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 March 31, 2022

OR

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

For the transition period from to

Commission file number 001-38858

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.)

3251 I-35	**San Antonio**	**Texas**	**78219**
(Address of Principal Executive Offices)			(Zip Code)

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

618 W. Sunset Road, San Antonio, Texas 78216
(Former name, former address and former fiscal year, if changed since last report)

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.:

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 May 10, 2022.

TABLE OF CONTENTS

Part I. Financial Information

Item 1. Financial Statements

XPEL, INC.

Condensed Consolidated Balance Sheets

	(Unaudited) March 31, 2022	(Audited) December 31, 2021
Assets		
Current		
Cash and cash equivalents	$ 10,595,557	$ 9,644,248
Accounts receivable, net	15,178,627	13,159,036
Inventory, net	74,486,843	51,936,164
Prepaid expenses and other current assets	3,749,690	3,671,657
Income tax receivable	—	617,141
Total current assets	104,010,717	79,028,246
Property and equipment, net	11,364,205	9,898,126
Right-of-use lease assets	14,443,369	12,909,607
Intangible assets, net	31,977,505	32,732,771
Other non-current assets	851,431	790,339
Goodwill	25,614,110	25,655,428
Total assets	$ 188,261,337	$ 161,014,517
Liabilities		
Current		
Current portion of notes payable	$ 351,674	$ 375,413
Current portion lease liabilities	3,732,825	2,977,794
Accounts payable and accrued liabilities	42,357,330	32,914,615
Income tax payable	656,090	—
Total current liabilities	47,097,919	36,267,822
Deferred tax liability, net	2,702,639	2,748,283
Other long-term liabilities	2,429,332	2,630,486
Borrowings on line of credit	33,000,000	25,000,000
Non-current portion of lease liabilities	10,790,979	9,830,128
Non-current portion of notes payable	—	75,717
Total liabilities	96,020,869	76,552,436
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	10,651,532	10,581,483
Accumulated other comprehensive loss	(685,240)	(590,446)
Retained earnings	82,246,563	74,443,431
Total stockholders' equity	92,240,468	84,462,081
Total liabilities and stockholders' equity	$ 188,261,337	$ 161,014,517

See notes to condensed consolidated financial statements.

XPEL, INC.

Condensed Consolidated Statements of Income (Unaudited)

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Revenue		
Product revenue	$ 58,097,446	$ 44,931,353
Service revenue	13,766,321	6,934,761
Total revenue	71,863,767	51,866,114
Cost of Sales		
Cost of product sales	38,193,987	31,546,547
Cost of service	5,953,347	2,033,136
Total cost of sales	44,147,334	33,579,683
Gross Margin	27,716,433	18,286,431
Operating Expenses		
Sales and marketing	6,311,220	3,387,830
General and administrative	11,369,291	6,351,491
Total operating expenses	17,680,511	9,739,321
Operating Income	10,035,922	8,547,110
Interest expense	219,726	52,719
Foreign currency exchange loss	5,126	35,612
Income before income taxes	9,811,070	8,458,779
Income tax expense	2,007,938	1,611,720
Net income	7,803,132	6,847,059
Earnings per share		
Basic	$ 0.28	$ 0.25
Diluted	$ 0.28	$ 0.25
Weighted Average Number of Common Shares		
Basic	27,612,597	27,612,597
Diluted	27,612,597	27,612,597

See notes to condensed consolidated financial statements.

XPEL, INC.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended March 31,	
	2022	2021
Other comprehensive income		
Net income	$ 7,803,132	$ 6,847,059
Foreign currency translation	(94,794)	(210,135)
Total comprehensive income	7,708,338	6,636,924

See notes to condensed consolidated financial statements.

XPEL, INC.

Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

Stockholders' Equity - Three Months Ended March 31

	Common Stock		Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balance as of December 31, 2020	27,612,597	$ 27,613	$ 10,412,471	$ 42,876,569	$ 66,215	$ 53,382,868
Net income	—	—	—	6,847,059	—	6,847,059
Foreign currency translation	—	—	—	—	(210,135)	(210,135)
Balance as of March 31, 2021	27,612,597	27,613	10,412,471	49,723,628	(143,920)	60,019,792
Balance as of December 31, 2021	27,612,597	27,613	10,581,483	74,443,431	(590,446)	84,462,081
Net income	—	—	—	7,803,132	—	7,803,132
Foreign currency translation	—	—	—	—	(94,794)	(94,794)
Stock-based compensation	—	—	70,049	—	—	70,049
Balance as of March 31, 2022	27,612,597	$ 27,613	$ 10,651,532	$ 82,246,563	$ (685,240)	$ 92,240,468

See notes to condensed consolidated financial statements.

XPEL, INC.

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended March 31,	
	2022	2021
Cash flows from operating activities		
Net income	$ 7,803,132	$ 6,847,059
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation of property, plant and equipment	756,344	383,090
Amortization of intangible assets	1,076,466	262,606
(Gain) loss on sale of property and equipment	(14,277)	2,031
Stock compensation	70,049	—
Bad debt expense	65,599	93,030
Deferred income tax	(38,477)	23,655
Accretion on notes payable	2,659	8,945
Changes in assets and liabilities:		
Accounts receivable	(2,125,248)	(124,628)
Inventory, net	(22,584,492)	(2,612,306)
Prepaid expenses and other current assets	(77,949)	(685,955)
Income taxes receivable and payable	1,281,199	270,946
Other assets	74,262	(113,145)
Accounts payable and accrued liabilities	9,401,254	4,571,640
Net cash (used in) provided by operating activities	(4,309,479)	8,926,968
Cash flows used in investing activities		
Purchase of property, plant and equipment	(2,270,513)	(1,405,376)
Proceeds from sale of property and equipment	42,141	238
Development of intangible assets	(363,837)	(114,048)
Net cash used in investing activities	(2,592,209)	(1,519,186)
Cash flows from financing activities		
Net borrowings on revolving credit agreement	8,000,000	—
Repayments of notes payable	(107,954)	(723,236)
Net cash provided by (used in) financing activities	7,892,046	(723,236)
Net change in cash and cash equivalents	990,358	6,684,546
Foreign exchange impact on cash and cash equivalents	(39,049)	(96,193)
Increase in cash and cash equivalents during the period	951,309	6,588,353
Cash and cash equivalents at beginning of period	9,644,248	29,027,124
Cash and cash equivalents at end of period	$ 10,595,557	$ 35,615,477
Supplemental schedule of non-cash activities		
Non-cash lease financing	$ 2,388,964	$ 1,377,579
Supplemental cash flow information		
Cash paid for income taxes	$ 769,802	$ 1,356,299
Cash paid for interest	$ 216,007	$ 45,003

See notes to condensed consolidated financial statements.

1. INTERIM FINANCIAL INFORMATION

The accompanying (a) condensed consolidated balance sheet as of December 31, 2021, which has been derived from audited financial statements, and (b) unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2022 and 2021 have been prepared by XPEL, Inc. (“XPEL” or the “Company”) in accordance with accounting principles generally accepted in the United States of America for interim financial information, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Pursuant to these rules and regulations, certain financial information and footnote disclosures normally included in the financial statements have been condensed or omitted. However, in the opinion of management, the financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position, results of operations and cash flows of the interim periods presented. Operating results for the interim periods presented are not necessarily indicative of results to be expected for the full year or for any other interim period, due to variability in customer purchasing patterns and seasonal, operating and other factors.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company’s Annual Report on Form 10-K as filed with the SEC on February 28, 2022 (the "Annual Report"). 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.

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 subsidiaries. Intercompany accounts and transactions have been eliminated.

The functional currency for the Company is the United States ("U.S.") Dollar. The assets and liabilities of each of its foreign subsidiaries are translated into U.S. Dollars using the exchange rate as 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 loss 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 follows:

Subsidiaries	Functional Currency	Inc.
XPEL, Ltd.	UK Pound Sterling	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%
1 One Armor, Inc.	US Dollar	100%
TintNet, Inc.	US Dollar	100%
North 1 Technologies, Inc.	Canadian Dollar	100%
1716808 Alberta, Ltd. o/a Shadow Tint	Canadian Dollar	100%
6873391 Canada, Ltd. o/a Shadow Shield	Canadian Dollar	100%
invisiFRAME, Ltd.	UK Pound Sterling	100%

Segment Reporting - Management has concluded that our chief operating decision maker ("CODM") is our chief executive officer. The Company's CODM reviews the entire organization's consolidated results 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 as of 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 $238,736 and $250,082 as of March 31, 2022 and December 31, 2021, 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 March 31, 2022 or December 31, 2021.

Provisions and Warranties - We provide a warranty on our products. Liability under the warranty policy is based on a review of historical warranty claims. Adjustments are made to the accruals as claims and data experience warrant. Our liability for warranties as of March 31, 2022 and December 31, 2021 was $152,365 and $75,329, respectively. The following tables present a summary of our accrued warranty liabilities for the three months ended March 31, 2022 and the twelve months ended December 31, 2021:

		2022
Warranty liability, January 1	$	75,329
Warranties assumed in period		137,517
Payments		(60,481)
Warranty liability, March 31	$	152,365

		2021
Warranty liability, January 1	$	52,006
Warranties assumed in period		398,075
Payments		(374,752)
Warranty liability, December 31	$	75,329

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 our consolidated financial statements.

3. REVENUE

Revenue recognition

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

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

The Company generates substantially all of its revenue from contracts with customers, whether formal or implied. Sales taxes collected from customers are remitted to the appropriate taxing jurisdictions 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.

Revenue from product and services sales is recognized when control of the goods, or benefit of the service, is furnished to the customer. This 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 those present are immaterial. Discounts provided by the Company to customers at the time of sale are recognized as a reduction in sales as the products are sold.

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

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

Under its contracts with customers, the Company stands ready to deliver product upon receipt of a purchase order. Accordingly, the Company has no performance obligations under its contracts until its customers submit a purchase order. The Company does not enter into commitments to provide goods or services that have terms greater than one year. In limited cases, the Company does require payment in advance of shipping product. Typically, product is shipped within a few days after prepayment is received. These prepayments are recorded as contract liabilities on the condensed 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 the Accounting Standards Codification Topic 606 ("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 months ended March 31, 2022:

Balance, December 31, 2021	$ 817,955
Revenue recognized related to payments included in the December 31, 2021 balance	(556,422)
Payments received for which performance obligations have not been satisfied	180,901
Balance, Effect of foreign currency translation	(1,690)
Balance, March 31, 2022	$ 440,744

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

	Three Months Ended March 31,	
	2022	**2021**
Product Revenue		
Paint protection film	$ 43,960,520	$ 35,784,433
Window film	11,533,740	7,159,291
Other	2,603,186	1,987,629
Total	58,097,446	44,931,353
Service Revenue		
Software	$ 1,206,636	$ 978,019
Cutbank credits	2,929,885	2,635,835
Installation labor	9,255,739	3,114,502
Training	349,778	206,405
Other	24,283	—
Total	13,766,321	6,934,761
Total	$ 71,863,767	$ 51,866,114

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 March 31, 2022	Three Months Ended March 31, 2021
United States	$ 41,586,791	$ 25,604,612
China	8,858,744	10,705,495
Canada	7,850,256	4,946,175
Continental Europe	5,662,921	4,324,510
United Kingdom	2,427,777	1,785,796
Middle East/Africa	2,049,348	1,962,630
Asia Pacific	2,032,635	1,591,575
Latin America	1,205,967	916,578
Other	189,328	28,743
Total	$ 71,863,767	$ 51,866,114

Our largest customer accounted for 12.3% and 20.6% of our net sales during the three months ended March 31, 2022 and 2021, respectively.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	March 31, 2022	December 31, 2021
Furniture and fixtures	$ 2,380,478	$ 2,146,522
Computer equipment	2,451,520	2,201,462
Vehicles	857,663	821,678
Equipment	4,232,513	3,571,517
Leasehold improvements	5,316,338	5,137,705
Plotters	2,325,327	2,132,930
Construction in Progress	581,104	117,505
Total property and equipment	18,144,943	16,129,319
Less: accumulated depreciation	6,780,738	6,231,193
Property and equipment, net	$ 11,364,205	$ 9,898,126

Depreciation expense for the three months ended March 31, 2022 and 2021 was $756,344 and $383,090, respectively.

5. INTANGIBLE ASSETS, NET

Intangible assets consists of the following:

	March 31, 2022	December 31, 2021
Trademarks	$ 503,350	$ 500,136
Software	3,791,035	3,431,276
Trade name	2,523,159	2,578,877
Contractual and customer relationships	31,350,376	31,325,826
Non-compete	463,237	458,655
Other	698,120	692,862
Total at cost	39,329,277	38,987,632
Less: Accumulated amortization	7,351,772	6,254,861
Intangible assets, net	$ 31,977,505	$ 32,732,771

Amortization expense for the three months ended March 31, 2022 and 2021 was $1,076,466 and $262,606, respectively.

6. GOODWILL

The following table summarizes goodwill transactions for the three months ended March 31, 2022 the twelve months ended December 31, 2021:

	2022
Balance at December 31, 2021	$ 25,655,428
Open period adjustments for 2021 acquisitions not yet finalized	(37,585)
Foreign Exchange	(3,733)
Balance at March 31, 2022	$ 25,614,110

	2021
Balance at December 31, 2020	$ 4,472,217
Additions	21,284,381
Foreign Exchange	(101,170)
Balance at December 31, 2021	$ 25,655,428

7. INVENTORIES

The components of inventory are summarized as follows:

	March 31, 2022	December 31, 2021
Raw materials	$ 7,684,430	$ 2,698,512
Work in process	3,720,554	180,009
Finished goods	63,081,859	49,057,643
	$ 74,486,843	$ 51,936,164

8. DEBT

REVOLVING FACILITIES

The Company has a $75,000,000 revolving line of credit with Texas Partners Bank (which does business as the Bank of San Antonio). 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 at the *Wall Street Journal* U.S. Prime Rate less 0.75% per annum if the Company's EBITDA ratio (as defined in the Loan Agreement governing 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 facility also includes a fee of 0.25% of the unused capacity on the facility. The interest rate for this credit facility as of March 31, 2022 and December 31, 2021 was 2.75% and 2.50%, respectively. The Company paid interest charges on borrowings under this facility of $216,007 during the three months ended March 31, 2022, and had a balance of $33,000,000 and $25,000,000 as of March 31, 2022 and December 31, 2021, respectively. 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.

The Company also has a CAD $4.5 million revolving credit facility through HSBC Bank Canada, and is maintained by XPEL Canada Corp., a wholly-owned subsidiary of XPEL. This Canadian 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 March 31, 2022 and December 31, 2021, no balance was outstanding on this line of credit.

As of March 31, 2022 and December 31, 2021, the Company was in compliance with all debt covenants.

NOTES PAYABLE

As part of its acquisition strategy, the Company may use a combination of cash and unsecured non-interest bearing promissory notes payable to fund its business acquisitions. The Company discounts the promissory note to fair value using market interest rates at the time of the acquisition.

Notes payable are summarized as follows:

	Weighted Average Interest Rate	Matures	March 31, 2022	December 31, 2021
Face value of acquisition notes payable	2.81%	2023	$ 355,918	$ 458,188
Unamortized discount			(4,244)	(7,058)
Current portion			(351,674)	(375,413)
Total long-term debt			$ —	$ 75,717

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	March 31, 2022	December 31, 2021
Trade payables	$ 36,177,802	$ 25,174,805
Payroll liabilities	2,063,180	3,385,307
Contract liabilities	440,744	817,955
Acquisition holdback payments	2,018,311	2,007,294
Other liabilities	1,657,293	1,529,254
	$ 42,357,330	$ 32,914,615

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, our line of credit, and long-term debt. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, our line of credit, 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.

The Company incurred contingent liabilities in relation to the 2021 acquisition of invisiFRAME Ltd. and the 2020 acquisition of Veloce Innovation. The payments 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:

	March 31, 2022	December 31, 2021
Level 3:		
Contingent Liabilities	$ 2,493,860	$ 2,665,033

We assessed the fair value of our contingent consideration liabilities as of March 31, 2022 and reduced the carrying value of our Veloce-related contingent liability by $50,000. This reduction is reflected in general and administrative expenses in the Condensed Consolidated Statement of Income for the three months ended March 31, 2022. The remainder of the decrease in our contingent liabilities is attributable to foreign currency fluctuations or to non-finalized acquisition related valuations. These decreases are recorded in accumulated other comprehensive loss and goodwill, respectively.

11. COMMITMENTS AND CONTINGENCIES

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

12. 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 March 31,	
Numerator	2022	2021
Net income	$ 7,803,132	$ 6,847,059
Denominator		
Weighted average basic shares	27,612,597	27,612,597
Dilutive effect of restricted stock units	—	—
Weighted average diluted shares	27,612,597	27,612,597
Earnings per share		
Basic	$ 0.28	$ 0.25
Diluted	$ 0.28	$ 0.25

13. ACQUISITIONS OF BUSINESS

We acquired seven business during the twelve months ended December 31, 2021. The purchase price and purchase price allocation for acquisitions completed after May 2021 have not been finalized and remain preliminary in nature. These figures will be finalized within one year of the acquisition date.

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 the Annual Report which 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:

- We could be impacted by disruptions in supply.
- 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.
- 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 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, including the risk of inflation in various markets.

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 in the Annual Report. These factors are not necessarily all of the factors that could affect us. Unpredictable or unanticipated factors we have not discussed in this report could also have material adverse effects on actual results. We do not intend to update our description of important factors each time a potential important factor arises, except as required by applicable securities laws and regulations. We advise our shareholders that they should (1) be aware that factors not referred to above could affect the accuracy of our forward-looking statements and (2) use caution when considering our forward-looking statements.

Company Overview

Founded in 1997 and incorporated in 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.

Our over-arching strategic philosophy centers around our view that being closer to the end customer in terms of our channel strategy affords us a better opportunity to efficiently introduce new products and deliver tremendous value which, in turn, drives more revenue growth for the Company. Since 2014, we have executed on several strategic initiatives including:

- 2014 - We began our international expansion by establishing an office in the United Kingdom.
- 2015 - We acquired Parasol Canada, a distributor of our products in Canada.
- 2016 - We opened our XPEL Netherlands office and established our European headquarters
- 2017
    - We continued our international expansion with the acquisition of Protex Canada Corp., or Protex Canada, a leading franchisor of automotive protective film franchises serving Canada, and
    - We opened our XPEL Mexico office.
- 2018

- We launched our first product offering outside of the automotive industry, a window and security film protection for commercial and residential uses.
- We introduced the next generation of our highly successful ULTIMATE line, ULTIMATE PLUS.
- We acquired Apogee Corporation which led to formation of XPEL Asia based in Taiwan.

- 2019
  - We were approved for the listing of our stock on Nasdaq trading under the symbol "XPEL".
- 2020
  - We acquired Protex Centre, a wholesale-focused paint protection installation business based in Montreal, Canada.
  - We expanded our presence in France with the acquisition of certain assets of France Auto Racing.
  - We 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.
- 2021
  - We expanded our presence into numerous automotive dealerships throughout the United States with the acquisition of PermaPlate Film, LLC, a wholesale-focused automotive window film installation and distribution business based in Salt Lake City, Utah.
  - We acquired five businesses in the United States and Canada from two sellers as a continuation of our acquisition strategy. These acquisitions allowed us to continue to increase our penetration into mid-range dealerships in the US and solidify our presence in Western Canada.
  - We acquired invisiFRAME, Ltd, a designer and manufacturer of paint protection film patterns for bicycles, thus further expanding our non-automotive offerings.

Strategic Overview

XPEL is currently pursuing several key strategic initiatives to drive continued growth. Our global expansion strategy includes establishing a local presence where possible, allowing us to better control the delivery of our products and services. We will continue 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 pursuing 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 our global reach. As we expand globally, we strive to tailor our distribution model to adapt to target markets. We believe this flexibility allows us to penetrate and grow market share more efficiently. Our acquisition strategy centers on our belief that the closer the Company is to its end customers, the greater its ability to drive increased product sales. In our last fiscal year, we acquired several businesses serving multiple markets in the United States, Canada, and the United Kingdom, in furtherance of this objective.

We continue to drive expansion of our non-automotive product portfolio. Our architectural window film segment continues to gain traction. We believe there are multiple uses for protective films and we continue to explore those adjacent market opportunities.

Trends and Uncertainties

We continue to see strong recovery from COVID-19. Revenue has continued to increase in most major markets, as it has since early in the pandemic. Despite continued positive trends, the long-term effects of the pandemic on our financial results in future periods cannot reasonably be estimated, and they could be significant. The COVID-19 pandemic still poses the risks of substantial volatility, uncertainty and economic disruption. 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 the Annual Report for further discussion of the potential impact of the COVID-19 pandemic on our business, results of operations and financial condition.

As we look ahead, we are unable to predict the continuing impact that the COVID-19 pandemic will have on our customers and suppliers or our own operations and financial results. Despite the reduction of restrictions related to the COVID-19 pandemic and the ongoing recovery of our operations, significant uncertainty still exists concerning the magnitude of the residual impact of the pandemic. Additionally, automotive sales and production are highly cyclical, and the cyclical nature of the industry has been, and could continue to be, compounded by the pandemic. As demand for automotive products fluctuates or decreases, the demand for our products may also fluctuate or decrease. Automotive manufacturers also continue to experience a global semiconductor shortage which has affected production of vehicles and, in turn, available inventory at dealerships. During the quarter ended March 31, 2022, inventory at dealerships remained at low levels. As long as the semiconductor shortage persists and leads to low dealership inventories, there could be a material adverse effect on our business, financial condition and results of operations. Refer to the risk factor *'We are highly dependent on the automotive industry. A prolonged or material contraction in automotive sales and production volumes could adversely affect our business, results of operations and financial condition"* in the Annual Report 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 and automotive sales and adjust our operations according to guidelines form local, state and federal officials. In light of the foregoing, we may take actions that alter our business operations or that we determine are in the best interest of our employees, customers, suppliers and stockholders.

Various geographies in which we operate, including the United States, are experiencing an increasing inflationary environment. We are actively monitoring the broader economic impact of inflation on the demand for our products and services. See risk factor "*General global economic and business conditions affect demand for our products" included* in Part I, Item 1A-Risk Factors, in the Annual Report on Form 10-K

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 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 months ended March 31, 2022 and 2021:

	(Unaudited)	
	Three Months Ended March 31,	
	2022	2021
Net Income	$ 7,803,132	$ 6,847,059
Interest	219,726	52,719
Taxes	2,007,938	1,611,720
Depreciation	756,344	383,090
Amortization	1,076,466	262,606
EBITDA	$ 11,863,606	$ 9,157,194

Use of Non-GAAP Financial Measures

EBITDA should be considered in addition to, not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. It is not a measurement of our financial performance under GAAP and should not be considered as alternatives to revenue or net income, 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 table summarizes the Company's consolidated results of operations for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31, 2022	% of Total Revenue	Three Months Ended March 31, 2021	% of Total Revenue	$ Change	% Change
Total revenue	$ 71,863,767	100.0 %	$ 51,866,114	100.0 %	$ 19,997,653	38.6 %
Total cost of sales	44,147,334	61.4 %	33,579,683	64.7 %	10,567,651	31.5 %
Gross margin	27,716,433	38.6 %	18,286,431	35.3 %	9,430,002	51.6 %
Total operating expenses	17,680,511	24.6 %	9,739,321	18.8 %	7,941,190	81.5 %
Operating income	10,035,922	14.0 %	8,547,110	16.5 %	1,488,812	17.4 %
Other expenses	224,852	0.3 %	88,331	0.2 %	136,521	154.6 %
Income tax	2,007,938	2.8 %	1,611,720	3.1 %	396,218	24.6 %
Net income	$ 7,803,132	10.9 %	$ 6,847,059	13.2 %	$ 956,073	14.0 %

The following table summarizes revenue results for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,		%	% of Total Revenue	
	2022	2021	Inc (Dec)	2022	2021
Product Revenue					
Paint protection film	$ 43,960,520	$ 35,784,433	22.8 %	61.2 %	69.0 %
Window film	11,533,740	7,159,291	61.1 %	16.0 %	13.8 %
Other	2,603,186	1,987,629	31.0 %	3.6 %	3.8 %
Total	$ 58,097,446	$ 44,931,353	29.3 %	80.8 %	86.6 %
Service Revenue					
Software	$ 1,206,636	$ 978,019	23.4 %	1.7 %	1.9 %
Cutbank credits	2,929,885	2,635,835	11.2 %	4.1 %	5.1 %
Installation labor	9,255,739	3,114,502	197.2 %	12.9 %	6.0 %
Training	349,778	206,405	69.5 %	0.5 %	0.4 %
Other	24,283	—	n/a	0.0 %	0.0 %
Total	$ 13,766,321	$ 6,934,761	98.5 %	19.2 %	13.4 %
Total	$ 71,863,767	$ 51,866,114	38.6 %	100.0 %	100.0 %

Because many of our international customers require us to ship their orders to freight forwarders located in the United States, we cannot be certain about the ultimate destination of the product. The following table represents our estimate of sales by geographic regions based on our understanding of ultimate product destination based on customer interactions, customer locations and other factors for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,		%	% of Total Revenue	
	2022	2021	Inc (Dec)	2022	2021
United States	$ 41,586,791	$ 25,604,612	62.4 %	57.9 %	49.4 %
China	8,858,744	10,705,495	(17.3)%	12.3 %	20.6 %
Canada	7,850,256	4,946,175	58.7 %	10.9 %	9.5 %
Continental Europe	5,662,921	4,324,510	30.9 %	7.9 %	8.3 %
United Kingdom	2,427,777	1,785,796	35.9 %	3.4 %	3.4 %
Middle East/Africa	2,049,348	1,962,630	4.4 %	2.9 %	3.8 %
Asia Pacific	2,032,635	1,591,575	27.7 %	2.8 %	3.1 %
Latin America	1,205,967	916,578	31.6 %	1.7 %	1.8 %
Other	189,328	28,743	558.7 %	0.2 %	0.1 %
Total	$ 71,863,767	$ 51,866,114	38.6 %	100.0 %	100.0 %

Product Revenue. Product revenue increased 29.3% over the three months ended March 31, 2021 Product revenue represented 80.8% of our total revenue for the three months ended March 31, 2022 and 86.6% for the three months ended March 31, 2021. Revenue from our paint protection film product line increased 22.8% for the three months ended March 31, 2022. Paint protection film sales represented 61.2% and 69.0% of our total consolidated revenues for the three months ended March 31, 2022 and 2021, respectively. The increase in the total amount of paint protection film sales was primarily due to robust demand for our products in most of our sales regions. This increase in demand was driven by both an increase in the number of customers and increased revenue from our existing customers. Revenue from our window film product line grew 61.1% for the three months ended March 31, 2022. Window film sales represented 16.0% and 13.8% of our total consolidated revenues for the three months ended March 31, 2022 and 2021, respectively. This increase was due to increased demand of our window film products across our distribution channels.

Service revenue. Service revenue consists of fees for DAP software access, cutbank credit revenue, which represents the value of pattern access provided with eligible product revenue, revenue from the labor portion of installation sales in our Company-owned installation centers and revenue from training services provided to our customers. Service revenue grew 98.5% over service revenue for the three months ended March 31, 2021. Service revenue represented 19.2% and 13.4% of our total consolidated revenue from the three months ended March 31, 2022 and 2021, respectively. This increase was driven primarily by strong growth in our installation business, which was bolstered by several installation-focused acquisitions completed in 2021 and increased demand in our Company-owned facilities.

Total installation revenue (labor and product combined) at our Company-owned installation centers for the three months ended March 31, 2022 increased 197.2% over the three months ended March 31, 2021. This represented 15.3% and 7.1% of our total consolidated revenue for the three months ended March 31, 2022 and 2021, respectively. This increase was due primarily to acquired dealership services businesses in 2021. Excluding the impact from our 2021 acquisitions, total installation revenue grew 40.0%. Adjusted product revenue, which combines the cutbank credit revenue service component with product revenue, increased 28.3% in the three months ended March 31, 2022 versus the three months ended March 31, 2021 due mainly to continued increasing demand.

Software revenue increased 23.4% from the three months ended March 31, 2021. The increase was due primarily to increases in total subscribers to our software. Software revenue represented 1.7% and 1.9% of our total consolidated revenue for the three months ended March 31, 2022 and 2021, respectively. Cutbank credit revenue grew 11.2% from the three months ended March 31, 2021. This increase was due mainly to increased demand for our products and services. Cutbank sales represented 4.1% and 5.1% of our total consolidated revenue for the three months ended March 31, 2022 and 2021, respectively.

Cost of Sales

Cost of sales consists of product costs and the costs to provide our services. Product costs consist of material costs, personnel costs related to warehouse personnel, shipping costs, warranty costs and other related costs to provide products to our customers. Cost of service includes the labor costs associated with installation of product in our Company-owned facilities, costs of labor associated with pattern design for our cutting software and the costs incurred to provide training for our customers. Product costs in the three months ended March 31, 2022 increased 21.1% over the three months ended March 31, 2021. Cost of product sales represented 53.1% and 60.8% of total revenue in the three months ended March 31, 2022 and 2021, respectively. Cost of services grew 192.8% during the three months ended March 31, 2022 and represented 19.2% and 13.4% of total revenue for the three months ended March 31, 2022 and 2021, respectively. The increase in service costs was largely due to increased installation costs necessary to support our expanded installation presence following 2021 acquisitions.

Gross Margin

Gross margin for the three months ended March 31, 2022 grew approximately $9.4 million, or 51.6%, from the three months ended March 31, 2021. For the three months ended March 31, 2022 and 2021, gross margin represented 38.6% and 35.3% of revenue, respectively. The following table summarizes gross margin for product and services for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,		%	% of Category Revenue	
	2022	2021	Inc (Dec)	2022	2021
Product margin	$ 19,903,459	$ 13,384,806	48.7%	34.3%	29.8%
Service margin	7,812,974	4,901,625	59.4%	56.8%	70.7%
Total	$ 27,716,433	$ 18,286,431	51.6%	38.6%	35.3%

Product gross margin for the three months ended March 31, 2022 increased approximately $6.5 million, or 48.7%, over the three months ended March 31, 2021 and represented 34.3% and 29.8% of product revenue for the three months ended March 31, 2022 and 2021, respectively. The increase in product gross margin percentages were primarily due to decreases in product costs and improved operating leverage.

Service gross margin increased approximately $2.9 million, or 59.4%, over the three months ended March 31, 2021. This represented 56.8% and 70.7% of total service revenue for the three months ended March 31, 2022 and 2021, respectively. The decrease in service margin percentage was primarily due to an approximate $0.3 million impact from low new car dealership inventories that impacted our dealership services business.

Operating Expenses

Sales and marketing expenses for the three months ended March 31, 2022 increased $2.9 million, or 86.3%, compared to the same period in 2021. These expenses represented 8.8% and 6.5% of total consolidated revenue for the three months ended March 31, 2022 and 2021, respectively. This increase was due primarily to expanded marketing activities as we continue to support the on-going growth of the business and costs related to our XPEL Dealer Conference which was held in the first quarter of 2022 and was not held in 2021.

General and administrative expenses grew approximately $5.0 million, or 79.0%, during the three months ended March 31, 2022 over the three months ended March 31, 2021. These costs represented 15.8% and 12.2% of total consolidated revenue for the three months ended March 31, 2022 and 2021, respectively. The increase was due mainly to increases in personnel, occupancy costs, and professional fees to support the ongoing growth of the business and acquisition related expenses including increased amortization associated with intangible assets acquired during 2021.

Income Tax Expense

Income tax expense for the three months ended March 31, 2022 increased $0.4 million from the three months ended March 31, 2021. Our effective tax rate was 20.5% for the three months ended March 31, 2022 compared with 19.1% for the three months ended March 31, 2021. The increase in our effective rate was primarily due to an increase in our state effective rate and the impact of international operations, including an increase in international tax inclusions.

Net Income

Net income for the three months ended March 31, 2022 increased by $1.0 million, or 14.0%, to $7.8 million.

Liquidity and Capital Resources

The primary source of liquidity for our business is available cash and cash equivalents and cash flows provided by operations. As of March 31, 2022, we had cash and cash equivalents of $10.6 million. For the three months ended March 31, 2022, cash used in operations was $4.3 million. We expect available cash, internally generated funds, and borrowings from our committed credit facility to be sufficient to support working capital needs, capital expenditures (including acquisitions), and our debt service obligations. 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 used in operations totaled approximately $4.3 million for the three months ended March 31, 2022, compared to positive cash flows from operations of $8.9 million for the three months ended March 31, 2021. The decrease in operating cash flows was driven primarily by inventory purchases related to our intentional inventory build-up to assist us in reducing future supply chain risk offset by an increase in operating earnings and other changes in working capital.

Investing activities. Cash flows used in investing activities totaled approximately $2.6 million during the three months ended March 31, 2022 compared to $1.5 million during the three months ended March 31, 2021. This increase was primarily due to expenditures to support expanded operating locations.

Financing activities. Cash flows provided by financing activities during the three months ended March 31, 2022 totaled approximately $7.9 million compared to cash flow used in financing activities in the prior year of $0.7 million. This difference is due primarily to borrowings on our revolving line of credit.

Debt obligations, including balances outstanding on committed credit facilities, and contingent liabilities as of March 31, 2022 and December 31, 2021 totaled approximately $35.8 million and $28.1 million, respectively.

Future liquidity and capital resource requirements

We expect to fund ongoing operating expenses, capital expenditures, acquisitions, interest payments, tax payments, credit facility maturities, future lease obligations, and payments for other long-term liabilities with cash flow from operations. In the short-term, we are contractually obligated to make lease payments and make payments on unsecured non-interest bearing promissory notes payable and contingent liabilities related to certain completed acquisitions. In the long-term, we are contractually obligated to make lease payments, for contingent liabilities, and for repayment of borrowings on our line of credit. We believe that we have sufficient cash and cash equivalents and borrowing capacity to cover our estimated short-term and long-term funding needs.

Credit Facilities

The Company has a $75,000,000 revolving line of credit with Texas Partners Bank (which does business as The Bank of San Antonio). 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 at the *Wall Street Journal* U.S. Prime Rate less 0.75% per annum if the Company's EBITDA ratio (as defined in the Loan Agreement governing 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 facility also contains a fee of 0.25% of the unused capacity on the facility. The interest rate for this credit facility as of March 31, 2022 and December 31, 2021 was 2.75% and 2.50%, respectively. The Company paid interest charges on borrowings under this facility of 216,007 during the three months ended March 31, 2022, and had a balance of $33,000,000 and $25,000,000 as of March 31, 2022 and December 31, 2021, respectively. 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.

The Company also has a CAD $4.5 million revolving credit facility through HSBC Bank Canada, and is maintained by XPEL Canada Corp., a wholly-owned subsidiary of XPEL. This Canadian 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 March 31, 2022 and December 31, 2021, no balance was outstanding on this line of credit.

Critical Accounting Estimates

There have been no material changes to the Company’s critical accounting estimates from the information provided in the Annual Report.

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.

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

Borrowings under our revolving lines of credit are subject to market risk resulting from changes in interest rates related to our floating rate bank credit facilities. For such borrowings, a hypothetical 200 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.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

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

There have been no material changes to the risk factors disclosed in Part I, Item IA of the Annual Report, except as noted below:

We have operations or activities in numerous countries and market-regions throughout the world. As a result, our global financial results are affected by economic, political and other conditions in the global economy as well as in the United States. Economic conditions in several of our markets are increasingly experiencing increasing inflation which could impact the demand for our products. This could significantly impact our future financial results.

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

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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)

May 10, 2022

EXHIBIT 31.1

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

I, Ryan L. Pape, certify that:

Date: May 10, 2022

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: May 10, 2022

EXHIBIT 31.2

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

I, Barry R. Wood, certify that:

Date: May 10, 2022

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: May 10, 2022

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 March 31, 2022 (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: May 10, 2022

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 March 31, 2022 (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: May 10, 2022