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, 2021

OR

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

For the transition period from to

Commission file number 001-38858

XPEL, INC.
(Exact 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

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

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

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

The registrant had 27,612,597 shares of common stock outstanding as of November 9, 2021.

TABLE OF CONTENTS

Part I. Financial Information

Item 1. Financial Statements

XPEL, INC.

Condensed Consolidated Balance Sheets

		(Unaudited)		(Audited)
		September 30, 2021		December 31, 2020
Assets				
Current				
Cash and cash equivalents	$	7,816,332	$	29,027,124
Accounts receivable, net		14,324,671		9,944,213
Inventory, net		39,554,300		22,364,126
Prepaid expenses and other current assets		3,459,643		1,441,749
Income tax receivable		839,305		—
Total current assets		65,994,251		62,777,212
Property and equipment, net		8,662,924		4,706,248
Right-of-Use lease assets		11,785,675		5,973,702
Intangible assets, net		21,575,724		5,423,980
Other non-current assets		637,662		486,472
Goodwill		15,747,077		4,472,217
Total assets	$	124,403,313	$	83,839,831
Liabilities				
Current				
Current portion of notes payable	$	424,610	$	2,568,172
Current portion lease liabilities		2,908,492		1,650,749
Accounts payable and accrued liabilities		31,654,155		16,797,462
Income tax payable		—		183,961
Total current liabilities		34,987,257		21,200,344
Deferred tax liability, net		1,049,433		627,806
Other long-term liabilities		720,777		729,408
Non-current portion of lease liabilities		9,084,258		4,331,214
Non-current portion of notes payable		154,763		3,568,191
Total liabilities		45,996,488		30,456,963
Commitments and Contingencies (Note 11)				
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		10,489,295		10,412,471
Accumulated other comprehensive (loss) income		(350,021)		66,215
Retained earnings		68,239,938		42,876,569
Total stockholders' equity		78,406,825		53,382,868
Total liabilities and stockholders' equity	$	124,403,313	$	83,839,831

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,	
	2021	2020	2021	2020
Revenue				
Product revenue	$ 56,996,265	$ 39,528,383	$160,594,932	$ 94,240,296
Service revenue	11,532,658	6,594,413	28,536,076	16,076,821
Total revenue	68,528,923	46,122,796	189,131,008	110,317,117
Cost of Sales				
Cost of product sales	39,700,627	28,369,882	111,839,485	67,687,991
Cost of service	4,373,741	1,723,082	9,303,309	4,563,329
Total cost of sales	44,074,368	30,092,964	121,142,794	72,251,320
Gross Margin	24,454,555	16,029,832	67,988,214	38,065,797
Operating Expenses				
Sales and marketing	4,903,846	2,326,900	12,978,369	6,989,678
General and administrative	9,183,440	5,289,277	23,423,144	15,038,140
Total operating expenses	14,087,286	7,616,177	36,401,513	22,027,818
Operating Income	10,367,269	8,413,655	31,586,701	16,037,979
Interest expense	46,433	68,368	143,092	173,480
Foreign currency exchange loss	148,825	709	121,531	420,427
Income before income taxes	10,172,011	8,344,578	31,322,078	15,444,072
Income tax expense	1,841,250	1,736,330	5,958,709	3,250,780
Net income	$ 8,330,761	$ 6,608,248	$ 25,363,369	$ 12,193,292
Earnings per share				
Basic	$ 0.30	$ 0.24	$ 0.92	$ 0.44
Diluted	$ 0.30	$ 0.24	$ 0.92	$ 0.44
Weighted Average Number of Common Shares				
Basic	27,612,597	27,612,597	27,612,597	27,612,597
Diluted	27,613,124	27,612,597	27,612,773	27,612,597

See notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Other comprehensive income				
Net income	$ 8,330,761	$ 6,608,248	$ 25,363,369	$ 12,193,292
Foreign currency translation	(433,107)	419,298	(416,236)	102,965
Total comprehensive income	7,897,654	7,027,546	24,947,133	12,296,257
Total comprehensive income attributable to:				
Stockholders of the Company	7,897,654	7,027,546	24,947,133	12,300,790
Non-controlling interest	—	—	—	(4,533)
Total comprehensive income	$ 7,897,654	$ 7,027,546	$ 24,947,133	$ 12,296,257

See notes to condensed consolidated financial statements.

XPEL, INC.

Condensed Consolidated Statements of Changes in Stockholders' Equity

Stockholders' Equity - Three Months Ended September 30

	Common Stock							
	Shares	Amount	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Equity Attributable to Stockholders of the Company	Non-Controlling Interest	Total Stockholders' Equity
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
Balance as of June 30, 2021	27,612,597	27,613	10,412,471	59,909,177	83,086	70,432,347	—	70,432,347
Net income	—	—	—	8,330,761	—	8,330,761	—	8,330,761
Foreign currency translation	—	—	—	—	(433,107)	(433,107)	—	(433,107)
Stock-based compensation	—	—	76,824	—	—	76,824	—	76,824
Balance as of September 30, 2021	27,612,597	$ 27,613	$ 10,489,295	$68,239,938	$ (350,021)	$ 78,406,825	$ —	$ 78,406,825

Stockholders' Equity - Nine Months Ended September 30

	Common Stock							
	Shares	Amount	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Equity Attributable to Stockholders of the Company	Non-Controlling Interest	Total Stockholders' Equity
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
Balance as of December 31, 2020	27,612,597	27,613	10,412,471	42,876,569	66,215	53,382,868	—	53,382,868
Net income	—	—	—	25,363,369	—	25,363,369	—	25,363,369
Foreign currency translation	—	—	—	—	(416,236)	(416,236)	—	(416,236)
Stock-based compensation	—	—	76,824	—	—	76,824	—	76,824
Balance as of September 30, 2021	27,612,597	$ 27,613	$ 10,489,295	$ 68,239,938	$ (350,021)	$ 78,406,825	$ —	$ 78,406,825

See notes to condensed consolidated financial statements.

XPEL, INC.

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2021	2020
Cash flows from operating activities		
Net income	$ 25,363,369	$ 12,193,292
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	1,258,489	889,820
Amortization of intangible assets	1,420,347	705,692
Stock-based compensation	76,824	—
Gain on sale of property and equipment	(14,222)	(3,101)
Bad debt expense	236,601	85,535
Deferred income tax	417,944	(47,886)
Accretion on notes payable	24,205	36,760
Changes in assets and liabilities:		
Accounts receivable	(2,801,246)	(1,692,396)
Inventory, net	(16,396,799)	(3,803,836)
Prepaid expenses and other current assets	(2,038,877)	(413,354)
Income tax receivable or payable	(1,006,348)	395,311
Other assets	(206,194)	(468,400)
Accounts payable and accrued liabilities	13,838,842	6,361,659
Net cash provided by operating activities	20,172,935	14,239,096
Cash flows used in investing activities		
Purchase of property, plant and equipment	(5,081,424)	(1,358,108)
Proceeds from sale of property and equipment	48,065	50,809
Acquisition of a business, net of cash acquired	(29,992,449)	(1,247,843)
Development of intangible assets	(665,871)	(306,635)
Net cash used in investing activities	(35,691,679)	(2,861,777)
Cash flows from financing activities		
(Repayments) borrowings on term loan	(5,064,376)	6,000,000
Repayments of notes payable	(529,247)	(1,043,818)
Purchase of minority interest	—	(784,653)
Net cash (used in) provided by financing activities	(5,593,623)	4,171,529
Net change in cash and cash equivalents	(21,112,367)	15,548,848
Foreign exchange impact on cash and cash equivalents	(98,425)	174,650
(Decrease) increase in cash and cash equivalents during the period	(21,210,792)	15,723,498
Cash and cash equivalents at beginning of period	29,027,124	11,500,973
Cash and cash equivalents at end of period	$ 7,816,332	$ 27,224,471
Supplemental schedule of non-cash activities		
Notes payable issued for acquisitions	$ —	$ 893,317
Non-cash lease financing	$ 7,321,737	$ 782,909
Supplemental cash flow information		
Cash paid for income taxes	$ 6,669,752	$ 2,949,838
Cash paid for interest	$ 117,362	$ 129,117

See notes to condensed consolidated financial statements.

1. INTERIM FINANCIAL INFORMATION

The accompanying (a) condensed consolidated balance sheet as of December 31, 2020, which has been derived from consolidated audited financial statements, and (b) unaudited interim condensed consolidated financial statements as of and for the three and nine months ended September 30, 2021 and 2020 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 audited consolidated financial statements and related notes contained in the Company's annual report on Form 10-K for the year ended December 31, 2020 as filed with the SEC on March 11, 2021. 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.

2. SIGNIFICANT ACCOUNTING POLICIES

Nature of Business - The Company is based in San Antonio, Texas and sells, distributes, and installs protective films and coatings, including automotive paint protection film, surface protection film, automotive and architectural window films and ceramic coatings.

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. 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 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 %
XPEL France	Euro	100 %
PermaPlate Film LLC	US Dollar	100 %

Segment Reporting - Management has concluded that XPEL's chief operating decision maker ("CODM") is the Company's 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 $191,804 and $90,844 as of September 30, 2021 and December 31, 2020, 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. The Company had no significant accounts receivable concentration as of September 30, 2021. At December 31, 2020, receivable balances from two large customers accounted for 24.7% of the Company's total trade receivables.

Provisions and Warranties - We provide a warranty on the Company's products. Liability under the warranty policy is based on a review of historical warranty claims. Adjustments are made to the accruals based on actual claims data. The Company's liability for warranties as of September 30, 2021 and December 31, 2020 was $49,927 and $52,006, respectively. The following tables present a summary of our accrued warranty liabilities for the nine months ended September 30, 2021 and the twelve months ended December 31, 2020:

	2021
Warranty liability, January 1	$ 52,006
Warranties assumed in period	216,383
Payments	(218,462)
Warranty liability, September 30	$ 49,927

	2020
Warranty liability, January 1	$ 65,591
Warranties assumed in period	283,458
Payments	(297,043)
Warranty liability, December 31	$ 52,006

Recently Adopted Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The ASU removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This ASU was effective for fiscal years beginning after December 15, 2020, including interim periods within that fiscal year. The Company has adopted this ASU without a material change to its condensed consolidated financial statements.

Recent Accounting Pronouncements Issued and Not Yet Adopted

In June 2016, the FASB issued 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 the Company's 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 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, and these rights are immaterial. Discounts provided by the Company to customers at the time of sale are recognized as a reduction in sales at the time of the sale.

Warranty obligations associated with the sale of the Company's 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 customer's 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 requires 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, 2021:

Balance, December 31, 2020	$	244,837
Revenue recognized related to payments included in the December 31, 2020 balance		(167,868)
Payments received for which performance obligations have not been satisfied		2,508,251
Effect of foreign currency translation		(480)
Balance, March 31, 2021	$	2,584,740
Revenue recognized related to payments included in the March 31, 2021 balance		(2,519,452)
Payments received for which performance obligations have not been satisfied		552,979
Effect of foreign currency translation		1,196
Balance, June 30, 2021	$	619,463
Revenue recognized related to payments included in the June 30, 2021 balance		(540,391)
Payments received for which performance obligations have not been satisfied		480,186
Effect of foreign currency translation		45
Balance, September 30, 2021	$	559,303

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,	
	2021	2020	2021	2020
Product Revenue				
Paint protection film	$ 43,220,555	$ 31,977,210	$ 124,250,391	$ 75,996,444
Window film	11,401,322	6,302,364	29,644,669	15,347,270
Other	2,374,388	1,248,809	6,699,872	2,896,582
Total	$ 56,996,265	$ 39,528,383	$ 160,594,932	$ 94,240,296
Service Revenue				
Software	$ 1,125,365	$ 889,709	$ 3,158,337	$ 2,551,177
Cutbank credits	3,362,399	2,304,651	9,384,411	5,529,773
Installation labor	6,783,688	3,268,399	15,256,632	7,681,420
Training	261,206	131,654	736,696	314,451
Total	$ 11,532,658	$ 6,594,413	$ 28,536,076	$ 16,076,821
Total	$ 68,528,923	$ 46,122,796	$ 189,131,008	$ 110,317,117

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
United States	$ 37,362,839	$ 22,041,941	$ 97,263,389	$ 53,713,708
China	10,571,126	9,397,486	33,902,146	21,409,365
Canada	8,715,209	6,213,949	22,538,245	14,347,313
Continental Europe	4,747,140	3,656,477	14,286,185	9,347,780
Middle East/Africa	2,090,125	1,326,589	6,466,319	3,177,155
United Kingdom	1,987,316	1,481,174	5,906,315	3,228,322
Asia Pacific	1,972,919	1,454,119	5,620,834	3,365,354
Latin America	944,668	537,892	2,890,526	1,499,944
Other	137,581	13,169	257,049	228,176
Total	$ 68,528,923	$ 46,122,796	$189,131,008	$110,317,117

Our largest customer accounted for 15.4% and 20.4% of our net sales during the three months ended September 30, 2021 and 2020, respectively and 17.9% and 19.4% of our net sales during the nine months ended September 30, 2021 and 2020, respectively.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	September 30, 2021	December 31, 2020
Furniture and fixtures	$ 1,563,613	$ 1,349,037
Computer equipment	1,848,286	1,482,911
Vehicles	750,956	760,335
Equipment	3,061,293	1,955,254
Leasehold improvements	2,191,250	2,055,798
Plotters	1,822,036	1,282,630
Construction in Progress	3,044,896	321,764
Total property and equipment	14,282,330	9,207,729
Less: accumulated depreciation	5,619,406	4,501,481
Property and equipment, net	$ 8,662,924	$ 4,706,248

Depreciation expense for the three months ended September 30, 2021 and 2020 was $455,792 and $325,643, respectively. For the nine months ended September 30, 2021 and 2020, depreciation expense was $1,258,489 and $889,820, respectively.

5. INTANGIBLE ASSETS, NET

Intangible assets consists of the following:

	September 30, 2021	December 31, 2020
Trademarks	$ 451,300	$ 373,374
Software	3,187,028	2,598,985
Trade name	497,477	497,545
Contractual and customer relationships	21,947,176	5,043,915
Non-compete	458,741	458,536
Other	211,431	213,218
Total cost	26,753,153	9,185,573
Less: Accumulated amortization	5,177,429	3,761,593
Intangible assets, net	$ 21,575,724	$ 5,423,980

Amortization expense for the three months ended September 30, 2021 and 2020 was $734,963 and $239,571, respectively. For the nine months ended September 30, 2021 and 2020, amortization expense was $1,420,347 and $705,692, respectively.

The Company completed the acquisition of a business during the nine months ended September 30, 2021. 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, 2021 and 2020:

Balance at December 31, 2019	$ 2,406,512
Additions	1,938,656
Foreign Exchange	127,049
Balance at December 31, 2020	$ 4,472,217
Balance at December 31, 2020	$ 4,472,217
Additions	11,271,949
Foreign Exchange	2,911
Balance at September 30, 2021	$ 15,747,077

The Company completed the acquisition of a business during the nine months ended September 30, 2021. Refer to Note 12 for additional information related to goodwill added from this acquisition.

7. INVENTORIES

The components of inventory are summarized as follows:

	September 30, 2021	December 31, 2020
Raw materials	$ 3,611,993	$ —
Work in process	803,318	—
Finished goods	35,138,989	22,364,126
	$ 39,554,300	$ 22,364,126

8. DEBT

REVOLVING FACILITIES

The Company has a $57.0 million revolving line of credit with Texas Partners Bank (which does business as the Bank of San Antonio) and a Canadian Dollar ("CAD") $4.5 million revolving credit facility maintained by the Company's Canadian subsidiary. The Texas Partners Bank facility was established on May 21, 2021 and replaced an $8.50 million revolving facility and a $6.0 million term loan facility. The outstanding balances on these prior loan agreements were fully repaid by the Company and these agreements were terminated when we entered into the new facility. The facility is utilized to fund the Company's working capital needs and other strategic initiatives, and is secured by a security interest in substantially all of the Company's current and future assets. Borrowings under the credit agreement bear interest on borrowed amounts at the *Wall Street Journal* U.S. Prime Rate less 0.75% per annum if the Company's EBITDA ratio is equal to or less than 2.00 to 1.00 or the *Wall Street Journal* U.S. Prime rate less 0.25% if the Company's EBITDA ratio (as defined in the facility) is greater than 2.00 to 1.00. The facility also contains a fee of 0.25% of the unused capacity on the facility. The interest rate for this credit facility as of September 30, 2021 was 2.50%. The Company paid interest charges on borrowings under this facility of $25,208 during the three months ended September 30, 2021. As of September 30, 2021, no balance was outstanding on this line. This facility matures on July 5, 2024.

The Loan Agreement governing the facility contains customary covenants relating to maintaining legal existence and good standing, complying with applicable laws, delivery of financial statements, payment of taxes and maintaining insurance. The Loan Agreement contains two financial covenants:

(1) Senior Funded Debt (as defined in the Loan Agreement) divided by EBITDA (as defined in the Loan Agreement) at or below 3.50 : 1.00 when tested at the end of each fiscal quarter on a rolling four-quarter basis, and

(2) A minimum Debt Service Coverage Ratio (as defined in the Loan Agreement) of 1.25 : 1.00 at the end of each fiscal quarter when measured on a rolling four-quarter basis.

As of September 30, 2021 and December 31, 2020, the Company was in compliance with all debt covenants.

XPEL Canada Corp., a wholly-owned subsidiary of XPEL, Inc., also has a CAD $4.5 million revolving credit facility through HSBC Bank Canada. This facility is utilized to fund the Company's working capital needs in Canada. This facility bears interest at HSBC Canada Bank’s prime rate plus 0.25% per annum and is guaranteed by the parent company. As of September 30, 2021 and December 31, 2020, no balance was outstanding on this line of credit.

NOTES PAYABLE

As part of its acquisition strategy, the Company may use a combination of cash and unsecured non-interest bearing promissory notes to fund its business acquisitions. The Company discounts promissory notes, if used, 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, 2021	December 31, 2020
Term-loan	3.50%	2023	—	5,056,240
Face value of acquisition notes payable	2.27%	2023	590,770	1,428,384
Total face value of notes payable			590,770	6,484,624
Unamortized discount			(11,397)	(348,261)
Current portion			(424,610)	(2,568,172)
Total long-term debt			$ 154,763	$ 3,568,191

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	September 30, 2021	December 31, 2020
Trade payables	$ 27,007,788	$ 12,987,487
Payroll liabilities	2,750,331	2,266,643
Contract liabilities	559,303	244,837
Other liabilities	1,336,733	1,298,495
Total	$ 31,654,155	$ 16,797,462

10. FAIR VALUE MEASUREMENTS

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.

Financial instruments include cash and cash equivalents, 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. 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. The carrying value of the Company's long-term debt approximates fair value due to the interest rates being market rates.

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).

The Company incurred contingent liabilities in relation to one of its 2020 acquisitions. The payment of these liabilities is contingent on attainment of certain revenue performance metrics in future years. The fair value of these liabilities was determined using a Monte Carlo Simulation method based on the probability and timing of certain future payments related to these metrics. These liabilities are accounted for as Level 3 liabilities within the fair value hierarchy.

Liabilities measured at fair value on a recurring basis as of the dates noted below are as follows:

	September 30, 2021	December 31, 2020
Level 3:		
Contingent Liabilities	$ 334,630	$ 571,833

We assessed the fair value of these contingent considerations liabilities as of September 30, 2021. This assessment resulted in a reduction in the fair value of the liability of $237,203. This reduction is reflected in general and administrative expenses in the Condensed Consolidated Statement of Income for the nine months ended September 30, 2021.

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 the Company's results of operations, cash flows or financial position is remote.

12. ACQUISITION OF A BUSINESS

The Company completed the following acquisition during the nine months ended September 30, 2021:

Acquisition Date	Name/Location/ Description	Purchase Price	Acquisition Type	Acquisition Purpose
May 25, 2021	PermaPlate Film LLC, Salt Lake City, Utah, United States, Window film distribution and installation business	$ 30,000,000	Membership Interest Purchase	Market Expansion

The total preliminary purchase price for the acquisition completed during the nine months ended September 30, 2021 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. Purchase price accounting for this acquisition will be finalized within twelve months of the acquisition date.

	(Unaudited) PermaPlate Film
Purchase Price	
Cash	$ 30,000,000
	$ 30,000,000
Allocation	
Cash	$ 7,551
Accounts receivable	1,951,225
Inventory	968,603
Property, plant, and equipment	184,366
Customer relationships	16,910,704
Goodwill	11,271,949
Accounts payable and accrued liabilities	(1,294,398)
	$ 30,000,000

Intangible assets acquired in 2021 have a weighted average useful life of nine years.

Goodwill from this acquisition is deductible for tax purposes. The goodwill represents the acquired employee knowledge of the various markets, distribution knowledge by the employees of the acquired business, as well as the expected synergies resulting from the acquisition.

Acquisition costs incurred related to this acquisition were immaterial and were included in general and administrative expenses.

The acquired company was included in the Company's consolidated financial statements on its acquisition date. The amount of revenue and net income of this acquisition which have been included in the Company's financial statements for the three months ended September 30, 2021 was $5,335,387 and $441,358, respectively. The amount of revenue and net income which has been consolidated into the Company's financial statements for the nine months ended September 30, 2021 was $7,809,883 and $809,005, 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, 2021 and 2020:

	Nine Months Ended September 30,	
	2021 (unaudited)	2020 (unaudited)
Revenue	$ 199,010,439	$ 125,723,467
Net income	$ 26,066,338	$ 14,093,013

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. STOCK-BASED COMPENSATION

Pursuant to the Company's 2020 Equity Incentive Plan (the "Plan"), the Company granted unvested restricted stock units ("RSUs") for the first time on July 15, 2021, payable in shares of common stock upon vesting. The RSUs vest evenly over a four-year period at each anniversary of the grant date. The shares of common stock underlying the RSUs are not considered issued and outstanding until they are vested and common shares are issued. The RSUs do not have voting rights. A full description of the Plan can be found in the Company's Proxy Statement as filed with the SEC on April 16, 2021.

RSU activity for the nine months ended September 30, 2021 is summarized as follows:

	Number of Restricted Stock Units	Weighted Average Grant Value Per Share
Outstanding at December 31, 2020	—	N/A
Granted	17,520	$ 84.19
Vested	—	N/A
Forfeited or canceled	—	N/A
Outstanding at September 30, 2021	17,520	$ 84.19

During the three and nine months ended September 30, 2021, we recorded compensation expense of $76,824 related to RSUs.

14. EARNINGS PER SHARE

We compute basic earnings per share by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes effect of granted incremental restricted stock units.

The following table reconciles basic and diluted weighted average shares used in the computation of earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Numerator	**2021**	**2020**	**2021**	**2020**
Net income	$ 8,330,761	$ 6,608,248	$ 25,363,369	$ 12,193,292
Denominator				
Weighted average basic shares	27,612,597	27,612,597	27,612,597	27,612,597
Dilutive effect of restricted stock units	527	—	176	—
Weighted average diluted shares	27,613,124	27,612,597	27,612,773	27,612,597
Earnings per share				
Basic	$ 0.30	$ 0.24	$ 0.92	$ 0.44
Diluted	$ 0.30	$ 0.24	$ 0.92	$ 0.44

15. SUBSEQUENT EVENTS

The Company completed the acquisition of five businesses in the United States and Canada from two unrelated sellers on October 1, 2021.

In Canada, the Company acquired 1) a company operating under the name of Shadow Shield, a distributor of paint protection film and window film to customers in Canada with locations in Calgary, Alberta and Mississauga, Ontario; 2) a company operating under the name of Shadow Tint, an installer of paint protection and window film operating in Calgary, Alberta; and, 3) a company operating under the name of North 1 Technologies, a software company providing software and patterns for cutting paint protection film to customers around the world under the FilmWraps brand from one seller.

In the United States, the Company acquired 4) 1 One Armor, Inc., an installer of paint protection and window film in Phoenix, Arizona and 5) Tint Net Inc., a high-volume installer of automotive window film providing on-site service primarily to mid-range new car dealerships in Arizona from one seller.

The combined preliminary purchase price of these acquisitions was approximately $20.1 million and is subject to customary adjustments, including working capital adjustments.

These acquisitions were financed with a combination of cash on hand and borrowings from our lines of credit in the United States and Canada.

On November 1, 2021, the Company closed on the acquisition of United Kingdom-based invisiFRAME, Ltd., a leading provider of custom-tailored bicycle frame paint protection kits.

Initial accounting for these acquisitions is not yet complete.

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”). 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 “Business," "Risk Factors,” "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Financial Statements and Supplementary Data" in our annual report on Form 10-K which was filed with the Securities and Exchange Commission (“SEC”) on March 11, 2021 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. Factors to consider when evaluating these forward-looking statements include, but are not limited to:

- One supplier is the main source of our paint protection film.
- We currently rely on one distributor for sales of our products in China.
- A material portion of our business is in China, which may be an unpredictable market and is currently suffering trade tensions with the U.S.
- We must continue to attract, retain and develop key personnel.
- Our accounting estimates and risk management processes rely on assumptions or models that may prove inaccurate.
- We must maintain an effective system of internal control over financial reporting to keep stockholder confidence.
- Our industry is highly competitive.
- Our business is highly dependent on automotive sales and production volumes.
- Our North American market is currently designed for the public’s use of car dealerships to purchase automobiles which may dramatically change.
- Our revenue could be impacted by growing use of ride-sharing or other alternate forms of car ownership.
- The growing popularity of electric vehicles and other technology could impact our revenue or render some of our products obsolete.
- We must be effective in developing new lines of business and new products to maintain growth.
- Any disruptions in our relationships with independent installers and new car dealerships could harm our sales.
- Our strategy related to acquisitions and investments could be unsuccessful or consume significant resources.
- We must maintain and grow our network of sales, distribution channels and customer base to be successful.
- We are exposed to a wide range of risks due to the multinational nature of our business.
- We must continue to manage our rapid growth effectively.
- We are subject to claims and litigation in the ordinary course of our business, including product liability and warranty claims.
- We are an “emerging growth company” which may impact investor perception of our Company.
- We must comply with a broad and complicated regime of domestic and international trade compliance, anti-corruption, economic, intellectual property, cybersecurity, data protection and other regulatory regimes.
- We may seek to incur substantial indebtedness in the future.
- Our growth may be dependent on the availability of capital and funding.
- Our Common Stock could decline or be downgraded at any time.
- Our stock price has been, and may continue to be, volatile.

- We may issue additional equity securities that may affect the priority of our Common Stock.
- We do not currently pay dividends on our Common Stock.
- Shares eligible for future sale may depress our stock price.
- Anti-takeover provisions could make a third party acquisition of our Company difficult.
- Our directors and officers have substantial control over us.
- Our bylaws may limit investors' ability to obtain a favorable judicial forum for disputes.
- The COVID-19 pandemic could materially affect our business.
- Our business faces unpredictable global, economic and business conditions.
- Fluctuations in the cost and availability of raw materials, equipment, labor and transportation could cause manufacturing delays, increase our costs and/or impact our ability to meet customer demand.

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 11, 2021. 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.

Executive Summary

Set forth below is summary financial information for the three and nine months ended September 30, 2021 and 2020. This information is not necessarily indicative of results of future operations, and should be read in conjunction with Part I, Item 1A, "Risk Factors," Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and accompanying notes thereto included in Part II, Item 8 of our annual report on Form 10-K, as filed with the SEC on March 11, 2021, to fully understand factors that may affect the comparability of the information presented below.

Company Overview

Founded in 1997 and incorporated in Nevada in 2003, 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 architectural window film (both commercial and residential) and security film protection for commercial and residential uses, and in 2019 we further expanded our product line to include automotive ceramic coatings.

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 rocks 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 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, and 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 introduced the next generation of our highly successful ULTIMATE line, ULTIMATE PLUS. As 2018 came to a close, we acquired Apogee Corporation which led to formation of XPEL Asia based in Taiwan. In 2020, as a continuation of our get close to the customer strategy, we acquired Protex Centre, a wholesale-focused paint protection installation business based in Montreal, Canada, and expanded our presence in France with the acquisition of certain assets of France Auto Racing. We also expanded our architectural window film presence with the acquisition of Houston based Veloce Innovation, a leading provider of architectural films for use in residential, commercial, marine and industrial settings. In May 2021, we expanded our presence into numerous automotive dealerships throughout the United States through the acquisition of PermaPlate Film, a wholesale-focused automotive window film installation and distribution business based in Salt Lake City, Utah.

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 is founded on 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 product line exposes the Company to several new addressable markets.

Trends and Uncertainties

During the three months ended September 30, 2021, our operations have continued without major negative impacts from either COVID-19 or global supply chain issues. Throughout the first nine months of 2021, revenue has increased substantially in all major geographic areas over the prior year period. Despite continued positive trends, the long-term effects of COVID-19 and/or global supply chain issues on our financial results in future periods could still be significant and cannot be reasonably estimated due to the volatility, uncertainty and economic disruption caused by the pandemic or global supply chain issues. See the risk factor "*The COVID-19 pandemic could materially adversely affect our financial condition and results of operations*" included in Part I, Item 1A "Risk Factors" in our annual report on Form 10-K 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 continuing impact the COVID-19 pandemic or potential global supply chain interruptions will have on our customers, vendors and suppliers or our business; nor can we predict its impact on our results of operations or financial condition. Despite the gradual reduction of restrictions related to the COVID-19 pandemic and the apparent recovery of our operations, significant uncertainty still exists concerning the overall magnitude of the impact and the duration of the COVID-19 pandemic and the resulting economic implications, particularly given the recent increase in COVID-19 related illnesses. For example, automotive sales and production are highly cyclical, and the cyclical nature of the industry has been compounded by the fallout of COVID-19. As supply and demand for automotive products fluctuates or decreases in this unusual business environment, the demand for our products may also fluctuate or decrease. Some automotive manufacturers have announced that they are experiencing a global semiconductor shortage which has affected production of vehicles resulting in low inventories. While we have yet to see a significant impact on the Company's core business, low car dealership inventories have had an impact on the PermaPlate Films' business that we acquired in the second quarter this year. To the extent that this shortage persists and/or begins to impact our core business, it could have a material adverse effect on our business, financial conditions and results of operations. Refer to "Part I, Item 1A Risk Factors" in our Annual Report on Form 10-K for additional consideration of the cyclical nature of the automotive industry. We will continue to closely monitor updates regarding the continuing impact of COVID-19, global supply chain challenges and automotive sales, and we will adjust our operations for changes in those factors.

We and our suppliers depend on various components, compounds and raw materials supplied by others for the manufacturing of our products. While we have not experienced disruptions, supplier relationships could be interrupted in the future due to material shortages, natural and other disasters and other disruptive events, or be terminated. Any sustained interruption in the Company’s receipt of adequate supplies or operations due to natural and other disasters or events could have a material adverse effect on the Company. In addition, disruptions in the global economy in 2020 and the lingering impacts into 2021 have resulted in inflationary cost increases in certain raw materials, labor and transportation. We expect these inflationary trends to continue for some time, and while we believe that we will be able to somewhat offset the impact, there can be no assurances that unforeseen future events in the global supply chain, and inflationary pressures, will not have a material adverse effect on our business, financial condition and results of operations.

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, 2021 and 2020:

	(Unaudited) Three Months Ended September 30,			(Unaudited) Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Net Income	$ 8,330,761	$6,608,248	26.1 %	$25,363,369	$12,193,292	108.0 %
Interest	46,433	68,368	(32.1)%	143,092	173,480	(17.5)%
Taxes	1,841,250	1,736,330	6.0 %	5,958,709	3,250,780	83.3 %
Depreciation	455,792	325,643	40.0 %	1,258,489	889,820	41.4 %
Amortization	734,963	239,571	206.8 %	1,420,347	705,692	101.3 %
EBITDA	$11,409,199	$8,978,160	27.1 %	$34,144,006	$17,213,064	98.4 %

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 an alternative 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, 2021 and 2020:

	Three Months Ended September 30, 2021	% of Total Revenue	Three Months Ended September 30, 2020	% of Total Revenue	$ Change	% Change
Total revenue	$ 68,528,923	100.0 %	$ 46,122,796	100.0 %	$ 22,406,127	48.6 %
Total cost of sales	44,074,368	64.3 %	30,092,964	65.2 %	13,981,404	46.5 %
Gross margin	24,454,555	35.7 %	16,029,832	34.8 %	8,424,723	52.6 %
Total operating expenses	14,087,286	20.6 %	7,616,177	16.5 %	6,471,109	85.0 %
Operating income	10,367,269	15.1 %	8,413,655	18.2 %	1,953,614	23.2 %
Other expenses	195,258	0.3 %	69,077	0.1 %	126,181	182.7 %
Income tax	1,841,250	2.7 %	1,736,330	3.8 %	104,920	6.0 %
Net income	$ 8,330,761	12.2 %	$ 6,608,248	14.3 %	$ 1,722,513	26.1 %

	Nine Months Ended September 30, 2021	% of Total Revenue	Nine Months Ended September 30, 2020	% of Total Revenue	$ Change	% Change
Total revenue	$189,131,008	100.0 %	$110,317,117	100.0 %	$ 78,813,891	71.4 %
Total cost of sales	121,142,794	64.1 %	72,251,320	65.5 %	48,891,474	67.7 %
Gross margin	67,988,214	35.9 %	38,065,797	34.5 %	29,922,417	78.6 %
Total operating expenses	36,401,513	19.2 %	22,027,818	20.0 %	14,373,695	65.3 %
Operating income	31,586,701	16.7 %	16,037,979	14.5 %	15,548,722	96.9 %
Other expenses	264,623	0.1 %	593,907	0.5 %	(329,284)	(55.4)%
Income tax	5,958,709	3.2 %	3,250,780	2.9 %	2,707,929	83.3 %
Net income	$ 25,363,369	13.4 %	$ 12,193,292	11.1 %	$ 13,170,077	108.0 %

The following tables summarize revenue results for the three and nine months ended September 30, 2021 and 2020:

	Three Months Ended September 30,		%	% of Total Revenue	
	2021	2020	Inc (Dec)	2021	2020
Product Revenue					
Paint protection film	$ 43,220,555	$ 31,977,210	35.2 %	63.1 %	69.3 %
Window film	11,401,322	6,302,364	80.9 %	16.6 %	13.7 %
Other	2,374,388	1,248,809	90.1 %	3.4 %	2.7 %
Total	$ 56,996,265	$ 39,528,383	44.2 %	83.2 %	85.7 %
Service Revenue					
Software	$ 1,125,365	$ 889,709	26.5 %	1.6 %	1.9 %
Cutbank credits	3,362,399	2,304,651	45.9 %	4.9 %	5.0 %
Installation labor	6,783,688	3,268,399	107.6 %	9.9 %	7.1 %
Training	261,206	131,654	98.4 %	0.4 %	0.3 %
Total	$ 11,532,658	$ 6,594,413	74.9 %	16.8 %	14.3 %
Total	$ 68,528,923	$ 46,122,796	48.6 %	100.0 %	100.0 %

	Nine Months Ended September 30,		%	% of Total Revenue	
	2021	2020	Inc (Dec)	2021	2020
Product Revenue					
Paint protection film	$ 124,250,391	$ 75,996,444	63.5 %	65.7 %	68.9 %
Window film	29,644,669	15,347,270	93.2 %	15.7 %	13.9 %
Other	6,699,872	2,896,582	131.3 %	3.5 %	2.7 %
Total	$ 160,594,932	$ 94,240,296	70.4 %	84.9 %	85.4 %
Service Revenue					
Software	$ 3,158,337	$ 2,551,177	23.8 %	1.7 %	2.3 %
Cutbank credits	9,384,411	5,529,773	69.7 %	5.0 %	5.0 %
Installation labor	15,256,632	7,681,420	98.6 %	8.1 %	7.0 %
Training	736,696	314,451	134.3 %	0.4 %	0.3 %
Total	$ 28,536,076	$ 16,076,821	77.5 %	15.1 %	14.6 %
Total	$ 189,131,008	$ 110,317,117	71.4 %	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, 2021 and 2020:

	Three Months Ended September 30,		%	% of Total Revenue	
	2021	2020	Inc (Dec)	2021	2020
United States	$ 37,362,839	$ 22,041,941	69.5 %	54.5 %	47.8 %
China	10,571,126	9,397,486	12.5 %	15.4 %	20.4 %
Canada	8,715,209	6,213,949	40.3 %	12.7 %	13.5 %
Continental Europe	4,747,140	3,656,477	29.8 %	6.9 %	7.9 %
Middle East/Africa	2,090,125	1,326,589	57.6 %	3.0 %	2.8 %
United Kingdom	1,987,316	1,481,174	34.2 %	2.9 %	3.2 %
Asia Pacific	1,972,919	1,454,119	35.7 %	2.9 %	3.2 %
Latin America	944,668	537,892	75.6 %	1.4 %	1.2 %
Other	137,581	13,169	944.7 %	0.3 %	0.0 %
Total	$ 68,528,923	$ 46,122,796	48.6 %	100.0 %	100.0 %

	Nine Months Ended September 30,		%	% of Total Revenue	
	2021	2020	Inc (Dec)	2021	2020
United States	$ 97,263,389	$ 53,713,708	81.1 %	51.4 %	48.7 %
China	33,902,146	21,409,365	58.4 %	17.9 %	19.4 %
Canada	22,538,245	14,347,313	57.1 %	11.9 %	13.0 %
Continental Europe	14,286,185	9,347,780	52.8 %	7.6 %	8.5 %
Middle East/Africa	6,466,319	3,177,155	103.5 %	3.4 %	2.9 %
United Kingdom	5,906,315	3,228,322	83.0 %	3.1 %	2.9 %
Asia Pacific	5,620,834	3,365,354	67.0 %	3.0 %	3.1 %
Latin America	2,890,526	1,499,944	92.7 %	1.5 %	1.4 %
Other	257,049	228,176	12.7 %	0.2 %	0.1 %
Total	$ 189,131,008	$ 110,317,117	71.4 %	100.0 %	100.0 %

Product Revenue. Product revenue for the three months ended September 30, 2021 increased 44.2% over the three months ended September 30, 2020. Product revenue represented 83.2% of our total revenue compared to 85.7% in the three months ended September 30, 2019. Within product revenue, revenue from our paint protection film product line increased 35.2% over the three months ended September 30, 2020. Paint protection film sales represented 63.1% and 69.3% of our total consolidated revenues for the three months ended September 30, 2021 and 2020, respectively. The increase in paint protection film sales was primarily attributable to continued strong demand for our film products in all of our operating regions. Revenue from our window film product line grew 80.9% for the three months ended September 30, 2021. Window film sales represented 16.6% and 13.7% of our total consolidated revenues for the three months ended September 30, 2021 and 2020, respectively. Growth in this product line was due primarily to increased demand in most operating regions stemming from strong channel execution and increased product adoption.

Product revenue for the nine months ended September 30, 2021 increased 70.4% over the nine months ended September 30, 2020. Within product revenue, sales of paint protection film for the nine months ended September 30, 2021 increased by 63.5% over the same period in 2020. The increase in paint protection film sales was primarily attributable to continued strong demand for our products throughout our operating regions. Also within product revenue, window film revenue for the nine months ended September 30, 2021 increased 93.2% over the same period in 2020 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 use of our DAP software, cutbank credit 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 74.9% over the three months ended September 30, 2020. Software revenue increased 26.5% over the three months ended September 30, 2020. This increase was due primarily to increases in total subscribers to our DAP software. Cutbank credit revenue increased 45.9% compared to the prior year period due to wide-spread growth in our paint protection film sales in the United States and Canada. Installation labor revenue increased 107.6% over the three months ended September 30, 2020. Excluding acquisition related growth, installation labor revenue increased 17.1% during the three months ended September 30, 2021 due primarily to increased demand for installation services primarily in the United States, Canada, and Europe. Training revenue increased 98.4% over the three months ended September 30, 2020. Training for the prior year period was heavily impacted by COVID-19 related restrictions and these impacts are less significant in the 2021 period.

Service revenue for the nine months ended September 30, 2021 grew 77.5% over the nine months ended September 30, 2020. Software revenue grew 23.8% over the nine months ended September 30, 2020. This increase was due primarily to increases in total subscribers to our DAP software. Cutbank credit revenue increased 69.7% over the nine months ended September 30, 2020 due mainly to the increased demand in product revenue in the United States and Canada. Installation labor increased 98.6% over the nine months ended September 30, 2020. Excluding acquisition related growth, installation labor revenue increased 41.4% during the nine months ended September 30, 2021. This was due to a significant increase in demand for installation services in North America and Europe. Training revenue increased 134.3% over the nine months ended September 30, 2020. Training for the prior year period was heavily impacted by COVID-19 related restrictions and these impacts are less significant in the 2021 period.

Total installation revenue (labor and product combined) at our installation centers increased 107.6% over the three months ended September 30, 2020. This represented 11.8% and 8.4% of our total consolidated revenue for the three months ended September 30, 2021 and 2020, respectively. Excluding acquisition related growth, total installation revenue grew 17.1%. Total installation revenue increased 98.6% over the nine months ended September 30, 2020 due primarily to increased demand for installation services in the United States, Canada and Europe. This represented 9.6% and 8.3% of our total consolidated revenue for the nine months ended September 30, 2021 and 2020, respectively. Excluding acquisition related growth, total installation revenue grew 41.4% over the nine months ended September 30, 2021.

Adjusted product revenue, which combines the cutbank credit revenue service component with product revenue, increased 44.3% over the three months ended September 30, 2021 due mainly to wide-spread increased demand. Adjusted product revenue increased 70.4% versus the nine months ended September 30, 2021.

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 46.5% over the three months ended September 30, 2020 as a result of increased sales volume. Product costs in the three months ended September 30, 2021 increased 39.9% over the three months ended September 30, 2020. This increase was the result of the increased sales of our products during the 2021 quarter. Cost of product sales represented 57.9% and 61.5% of total revenue in the three months ended September 30, 2021 and 2020, respectively. Cost of service revenue grew 153.8% during the three months ended September 30, 2021 due mainly to the increased installation labor costs associated with a larger installation footprint following our May 2021 PermaPlate acquisition as well as increased installation sales.

Cost of sales increased 67.7% in the nine months ended September 30, 2021 over the nine months ended September 30, 2020 as a result of increased sales volume. Product costs in the nine months ended September 30, 2021 increased 65.2% over the nine months ended September 30, 2020. This increase was due primarily to increased demand for our products during the 2021 period. Cost of product sales represented 59.1% and 61.4% of total revenue in the nine months ended September 30, 2021 and 2020, respectively. This relative decrease was the result of certain economies of scale attained during the 2021 period. Cost of service revenue grew 103.9% during the nine months ended September 30, 2021 due mainly to the increased installation labor costs associated with a larger installation footprint following our May 2021 PermaPlate acquisition as well as increased installation sales.

Gross Margin

Gross margin for the three months ended September 30, 2021 grew approximately $8.4 million, or 52.6%, from the three months ended September 30, 2020. For the three months ended September 30, 2021, gross margin represented 35.7% of revenue.

Gross margin for the nine months ended September 30, 2021 grew approximately $29.9 million, or 78.6%, from the nine months ended September 30, 2020. For the nine months ended September 30, 2021, gross margin represented 35.9% of revenue. The following tables summarize gross margin for product and services for the three and nine months ended September 30, 2021 and 2020:

	Three Months Ended September 30,		%	% of Category Revenue	
	2021	2020	Inc (Dec)	2021	2020
Product	$ 17,295,638	$ 11,158,501	55.0%	30.3%	28.2%
Service	7,158,917	4,871,331	47.0%	62.1%	73.9%
Total	$ 24,454,555	$ 16,029,832	52.6%	35.7%	34.8%

	Nine Months Ended September 30,		%	% of Category Revenue	
	2021	2020	Inc (Dec)	2021	2020
Product	$ 48,755,447	$ 26,552,305	83.6%	30.4%	28.2%
Service	19,232,767	11,513,492	67.0%	67.4%	71.6%
Total	$ 67,988,214	$ 38,065,797	78.6%	35.9%	34.5%

Product gross margin for the three months ended September 30, 2021 increased approximately $6.1 million, or 55.0%, over the three months ended September 30, 2020 and represented 30.3% and 28.2% of total product revenue for the three months ended September 30, 2021 and 2020, respectively. This increase was due primarily to increases in revenue, changes in revenue mix, improvements in product costs and operating leverage.

Product gross margin for the nine months ended September 30, 2021 increased approximately $22.2 million, or 83.6%, over the nine months ended September 30, 2020 and represented 30.4% and 28.2% of total product revenue for the nine months ended September 30, 2021 and 2020, 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 $2.3 million, or 47.0%, over the three months ended September 30, 2020. This represented 62.1% and 73.9% of total service revenue for the three months ended September 30, 2021 and 2020, respectively. The Company added additional installers in connection with its PermaPlate Film acquisition (Note 12). PermaPlate Film's business is more correlated to the arrival of new vehicles at car dealerships rather than new car sales. As a consequence of low new car inventories, our PermaPlate Film business is operating at approximately 70% capacity resulting in lower service margins.

Service gross margin increased approximately $7.7 million, or 67.0%, over the nine months ended September 30, 2020. This represented 67.4% and 71.6% of total service revenue for the nine months ended September 30, 2021 and 2020, respectively. The relative decrease in service gross margin percentage for the nine months ended September 30, 2020 was due primarily to the impact of our PermaPlate Film business operating at reduced capacity as described above.

Operating Expenses

Sales and marketing expenses for the three months ended September 30, 2021 increased 110.7% compared to the same period in 2020. These expenses represented 7.2% and 5.0% of total consolidated revenue for the three months ended September 30, 2021 and 2020, respectively. This increase was due primarily to acquisition related expansion, hiring of sales personnel, and increases in marketing related expenses to support the ongoing growth of the business.

For the nine months ended September 30, 2021, sales and marketing expenses increased 85.7% compared to the same period in 2020. These expenses represented 6.9% and 6.3% of total consolidated revenue for the nine months ended September 30, 2021 and 2020, respectively. This increase was due primarily to acquisition related expansion, hiring of sales personnel, and increases in marketing related expenses to support the ongoing growth of the business.

General and administrative expenses grew approximately $3.9 million, or 73.6% over the three months ended September 30, 2020. These costs represented 13.4% and 11.5% of total consolidated revenue for the three months ended September 30, 2021 and 2020, respectively. Excluding acquisition related expenses, general and administrative costs for the three months ended September 30, 2021 increased by approximately 61.3% and represented approximately 12.4% of total consolidated revenue. 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 $8.4 million, or 55.8%, during the nine months ended September 30, 2021 over the same period in 2020. These costs represented 12.4% and 13.6% of total consolidated revenue for the nine months ended September 30, 2021 and 2020, 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. Excluding acquisition related expenses, general and administrative costs for the nine months ended September 30, 2021 increased by approximately 48.8% and represented approximately 11.8% of total consolidated revenue.

Income Tax Expense

Income tax expense for the three months ended September 30, 2021 increased $0.1 million from the three months ended September 30, 2020, Our effective tax rate was 18.1% for the three months ended September 30, 2021 compared with 20.8% for the three months ended September 30, 2020. The decrease in the effective rate was due primarily to increased deductions related to foreign-derived intangible income ("FDII") in connection with the 2017 Tax Reform and Jobs Act and increased research and development credits associated with our research and development activities.

Income tax expense for the nine months ended September 30, 2021 increased $2.7 million from the same period in 2020, Our effective tax rate was 19.0% for the nine months ended September 30, 2021 compared with 21.0% for the nine months ended September 30, 2020. The decrease in the effective rate was due primarily to increased deductions related to FDII in connection with the 2017 Tax Reform and Jobs Act and increased research and development credits associated with our research and development activities.

Net Income

Net income for the three months ended September 30, 2021 increased 26.1% to $8.3 million.

Net income for the nine months ended September 30, 2021 increased 108.0% to $25.4 million.

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, 2021, we had cash and cash equivalents of $7.8 million. For the nine months ended September 30, 2021, cash flows provided by operations were $20.2 million. We expect to continue to have sufficient access to cash 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 $20.2 million for the nine months ended September 30, 2021, compared to $14.2 million for the nine months ended September 30, 2020. This increase was due mainly to increases in operating earnings, with net income more than doubling over the prior year period, and changes in working capital.

Investing activities. Cash flows used in investing activities totaled approximately $35.7 million during the nine months ended September 30, 2021 compared to $2.9 million during the nine months ended September 30, 2020. This increase was due mainly to the acquisition of PermaPlate Films (Note 12) and purchases of fixed assets as the Company expands its operating locations.

Financing activities. Cash flows used in financing activities during the nine months ended September 30, 2021 totaled approximately $5.6 million compared to cash inflows of $4.2 million in the prior year. This cash use was due primarily payments on term loans.

Debt obligations as of September 30, 2021 and December 31, 2020 totaled approximately $0.6 million and $6.1 million, respectively.

Credit Facilities

As of September 30, 2021, we had a $57 million revolving line of credit agreement with Texas Partners Bank (which does business as the Bank of San Antonio) and a CAD $4.5 million revolving credit facility maintained by our Canadian subsidiary. The Texas Partners Bank facility was established on May 21, 2021 and replaced an $8.5 million revolving facility and a $6 million term loan facility. The outstanding balances on the prior loan agreements were fully repaid by the Company and the agreements were terminated when we entered into the new facility. The facility is utilized to fund our working capital needs and other strategic initiatives and is secured by a security interest in substantially all of our current and future assets. Borrowings under the credit agreement bear interest on borrowed amounts at the *Wall Street Journal* U.S. Prime Rate less 0.75% per annum if the Company's EBITDA ratio (as defined in the facility) is equal to or less than 2.00 to 1.00 or the *Wall Street Journal* U.S. Prime rate less 0.25% if the Company's EBITDA ratio is greater than 2.00 to 1.00. The interest rate for this credit facility as of September 30, 2021 was 2.50%. The Company paid interest charges on borrowings under this facility of $45,292 during the nine months ended September 30, 2021. As of September 30, 2021, no balance was outstanding on this line. This facility matures on July 5, 2024.

The Loan Agreement governing the facility contains customary covenants relating to maintaining legal existence and good standing, complying with applicable laws, delivery of financial statements, payment of taxes and maintaining insurance. The Loan Agreement contains two financial covenants. The Company must maintain:

1. Senior Funded Debt divided (as defined in the Loan Agreement) by EBITDA (as defined in the Loan Agreement) at or below 3.50 : 1.00 when tested at the end of each fiscal quarter on a rolling four-quarter basis, and

2. A minimum Debt Service Coverage Ratio (as defined in the Loan Agreement) of 1.25 : 1.00 at the end of each fiscal quarter when measured on a rolling four-quarter basis.

XPEL Canada Corp., a wholly-owned subsidiary of XPEL, Inc., also has a 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 0.25% per annum and is guaranteed by the parent company. As of September 30, 2021 and December 31, 2020, 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 11, 2021.

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 11, 2021.

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, 2021 and December 31, 2020, 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 11, 2021, 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 11, 2021 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.

Fluctuations in the cost and availability of raw materials, equipment, labor and transportation could cause manufacturing delays, increase our costs and/or impact our ability to meet customer demand.

The price and availability of key components used to manufacture our products may fluctuate significantly. Any fluctuations and the cost and availability of any of our products and/or any interruptions in the delivery of our products could harm our gross margins and our ability to meet customer demand. If we are unable to successfully mitigate these cost increases, supply interruptions and/or labor shortages, our results of operations could be affected.

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

During the nine months ended September 30, 2021, the Company did not issue any shares of its common stock of the Company that were not registered under the Securities Act of 1933, as amended.

Pursuant to the Company's 2020 Equity Incentive Plan (the "Plan"), the Company granted unvested restricted stock units ("RSUs") for the first time on July 15, 2021, payable in shares of common stock upon vesting. The RSUs vest evenly over a four-year period at each anniversary of the grant date. The shares of common stock underlying the RSUs are not considered issued and outstanding until they are vested and common shares are issued. The RSUs do not have voting rights.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Pursuant to the Company's 2020 Equity Incentive Plan (the "Plan"), the Company granted unvested restricted stock units ("RSUs") for the first time on July 15, 2021, payable in shares of common stock upon vesting. The RSUs vest evenly over a four-year period at each anniversary of the grant date. The shares of common stock underlying the RSUs are not considered issued and outstanding until they are vested and common shares are issued. The RSUs do not have voting rights.

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	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	Filed herewith
31.2	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	Filed herewith
32.1	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	Furnished herewith
32.2	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	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 9, 2021

EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302(A) OF THE SARBANES-OXLEY ACT OF 2002

I, Ryan L. Pape, certify that:

Date: November 9, 2021

1. I have reviewed this Quarterly Report on Form 10-Q of XPEL, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Ryan L. Pape
Ryan L. Pape
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 9, 2021

EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302(A) OF THE SARBANES-OXLEY ACT OF 2002

I, Barry R. Wood, certify that:

Date: November 9, 2021

1. I have reviewed this Quarterly Report on Form 10-Q of XPEL, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Barry R. Wood
Barry R. Wood
Senior Vice President
Chief Financial Officer
(Principal Financial Officer)

Date: November 9, 2021

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. 1350
(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

I, Ryan L. Pape, President and Chief Executive Officer of XPEL, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certificate is being furnished solely for the purposes of 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

/s/ Ryan L. Pape
Ryan L. Pape
President and Chief Executive Officer

Date: November 9, 2021

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. 1350
(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

I, Barry R.Wood, Senior Vice President and Chief Financial Officer of XPEL, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certificate is being furnished solely for the purposes of 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

/s/ Barry R. Wood
Barry R. Wood
Senior Vice President and Chief Financial Officer

Date: November 9, 2021