	\$ —
Supplemental cash flow information		
Cash paid for income taxes	\$ 2,949,838	\$ 3,004,758
Cash paid for interest	\$ 129,117	\$ 15,890

See notes to condensed consolidated financial statements.

XPEL Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2020 and 2019
(Unaudited)

1. INTERIM FINANCIAL INFORMATION

The accompanying (a) condensed consolidated balance sheet as of December 31, 2019, which has been derived from audited financial statements, and (b) unaudited interim condensed consolidated financial statements as of and for the three and nine months ended September 30, 2020 and 2019 have been prepared by XPEL, Inc. ("XPEL" or the "Company") in accordance with accounting principles generally accepted in the United States of America for interim financial information, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Pursuant to these rules and regulations, certain financial information and footnote disclosures normally included in the financial statements have been condensed or omitted. However, in the opinion of management, the financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position, results of operations and cash flows of the interim periods presented. Operating results for the interim periods presented are not necessarily indicative of results to be expected for the full year or for any other interim period due to variability in customer purchasing patterns and seasonal, operating and other factors.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's annual report on Form 10-K as filed with the SEC on March 16, 2020. These condensed consolidated financial statements also should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations section appearing in this Report.

On February 1, 2020, the Company acquired the remaining 15% minority interest in XPEL, Ltd., the subsidiary of the Company operating in the United Kingdom, for a purchase price of £600,000, or \$762,479. This purchase is reflected in the Condensed Consolidated Statement of Changes in Stockholders' Equity.

2. SIGNIFICANT ACCOUNTING POLICIES

Nature of Business - The Company is based in San Antonio, Texas and is a global provider of protective films and coatings, including automotive paint protection film, surface protection film, and automotive and commercial/residential window films and ceramic coatings as well as a provider of complementary proprietary software.

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 condensed consolidated financial statements are prepared in conformity with United States Generally Accepted Accounting Principles ("U.S. GAAP") and include the accounts of the Company and its wholly owned or majority owned subsidiaries. In applicable years, 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 Condensed 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 into 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 in the accompanying consolidated balance sheets. Foreign currency exchange gains and losses are presented as foreign currency exchange loss in the accompanying condensed consolidated statements of income. The ownership percentages and

XPEL Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2020 and 2019
(Unaudited)

functional currencies of the entities included in these condensed consolidated financial statements are as follows:

Subsidiaries	Functional Currency	% Owned by XPEL, Inc.
XPEL, Ltd.....	UK Pound Sterling	100 % *
Armourfend CAD, LLC.....	US Dollar	100 %
XPEL Canada Corp.....	Canadian Dollar	100 %
XPEL B.V.....	Euro	100 %
XPEL Germany GmbH.....	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 %
XPEL Slovakia.....	Euro	100 %

*Refer to Note 1 for information related to purchase of minority interest

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 condensed 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.

Accounts Receivable - Accounts receivable are shown net of an allowance for doubtful accounts of \$128,237 and \$182,488 as of September 30, 2020 and December 31, 2019, 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. Accounts receivable from a large customer accounted for 18.8% of the Company’s total accounts receivable balance as of December 31, 2019. As of September 30, 2020, the Company had no similar accounts receivable concentration.

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 September 30, 2020 and December 31, 2019 was \$55,591 and \$65,591, respectively. The following tables present a summary of our accrued warranty liabilities for the nine months ended September 30, 2020 and the twelve months ended December 31, 2019:

XPEL Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2020 and 2019
(Unaudited)

	2020
Warranty liability, January 1	\$ 65,591
Warranties assumed in period	211,622
Payments	(221,622)
Warranty liability, September 30	<u>\$ 55,591</u>

	2019
Warranty liability, January 1	\$ 70,250
Warranties assumed in period	384,214
Payments	(388,873)
Warranty liability, December 31	<u>\$ 65,591</u>

Recent Accounting Pronouncements Issued and Not Yet Adopted

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, "Financial Instruments — Measurement of Credit Losses on Financial Instruments", which requires measurement and recognition of expected credit losses for financial assets held. ASU 2016-13 is effective for the Company beginning January 1, 2023 and is required to be applied prospectively. We are currently evaluating the impact that ASU 2016-13 will have on our consolidated financial statements.

In December 2019, the FASB issued Accounting Standards Update ASU 2019-12, "Simplifying the Accounting for Income Taxes", which eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating taxes during the quarters and the recognition of deferred tax liabilities for outside basis differences. This guidance also simplifies aspects of the accounting for franchise taxes and changes in tax laws or rates, as well as clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 is effective for the Company beginning January 1, 2021. We do not expect this standard to have a material effect on our consolidated financial statements.

3. 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

XPEL Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2020 and 2019
(Unaudited)

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 9). 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 provides 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 following table summarizes transactions within contract liabilities for the three and nine months ended September 30, 2020:

XPEL Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2020 and 2019
(Unaudited)

Balance, December 31, 2019.....	\$	559,232
Revenue recognized related to payments included in the December 31, 2019 balance.....		(526,202)
Payments received for which performance obligations have not been satisfied.....		1,043,767
Effect of foreign currency translation.....		(734)
Balance, March 31, 2020.....	\$	1,076,063
Revenue recognized related to payments included in the March 31, 2020 balance.....		(1,022,851)
Payments received for which performance obligations have not been satisfied.....		163,903
Effect of foreign currency translation.....		1,215
Balance, June 30, 2020.....	\$	218,330
Revenue recognized related to payments included in the June 30, 2020 balance.....		(211,537)
Payments received for which performance obligations have not been satisfied.....		1,635,572
Effect of foreign currency translation.....		1,626
Balance, September 30, 2020.....	\$	1,643,991

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Product Revenue				
Paint protection film.....	\$ 31,977,210	\$ 26,527,586	\$ 75,996,444	\$ 66,150,360
Window film.....	6,302,364	3,522,815	15,347,270	8,526,886
Other.....	1,248,809	764,850	2,896,582	2,618,217
Total	39,528,383	30,815,251	94,240,296	77,295,463
Service Revenue				
Software.....	\$ 889,709	\$ 859,432	\$ 2,551,177	\$ 2,378,944
Cutbank credits.....	2,304,651	1,957,224	5,529,773	5,487,320
Installation labor.....	3,268,399	1,843,936	7,681,420	4,790,279
Training.....	131,654	142,155	314,451	485,592
Total	6,594,413	4,802,747	16,076,821	13,142,135
Total	\$ 46,122,796	\$ 35,617,998	\$ 110,317,117	\$ 90,437,598

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

XPEL Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2020 and 2019
(Unaudited)

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
United States	\$ 22,041,941	\$ 15,738,762	\$ 53,713,708	\$ 44,745,859
China	9,397,486	9,359,531	21,409,365	17,006,451
Canada	6,213,949	4,937,514	14,347,313	13,253,413
Continental Europe	3,656,477	1,945,104	9,347,780	5,341,164
United Kingdom	1,481,174	1,032,399	3,228,322	2,842,682
Asia Pacific	1,454,119	1,168,570	3,365,354	3,100,088
Latin America	537,892	578,055	1,499,944	1,576,864
Middle East/Africa	1,326,589	770,842	3,177,155	2,374,321
Other	13,169	87,221	228,176	196,756
Total	\$ 46,122,796	\$ 35,617,998	\$ 110,317,117	\$ 90,437,598

Our largest customer accounted for 20.4% and 26.3% of our net sales during the three months ended September 30, 2020 and 2019, respectively and 19.4% and 18.8% of our net sales during the nine months ended September 30, 2020 and 2019, respectively.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	September 30, 2020	December 31, 2019
Furniture and fixtures	\$ 1,304,112	\$ 1,168,894
Computer equipment	1,362,805	1,151,295
Vehicles	709,905	683,213
Equipment	1,870,191	1,648,656
Leasehold improvements	1,913,398	1,479,594
Plotters	1,131,936	839,455
Construction in Progress	344,696	306,100
Total property and equipment	8,637,043	7,277,207
Less: accumulated depreciation	4,045,256	3,262,554
Property and equipment, net	<u>\$ 4,591,787</u>	<u>\$ 4,014,653</u>

Depreciation expense for the three months ended September 30, 2020 and 2019 was \$325,643 and \$234,297, respectively. For the nine months ended September 30, 2020 and 2019, depreciation expense was \$889,820 and \$655,385, respectively.

XPEL Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2020 and 2019
(Unaudited)

5. INTANGIBLE ASSETS, NET

Intangible assets consists of the following:

	September 30, 2020	December 31, 2019
Trademarks	\$ 368,948	\$ 309,395
Software	2,536,467	2,288,062
Trade name	486,586	492,408
Contractual and customer relationships	3,948,381	3,010,480
Non-compete	400,748	268,459
Other	205,810	208,012
Total cost	7,946,940	6,576,816
Less: Accumulated amortization	3,436,779	2,756,356
Intangible assets, net	<u>\$ 4,510,161</u>	<u>\$ 3,820,460</u>

Amortization expense for the three months ended September 30, 2020 and 2019 was \$239,571 and \$199,582, respectively. For the nine months ended September 30, 2020 and 2019, amortization expense was \$705,692 and \$570,954, respectively.

The Company completed the acquisition of a business during the nine months ended September 30, 2020. Refer to Note 12 for additional information related to intangible assets added from this acquisition.

6. GOODWILL

The following table summarizes goodwill transactions for the nine months ended September 30, 2020 and 2019:

Balance at December 31, 2018	\$ 2,322,788
Impairment	(35,884)
Foreign Exchange	47,601
Balance at September 30, 2019	<u>\$ 2,334,505</u>
Balance at December 31, 2019	\$ 2,406,512
Additions	1,184,774
Foreign Exchange	(31,672)
Balance at September 30, 2020	<u>\$ 3,559,614</u>

The Company completed the acquisition of a business during the nine months ended September 30, 2020. Refer to Note 12 for additional information related to goodwill added from this acquisition.

XPEL Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2020 and 2019
(Unaudited)

7. INVENTORIES

The components of inventory are summarized as follows:

	September 30, 2020	December 31, 2019
Film and film based products	\$ 16,951,250	\$ 13,538,610
Other products	1,585,041	1,226,708
Packaging and supplies	517,444	496,661
Inventory reserve	(92,642)	(120,826)
	<u>\$ 18,961,093</u>	<u>\$ 15,141,153</u>

8. DEBT

REVOLVING FACILITIES

The Company has 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. Borrowings under the credit agreement bear interest at a variable rate of the Wall Street Journal prime rate minus 1.00% with a floor of 3.50%. In May 2020, the Company renewed this line of credit, extending its maturity date to June 5, 2022. The interest rate was 3.50% and 5.50% as of September 30, 2020 and December 31, 2019, respectively. As of both September 30, 2020 and December 31, 2019, no balance was outstanding on this line.

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 (Earnings Before Interest Taxes Depreciation and Amortization, or EBITDA, divided by the current portion of long-term debt + interest) of 1.25:1 and funded debt of no more than 2.5 times EBITDA on a rolling four quarter basis. The credit agreement also contains customary events of default including the failure to make payments of principal and interest, the breach of any covenants, the occurrence of a material adverse change, and certain bankruptcy and insolvency events.

As of September 30, 2020 and December 31, 2019, the Company was in compliance with all debt covenants.

XPEL Canada Corp., a wholly owned subsidiary of XPEL, Inc., also has 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 as of September 30, 2020 and December 31, 2019 was 2.70% and 4.20%, respectively. As of September 30, 2020 and December 31, 2019, no balance was outstanding on this line of credit. This facility is guaranteed by the parent company.

NOTES PAYABLE

On May 11, 2020, the Company borrowed \$6,000,000 pursuant to a 36-month term-loan with The Bank of San Antonio. The term-loan bears interest at a rate of 3.5% per annum, requires monthly payments of principal and interest and matures in June 2023. As of September 30, 2020, \$5,537,782 was

XPEL Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2020 and 2019
(Unaudited)

outstanding under the term-loan. The term-loan is secured by a security interest in substantially all of our current and future assets.

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 discounts the promissory note to fair value using market interest rates at the time of the acquisition.

Notes payable are summarized as follows:

	Weighted Average Interest Rate	Matures	September 30, 2020	December 31, 2019
Term-loan.....	3.50%	2023	\$ 5,537,782	\$ —
Acquisition notes payable.....	3.15%	2023	1,210,183	769,507
Total debt.....			6,747,965	769,507
Less: current portion.....			2,554,529	462,226
Total long-term debt.....			<u>\$ 4,193,436</u>	<u>\$ 307,281</u>

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following table presents significant accounts payable and accrued liability balances as of the periods ending:

	September 30, 2020	December 31, 2019
Trade payables.....	\$ 11,868,312	\$ 7,440,965
Payroll liabilities.....	2,050,389	1,367,340
Contract liabilities.....	1,643,991	559,232
Other liabilities.....	1,129,326	829,816
	<u>\$ 16,692,018</u>	<u>\$ 10,197,353</u>

10. FAIR VALUE MEASUREMENTS

Financial instruments include cash and cash equivalents (level 1) 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. The carrying value of the Company's notes payable approximates fair value due to the relatively short-term nature and interest rates of the notes. For discussion of the fair value measurements related to goodwill refer to Note 6, Goodwill of the financial statements for periods ended September 30, 2020 and December 31, 2019.

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

XPEL Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2020 and 2019
(Unaudited)

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.

11. COMMITMENTS AND CONTINGENCIES

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.

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, 2022, 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.

12. ACQUISITION OF A BUSINESS

The Company completed the following acquisition during the nine months ended September 30, 2020:

Acquisition Date	Name/Location/ Description	Purchase Price	Acquisition Type	Acquisition Purpose
February 1, 2020	Protex Centre, Laval, Quebec, Canada - Paint protection installation shop	\$2,383,968	Share Purchase	Local market expansion

The total preliminary purchase price for the acquisition completed during the nine months ended September 30, 2020 and a preliminary allocation of that purchase price are set forth in the table below. The purchase agreement provides for customary purchase price adjustments related to acquired working capital that have not yet been finalized.

XPEL Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2020 and 2019
(Unaudited)

	Protex Centre
Purchase Price	
Cash	\$ 1,490,651
Promissory notes	893,317
	<u>\$ 2,383,968</u>
Allocation	
Cash	\$ 242,808
Accounts receivable	206,808
Inventory	27,732
Prepaid assets	3,764
Other long-term assets	6,197
Property, plant, and equipment	161,702
Software	1,027
Customer relationships	987,556
Non-compete	136,395
Goodwill	1,184,774
Accounts payable and accrued liabilities	(142,175)
Assumed debt	(108,766)
Deferred tax liability	(281,565)
Taxes payable	(42,289)
	<u>\$ 2,383,968</u>

Intangible assets acquired in 2020 have a weighted average useful life of 8.51 years.

Goodwill for these acquisitions relates to expansion in a local market and is deductible for tax purposes. 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 acquired company was consolidated into our financial statements on its acquisition date. The amount of revenue and net income of this acquisition which has been consolidated into our financial statements for the nine months ended September 30, 2020 was \$2,559,347 and \$571,701, respectively.

The following unaudited consolidated pro forma combined financial information presents our results, including the estimated expenses relating to the amortization of intangibles purchased, as if this acquisition had occurred on January 1, 2020 and 2019:

XPEL Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2020 and 2019
(Unaudited)

	Nine Months Ended September 30,	
	2020	2019
	(unaudited)	(unaudited)
Revenue.....	110,443,876	92,516,775
Net income.....	12,043,122	9,516,929

The unaudited consolidated pro forma combined financial information does 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.

13. SUBSEQUENT EVENTS

The Company completed the acquisition of certain assets of its France-based distributor, France Auto Racing, on November 2, 2020. The preliminary purchase price of this acquisition was \$352,765.

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

This Management’s Discussion and Analysis provides material historical and prospective disclosures intended to enable investors and other users to assess the financial condition and results of operations of XPEL, Inc. (“XPEL” or the “Company”) or its subsidiaries. Statements that are not historical are forward-looking and involve risks and uncertainties discussed under the heading “Forward-Looking Statements” in this report and under “Item 1A. Risk Factors” in our annual report on Form 10-K which was filed with the Securities and Exchange Commission (“SEC”) on March 16, 2020 and is available on the SEC’s website at www.sec.gov.

Forward-Looking Statements

This quarterly report on Form 10-Q contains not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are subject to the safe harbor created by those sections. In addition, the Company or others on the Company’s behalf may make forward-looking statements from time to time in oral presentations, including telephone conferences and/or web casts open to the public, in press releases or reports, on the Company’s internet web site, or otherwise. All statements other than statements of historical facts included in this report or expressed by the Company orally from time to time that address activities, events, or developments that the Company expects, believes, or anticipates will or may occur in the future are forward-looking statements, including, in particular, the statements about the Company’s plans, objectives, strategies, and prospects regarding, among other things, the Company’s financial condition, results of operations and business, and the outcome of contingencies, such as legal proceedings. The Company has identified some of these forward-looking statements in this report with words like “believe,” “can,” “may,” “could,” “would,” “might,” “forecast,” “possible,” “potential,” “project,” “will,” “should,” “expect,” “intend,” “plan,” “predict,” “anticipate,” “estimate,” “approximate,” “outlook,” or “continue” or the negative of these words or other words and terms of similar meaning. The use of future dates is also an indication of a forward-looking statement. Forward-looking statements may be contained in the notes to the Company’s condensed consolidated financial statements and elsewhere in this report, including under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Forward-looking statements are based on current expectations about future events affecting the Company and are subject to uncertainties and factors that affect all businesses operating in a global market as well as matters specific to the Company. These uncertainties and factors are difficult to predict, and many of them are beyond the Company's control. The following are some of the uncertainties and factors known to us that could cause the Company's actual results to differ materially from what the Company has anticipated in its forward-looking statements:

- our ability to continue to effectively manage through the COVID-19 pandemic;
- 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") on The Nasdaq Stock Market.

We believe the items we have outlined above are important factors that could cause estimates included in our financial statements to differ materially from actual results and those expressed in a forward-looking statement made in this report or elsewhere by us or on our behalf. We have discussed these factors in more detail in our annual report on Form 10-K as filed with the SEC on March 16, 2020. These factors are not necessarily all of the factors that could affect us. Unpredictable or unanticipated factors we have not discussed in this report could also have material adverse effects on actual results. We do not intend to update our description of important factors each time a potential important factor arises, except as required by applicable securities laws and regulations. We advise our shareholders that they should (1) be aware that factors not referred to above could affect the accuracy of our forward-looking statements and (2) use caution when considering our forward-looking statements.

Company Overview

Founded in 1997 and incorporated in 2003, XPEL has grown from an automotive product design software company to a global provider of protective films and coatings, including automotive paint protection film, surface protection film, and automotive and commercial/residential window films and ceramic coatings, 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.

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 damage from surface scratches.

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 early 2016, we expanded our product offerings to include an automotive protective window film branded as PRIME. In 2017, we established our European headquarters in The Netherlands. 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 for commercial and residential uses. Also in 2018, we launched the next generation of our highly successful ULTIMATE line, ULTIMATE PLUS. In 2019, we established an office in Germany to better serve our customers in that market. Also, in 2019 we launched our ceramic coating product. In 2020, the Company purchased Protex Centre in Montreal, Canada as a continuation of its acquisition strategy.

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.

Impacts of COVID-19

The COVID-19 pandemic has caused us to modify our business practices, including implementing a global work from home policy for all employees who are able to perform their duties remotely. The majority of our world-wide locations remain open for business pursuant to governmental authority

guidelines. We have taken actions to promote the welfare of our employees by enhancing safety protocols, including requiring administrative employees to work from home where applicable and implementing social distancing and robust sanitization practices at all of our locations.

We have taken and expect to continue to take proactive steps to maintain business continuity, manage our costs and bolster our balance sheet and cash position in light of the pandemic, including but not limited to, the following:

- As more fully described under “Liquidity and Capital Resources,” in May 2020, we borrowed \$6.0 million under a term loan with The Bank of San Antonio.
- As more fully described under “Liquidity and Capital Resources,” in May 2020, we renewed and extended our revolving credit facility until June 2022.

As a result of these actions, we have increased our cash position and believe that our level of liquidity and cost cutting measures will help us to continue to effectively navigate the current economic disruption associated with the ongoing COVID-19 pandemic.

Trends and Uncertainties

COVID-19 impacted our operations during the first six months of 2020, but revenue has recovered substantially during the three months ended September 30, 2020. During this most recent three-month period, revenue has increased in all major geographic areas except Latin America. Despite the increase in revenue in this most recent quarter, the effects of the pandemic on our financial results in future periods could be significant and cannot currently be reasonably estimated due to the volatility, uncertainty and economic disruption caused by the pandemic. See the risk factor “*The COVID-19 pandemic could materially adversely affect our financial condition and results of operations*” included in Part II, Item 1A “Risk Factors” of this Report for further discussion of the potential impact of the COVID-19 pandemic on our business, results of operations and financial condition.

As we look ahead, we are unable to determine or predict the overall impact the COVID-19 pandemic will have on our customers, vendors and suppliers or our business, results of operations, or financial condition. Significant uncertainty still exists concerning the overall magnitude of the impact and the duration of the COVID-19 pandemic. For example, automotive sales and production are highly cyclical. As demand for automotive products fluctuate or decrease, the demand for our products may also fluctuate or decrease. Refer to “Item 1A Risk Factors” in our annual report on Form 10-K for additional consideration of the cyclical nature of the automotive industry. As a result, we will continue to closely monitor updates regarding the spread of COVID-19 and adjust our operations according to guidelines from local, state and federal officials. In light of the foregoing, we may take further actions that alter our business operations or that we determine are in the best interests of our employees, customers, suppliers and shareholders.

Key Business Metric - 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 Earnings Before Interest, Taxes, Depreciation, and Amortization (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 for the three and nine months ended September 30, 2020 and 2019:

	(Unaudited)			(Unaudited)		
	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2020	2019	% Change	2020	2019	% Change
Net Income	\$6,608,248	\$4,509,285	46.5 %	\$12,193,292	\$ 9,376,598	30.0 %
Interest	68,368	23,851	186.6 %	173,480	81,631	112.5 %
Taxes	1,736,330	999,072	73.8 %	3,250,780	2,503,365	29.9 %
Depreciation	325,643	234,297	39.0 %	889,820	655,385	35.8 %
Amortization	239,571	199,582	20.0 %	705,692	570,954	23.6 %
EBITDA	<u>\$8,978,160</u>	<u>\$5,966,087</u>	<u>50.5 %</u>	<u>\$17,213,064</u>	<u>\$13,187,933</u>	<u>30.5 %</u>

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

The following tables summarize the Company's consolidated results of operations for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30, 2020	% of Total Revenue	Three Months Ended September 30, 2019	% of Total Revenue	\$ Change	% Change
Total revenue	\$ 46,122,796	100.0 %	\$ 35,617,998	100.0 %	\$ 10,504,798	29.5 %
Total cost of sales	30,092,964	65.2 %	23,344,968	65.5 %	6,747,996	28.9 %
Gross margin	16,029,832	34.8 %	12,273,030	34.5 %	3,756,802	30.6 %
Total operating expenses	7,616,177	16.5 %	6,603,871	18.5 %	1,012,306	15.3 %
Operating income	8,413,655	18.2 %	5,669,159	15.9 %	2,744,496	48.4 %
Other expenses	69,077	0.1 %	160,802	0.5 %	(91,725)	(57.0)%
Income tax	1,736,330	3.8 %	999,072	2.8 %	737,258	73.8 %
Net income	<u>\$ 6,608,248</u>	<u>14.3 %</u>	<u>\$ 4,509,285</u>	<u>12.7 %</u>	<u>\$ 2,098,963</u>	<u>46.5 %</u>

	Nine Months Ended September 30, 2020	% of Total Revenue	Nine Months Ended September 30, 2019	% of Total Revenue	\$ Change	% Change
Total revenue	\$110,317,117	100.0 %	\$ 90,437,598	100.0 %	\$ 19,879,519	22.0 %
Total cost of sales	72,251,320	65.5 %	59,388,475	65.7 %	12,862,845	21.7 %
Gross margin	38,065,797	34.5 %	31,049,123	34.3 %	7,016,674	22.6 %
Total operating expenses	22,027,818	20.0 %	18,935,670	20.9 %	3,092,148	16.3 %
Operating income	16,037,979	14.5 %	12,113,453	13.4 %	3,924,526	32.4 %
Other expenses	593,907	0.5 %	233,490	0.3 %	360,417	154.4 %
Income tax	3,250,780	2.9 %	2,503,365	2.8 %	747,415	29.9 %
Net income	<u>\$ 12,193,292</u>	<u>11.1 %</u>	<u>\$ 9,376,598</u>	<u>10.4 %</u>	<u>\$ 2,816,694</u>	<u>30.0 %</u>

The following tables summarize revenue results for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		%	% of Total Revenue	
	2020	2019	Inc (Dec)	2020	2019
Product Revenue					
Paint protection film.....	\$ 31,977,210	\$ 26,527,586	20.5 %	69.3 %	74.5 %
Window film.....	6,302,364	3,522,815	78.9 %	13.7 %	9.9 %
Other.....	1,248,809	764,850	63.3 %	2.6 %	2.1 %
Total.....	\$ 39,528,383	\$ 30,815,251	28.3 %	85.7 %	86.5 %
Service Revenue					
Software.....	\$ 889,709	\$ 859,432	3.5 %	1.9 %	2.4 %
Cutbank credits.....	2,304,651	1,957,224	17.8 %	5.0 %	5.5 %
Installation labor.....	3,268,399	1,843,936	77.3 %	7.1 %	5.2 %
Training.....	131,654	142,155	(7.4)%	0.3 %	0.4 %
Total.....	\$ 6,594,413	\$ 4,802,747	37.3 %	14.3 %	13.5 %
Total	\$ 46,122,796	\$ 35,617,998	29.5 %	100.0 %	100.0 %

	Nine Months Ended September 30,		%	% of Total Revenue	
	2020	2019	Inc (Dec)	2020	2019
Product Revenue					
Paint protection film.....	\$ 75,996,444	\$ 66,150,360	14.9 %	68.9 %	73.1 %
Window film.....	15,347,270	8,526,886	80.0 %	13.9 %	9.4 %
Other.....	2,896,582	2,618,217	10.6 %	2.6 %	3.0 %
Total.....	\$ 94,240,296	\$ 77,295,463	21.9 %	85.4 %	85.5 %
Service Revenue					
Software.....	\$ 2,551,177	\$ 2,378,944	7.2 %	2.3 %	2.6 %
Cutbank credits.....	5,529,773	5,487,320	0.8 %	5.0 %	6.1 %
Installation labor.....	7,681,420	4,790,279	60.4 %	7.0 %	5.3 %
Training.....	314,451	485,592	(35.2)%	0.3 %	0.5 %
Total.....	\$ 16,076,821	\$ 13,142,135	22.3 %	14.6 %	14.5 %
Total	\$ 110,317,117	\$ 90,437,598	22.0 %	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 tables represent our estimate of sales by geographic regions based on our understanding of ultimate product destination based on customer interactions, customer locations and other factors for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		%	% of Total Revenue	
	2020	2019		2020	2019
United States	\$ 22,041,941	\$ 15,738,762	40.0 %	47.8 %	44.2 %
China	9,397,486	9,359,531	0.4 %	20.4 %	26.3 %
Canada	6,213,949	4,937,514	25.9 %	13.5 %	13.9 %
Continental Europe	3,656,477	1,945,104	88.0 %	7.9 %	5.5 %
United Kingdom	1,481,174	1,032,399	43.5 %	3.2 %	2.9 %
Asia Pacific	1,454,119	1,168,570	24.4 %	3.2 %	3.3 %
Latin America	537,892	578,055	(6.9)%	1.2 %	1.6 %
Middle East/Africa	1,326,589	770,842	72.1 %	2.8 %	2.2 %
Other	13,169	87,221	(84.9)%	0.0 %	0.1 %
Total	\$ 46,122,796	\$ 35,617,998	29.5 %	100.0 %	100.0 %

	Nine Months Ended September 30,		%	% of Total Revenue	
	2020	2019		2020	2019
United States	\$ 53,713,708	\$ 44,745,859	20.0 %	48.7 %	49.5 %
China	21,409,365	17,006,451	25.9 %	19.4 %	18.8 %
Canada	14,347,313	13,253,413	8.3 %	13.0 %	14.7 %
Continental Europe	9,347,780	5,341,164	75.0 %	8.5 %	5.9 %
United Kingdom	3,228,322	2,842,682	13.6 %	2.9 %	3.1 %
Asia Pacific	3,365,354	3,100,088	8.6 %	3.1 %	3.4 %
Latin America	1,499,944	1,576,864	(4.9)%	1.4 %	1.7 %
Middle East/Africa	3,177,155	2,374,321	33.8 %	2.9 %	2.6 %
Other	228,176	196,756	16.0 %	0.1 %	0.3 %
Total	\$ 110,317,117	\$ 90,437,598	22.0 %	100.0 %	100.0 %

Product Revenue. Product revenue for the three months ended September 30, 2020 increased 28.3% over the three months ended September 30, 2019. Product revenue represented 85.7% of our total revenue compared to 86.5% in the three months ended September 30, 2019. Revenue from our paint protection film product line increased 20.5% over the three months ended September 30, 2019. Paint protection film sales represented 69.3% and 74.5% of our total consolidated revenues for the three months ended September 30, 2020 and 2019, respectively. The increase in paint protection film sales was primarily attributable to a resurgence in demand for our film in most of our geographical sales regions as those markets emerged from COVID-19 impacts. Revenue from our window film product line grew 78.9% for the three months ended September 30, 2020. Window film sales represented 13.7% and 9.9% of our total consolidated revenues for the three months ended September 30, 2020 and 2019, respectively. This increase in window film sales was due mainly to continued increases in demand resulting from continuing channel focus and increased product adoption.

Product revenue for the nine months ended September 30, 2020 increased 21.9% over the nine months ended September 30, 2019. This increase was driven primarily by increased demand for our products in most of our geographical sales regions. For the nine months ended September 30, 2020, sales of paint protection film increased by 14.9% over the same period in 2019. The increase in paint protection film sales was primarily attributable to an increase in demand for our products in most sales regions. Window film revenue for the nine months ended September 30, 2020 increased 80.0% over the

same period in 2019 due primarily to increased demand in most geographical sales regions resulting from strong channel execution and increased product adoption.

Service revenue. Service revenue consists of revenue from fees for DAP software access, cutbank credit revenue which represents per-cut fees sold for pattern access or the value of pattern access provided with eligible product revenue, revenue from the labor portion of installation sales in our installation centers and revenue from training services provided to our customers. Service revenue grew 37.3% over the three months ended September 30, 2019. Software revenue increased 3.5% over the three months ended September 30, 2019. These increases were due mainly to increases in total subscribers for our DAP software. Cutbank credit revenue increased 17.8% from the three months ended September 30, 2019 due mainly to a widespread resurgence in demand for our paint protection film. Installation labor revenue increased 77.3% over the three months ended September 30, 2019. Excluding acquisition related growth, installation labor revenue increased 32.1% during the three months ended September 30, 2020 due primarily to increased demand for installation services primarily in the United States, Canada and Europe. Training revenue declined 7.4% over the three months ended September 30, 2019 due mainly to reduced attendance in our training classes resulting from COVID-19.

Service revenue for the nine months ended September 30, 2020 grew 22.3% over the nine months ended September 30, 2019. Software revenue grew 7.2% over the nine months ended September 30, 2019. These increases were due primarily to increases in total subscribers to our DAP software. Cutbank credits revenue increased 0.8% over the nine months ended September 30, 2019 due primarily to increases in product revenue in most sales regions in the most recently ended three-month period offset by significant COVID-19 impacts during April and May of 2020. Installation labor increased 60.4% over the nine months ended September 30, 2019. Excluding acquisition related growth, installation labor revenue increased 27.9% during the nine months ended September 30, 2020.

Total installation revenue (labor and product combined) at our installation centers increased 77.3% over the three months ended September 30, 2019. This represented 8.4% and 6.2% of our total consolidated revenue for the three months ended September 30, 2020 and 2019, respectively. Excluding acquisition related growth, total installation revenue grew 39.3%. Total installation revenue increased 60.4% over the nine months ended September 30, 2019 due primarily to increased demand for installation services in the United States, Canada and Europe. This represented 8.3% and 6.3% of our total consolidated revenue for the nine months ended September 30, 2020 and 2019, respectively. Excluding acquisition related growth, total installation revenue grew 33.1% over the nine months ended September 30, 2020.

Adjusted product revenue, which combines the cutbank credit revenue service component with product revenue, increased 27.6% over the three months ended September 30, 2019 due mainly to a broad-based resurgence in demand. Adjusted product revenue increased 20.5% versus the nine months ended September 30, 2019.

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 installation facilities, costs of labor associated with pattern design for our cutting software and the costs incurred to provide training for our customers.

Cost of sales increased 28.9% in the three months ended September 30, 2020 over the three months ended September 30, 2019 as a result of increased sales volume. Product costs in the three months ended September 30, 2020 increased 27.3% over the three months ended September 30, 2019. This increase was the result of the increased sales of our products during the 2020 quarter. Cost of product sales represented 61.5% and 62.6% of total revenue in the three months ended September 30, 2020 and

2019, respectively. This decrease was the result of certain economies of scale as a result of increased sales of our products during the 2020 quarter. Cost of service revenue grew 62.4% during the three months ended September 30, 2020 due mainly to the increased installation labor costs associated with increased installation sales at our installation centers.

Cost of sales increased 21.7% in the nine months ended September 30, 2020 over the nine months ended September 30, 2019 as a result of increased sales volume. Product costs in the nine months ended September 30, 2020 increased 19.8% over the nine months ended September 30, 2019. This increase was the result of the increased sales of our products during the 2020 period. Cost of product sales represented 61.4% and 62.5% of total revenue in the nine months ended September 30, 2020 and 2019, respectively. This decrease was the result of certain economies of scale as a result of increased sales of our products during the 2020 period. Cost of service revenue grew 59.2% during the nine months ended September 30, 2020 due mainly to the increased installation labor costs associated with increased installation sales at our installation centers.

Gross Margin

Gross margin for the three months ended September 30, 2020 grew approximately \$3.8 million, or 30.6%, from the three months ended September 30, 2019. For the three months ended September 30, 2020, gross margin represented 34.8% of revenue.

Gross margin for the nine months ended September 30, 2020 grew approximately \$7.0 million, or 22.6%, from the nine months ended September 30, 2019. For the nine months ended September 30, 2020, gross margin represented 34.5% of revenue. The following tables summarize gross margin for product and services for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		%	% of Category Revenue	
	2020	2019		Inc (Dec)	2020
Product	\$ 11,158,501	\$ 8,531,480	30.8 %	28.2%	27.7%
Service	4,871,331	3,741,550	30.2 %	73.9%	77.9%
Total	\$ 16,029,832	\$ 12,273,030	30.6 %	34.8%	34.5%

	Nine Months Ended September 30,		%	% of Category Revenue	
	2020	2019		Inc (Dec)	2020
Product	\$ 26,552,305	\$ 20,772,629	27.8%	28.2%	26.9%
Service	11,513,492	10,276,494	12.0%	71.6%	78.2%
Total	\$ 38,065,797	\$ 31,049,123	22.6%	34.5%	34.3%

Product gross margin for the three months ended September 30, 2020 increased approximately \$2.6 million, or 30.8%, over the three months ended September 30, 2019 and represented 28.2% and 27.7% of total product revenue for the three months ended September 30, 2020 and 2019, respectively.

Product gross margin for the nine months ended September 30, 2020 increased approximately \$5.8 million, or 27.8%, over the nine months ended September 30, 2019 and represented 28.2% and 26.9% of total product revenue for the nine months ended September 30, 2020 and 2019, respectively. This increase was due primarily to increases in revenue, changes in revenue mix, improvements in product costs and operating leverage.

Service gross margin increased approximately \$1.1 million, or 30.2%, over the three months ended September 30, 2019. This represented 73.9% and 77.9% of total service revenue for the three months ended September 30, 2020 and 2019, respectively. The decrease in service gross margin percentage for the three months ended September 30, 2020 was primarily due to higher installation labor revenue, which is lower margin than software related revenue, growing at a faster rate than software related revenue.

Service gross margin increased approximately \$1.2 million, or 12.0%, over the nine months ended September 30, 2019. This represented 71.6% and 78.2% of total service revenue for the nine months ended September 30, 2020 and 2019, respectively. This decrease was primarily due to margin mix and the Company's decision to continue to pay installation personnel during COVID-19 related shutdowns.

Operating Expenses

Sales and marketing expenses for the three months ended September 30, 2020 increased 28.9% compared to the same period in 2019. These expenses represented 5.0% and 5.1% of total consolidated revenue for the three months ended September 30, 2020 and 2019, respectively. This increase was due primarily to increased hiring of sales personnel and increases in marketing related expenses to support ongoing operations.

For the nine months ended September 30, 2020, sales and marketing expenses increased 27.8% compared to the same period in 2019. These expenses represented 6.3% and 6.0% of total consolidated revenue for the nine months ended September 30, 2020 and 2019, respectively. This increase was due to additional marketing and personnel costs incurred to support the ongoing growth of the Company.

General and administrative expenses grew approximately \$0.5 million, or 10.2% over the three months ended September 30, 2019. These costs represented 11.5% and 13.5% of total consolidated revenue for the three months ended September 30, 2020 and 2019, respectively. The increase was due mainly to increases in personnel, occupancy costs and information technology costs to support the on-going growth of the business.

General and administrative expenses grew approximately \$1.6 million, or 11.7%, during the nine months ended September 30, 2020 over the same period in 2019. These costs represented 13.6% and 14.9% of total consolidated revenue for the nine months ended September 30, 2020 and 2019, respectively. The increase was due mainly to increases in personnel, occupancy costs and information technology costs to support the on-going growth of the business.

Other Expense

Other expense consists of interest expense and foreign currency exchange gain/loss. Interest expense increased during the nine months ended September 30, 2020 due primarily to the Company's increased borrowings on its revolving credit facilities and borrowings under its term-loan in response to the COVID-19 pandemic. The Company incurred approximately \$0.4 million in foreign currency exchange losses during the nine months ended September 30, 2020 resulting from foreign currency fluctuations in response to the COVID-19 pandemic.

Income Tax Expense

Income tax expense for the three months ended September 30, 2020 increased \$0.7 million from the three months ended September 30, 2019. Our effective tax rate was 20.8% for the three months ended September 30, 2020 compared with 18.1% for the three months ended September 30, 2019. This increase in the effective tax rate was due primarily to a true up recorded in the prior year related to permanent tax benefits related to the Jobs Act.

Income tax expense for the nine months ended September 30, 2020 increased \$0.7 million from the same period in 2019. Our effective tax rate was 21.0% for the nine months ended September 30, 2020 compared with 21.1% for the nine months ended September 30, 2019.

Liquidity and Capital Resources

The primary source of liquidity for our business is cash and cash equivalents and cash flows provided by operations. As of September 30, 2020, we had cash and cash equivalents of \$27.2 million. For the nine months ended September 30, 2020, cash flows provided by operations were \$14.2 million. We expect to continue to have cash requirements to support working capital needs, capital expenditures (including acquisitions), and to pay interest and service debt, if applicable. We believe we have the ability and sufficient resources to meet these cash requirements by using available cash, 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 believe we have sufficient liquidity to operate for at least the next 12 months from the date of filing this report.

Operating activities. Cash flows provided by operations totaled approximately \$14.2 million for the nine months ended September 30, 2020, compared to \$5.6 million for the nine months ended September 30, 2019. This increase was due mainly to increases in operating earnings and changes in working capital.

Investing activities. Cash flows used in investing activities totaled approximately \$2.9 million during the nine months ended September 30, 2020 compared to \$1.5 million during the nine months ended September 30, 2019. This increase was due mainly to the acquisition of Protex Centre (Note 12).

Financing activities. Cash flows provided by financing activities during the nine months ended September 30, 2020 totaled approximately \$4.2 million compared to cash use in the prior year of \$0.9 million. This increase was due primarily to new borrowing under a term loan agreement with the Bank of San Antonio (Note 8) which was partially offset by the purchase of the minority interest in the Company's subsidiary in the United Kingdom (Note 1).

Debt obligations as of September 30, 2020 and December 31, 2019 totaled approximately \$6.7 million and \$0.8 million, respectively.

Credit Facilities

As of September 30, 2020, our credit facilities consisted of an \$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. Borrowings under the credit agreement bear interest at a variable rate of the *Wall Street Journal* prime rate minus 1.00% with a floor of 3.50%. The interest rate as of September 30, 2020 and December 31, 2019 was 3.50% and 5.50%, respectively. As of both September 30, 2020 and December 31, 2019, no balance was outstanding on this line. We renewed and extended this revolving credit facility for an additional two years in May 2020. The renewed credit agreement matures on June 5, 2022.

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 the Company must maintain debt service coverage (EBITDA divided by the current portion of long-term debt plus interest) of 1.25:1 and funded debt to EBITDA of 2.5 times 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. As of September 30, 2020, the Company was in compliance with all covenants.

On May 11, 2020, the Company borrowed \$6,000,000 pursuant to a 36-month term loan with the Bank of San Antonio. The term-loan bears interest at 3.5% annually, requires monthly payments of principal and interest and matures in June 2023. At September 30, 2020, \$5,537,782 was outstanding under the term-loan. The term-loan is secured by a security interest in substantially all of our current and future assets.

XPEL Canada Corp., a wholly-owned subsidiary of XPEL, Inc., also has a 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 September 30, 2020 and December 31, 2019, no balance was outstanding on this facility.

Contractual Obligations

There has been no material change to the Company’s contractual obligations as described in the Company’s annual report on Form 10-K as filed with the SEC on March 16, 2020.

Critical Accounting Policies

There have been no material changes to the Company’s critical accounting policies and estimates from the information provided in the Company’s annual report on Form 10-K as filed with the SEC on March 16, 2020.

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

As of September 30, 2020 and December 31, 2019, 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 engage in trading activities involving non-exchange contracts.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We have operations that expose us to currency risk in the British Pound Sterling, the Canadian Dollar, the Euro, the Mexican Peso, and the New Taiwanese Dollar. Amounts invested in our foreign operations are translated into U.S. Dollars at the exchange rates in effect at the balance sheet date. The resulting translation adjustments are recorded as accumulated other comprehensive income, a component of

stockholders' equity in our condensed consolidated balance sheets. We do not currently hedge our exposure to potential foreign currency translation adjustments.

If we borrow under our revolving lines of credit, we will be subject to market risk resulting from changes in interest rates related to our floating rate bank credit facilities. If we were to make such borrowings, a hypothetical 100 basis point increase in variable interest rates may result in a material impact to our financial statements. We do not currently have any derivative contracts to hedge our exposure to interest rate risk. During each of the periods presented, we have not experienced a significant effect on our business due to changes in interest rates.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have established and maintain a system of disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosures.

Management, with the participation of our CEO and CFO, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, our CEO and CFO have each concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

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 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in “Item 1A Risk Factors” in our annual report on Form 10-K as filed with the SEC on March 16, 2020, which could materially affect our business, financial condition or future results. The risks described in our annual report on Form 10-K as filed with the SEC on March 16, 2020 are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

The COVID-19 pandemic could materially adversely affect our financial condition and results of operations.

The global pandemic resulting from the outbreak of COVID-19 has disrupted global health, economic and market conditions, consumer behavior and the Company's global operations beginning in early 2020. We cannot predict how the pandemic will continue to develop or to what extent the pandemic may have longer term unanticipated impacts on our global operations.

The spread of COVID-19 has caused us to modify our business practices (including employee travel, employee work locations, cancellation of physical participation in meetings, events and conferences, and social distancing measures), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers, partners, vendors, and suppliers. Work-from-home and other measures introduce additional operational risks, including cybersecurity risks, and have affected the way we conduct our product development, validation, and qualification, customer support, and other activities, which could have an adverse effect on our operations. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus, and illness and workforce disruptions could lead to unavailability of key personnel and harm our ability to perform critical functions.

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

During the nine months ended September 30, 2020, the Company did not issue any shares of its common stock or other equity securities of the Company that were not registered under the Securities Act of 1933, as amended.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On May 11, 2020, the Company entered into a new a three-year, \$6.0 million term-loan agreement with The Bank of San Antonio. For more information, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Credit Facilities.”

As more fully described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Credit Facilities,” the Company renewed its existing revolving line of credit facility with The Bank of San Antonio for two years maturing on June 5, 2022.

Item 6. Exhibits

The following exhibits are being filed or furnished with this quarterly report on Form 10-Q:

Exhibit No.	Description	Method of Filing
31.1	<u>Certification of Chief Executive Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
31.2	<u>Certification of Chief Financial Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
32.1	<u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	Furnished herewith
32.2	<u>Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	Furnished herewith
101	The following materials from XPEL’s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2020, formatted in XBRL (Extensible Business Reporting Language): (i) the unaudited Consolidated Balance Sheets, (ii) the unaudited Consolidated Statements of Operations, (iii) the unaudited Consolidated Statements of Comprehensive Income, (iv) the unaudited Consolidated Statements of Equity, (v) the unaudited Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements	Filed herewith

SIGNATURES

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

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)

November 10, 2020