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 June 30, 2020
OR

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

For the transition period from _______ to ______
Commission file number: 001-38466

GOOSEHEAD INSURANCE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**82-3886022**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1500 Solana Blvd, Building 4, Suite 4500	
Westlake	
Texas	**76262**
(Address of principal executive offices)	(Zip Code)

(469) 480-3669
(Registrant's telephone number, including area code)

Not applicable
(Former name or former address, if changed since last report)

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Class A Common Stock, par value $.01 per share	GSHD	NASDAQ

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 o No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
☑ Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	☐	Accelerated filer	☑
Non-accelerated filer	☐	Smaller reporting company	☑
		Emerging growth company	☑

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☑ No

As of July 31, 2020, there were 17,268,171 shares of Class A common stock outstanding and 19,270,133 shares of Class B common stock outstanding.

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Commonly used defined terms

As used in this Quarterly Report on Form 10-Q ("Form 10-Q"), unless the context indicates or otherwise requires, the following terms have the following meanings:

- Ancillary Revenue: Revenue that is supplemental to our Core Revenue and Cost Recovery Revenue, Ancillary Revenue is unpredictable and often outside of the Company's control. Included in Ancillary Revenue are Contingent Commissions and other income.
- Agency Fees: Fees separate from commissions charged directly to clients for efforts performed in the issuance of new insurance policies.
- Annual Report on Form 10-K: The Company's annual report on Form 10-K for the year ended December 31, 2019.
- ASC 605: Legacy revenue recognition standard ASC 605, *Revenue Recognition.* This legacy revenue recognition was used for periods prior to the fourth quarter of 2019.
- ASC 606 ("Topic 606"): ASU 2014-09 - *Revenue from Contracts with Customers.*
- Carrier: An insurance company.
- Carrier Appointment: A contractual relationship with a Carrier.
- Client Retention: Calculated by comparing the number of all clients that had at least one policy in force twelve months prior to the date of measurement and still have at least one policy in force at the date of measurement.
- Contingent Commission: Revenue in the form of contractual payments from Carriers contingent upon several factors, including growth and profitability of the business placed with the Carrier.
- Core Revenue: The most predictable revenue stream for the Company, these revenues consist of New Business Revenue and Renewal Revenue. New Business Revenue is lower-margin, but fairly predictable. Renewal Revenue is higher-margin and very predictable.
- Corporate Channel: The Corporate Channel distributes insurance through a network of company-owned and financed operations with employees that are hired, trained and managed by Goosehead.
- Corporate Channel Adjusted EBITDA: Segment earnings before interest, income taxes, depreciation and amortization allocable to the Corporate Channel.
- Cost Recovery Revenue: Revenue received by the Company associated with cost recovery efforts associated with selling and financing franchises. Included in Cost Recovery Revenue are Initial Franchise Fees and Interest Income.
- Franchise Agreement: Agreements governing our relationships with Franchisees.
- Franchise Channel: The Franchise Channel network consists of Franchisee operations that are owned and managed by Franchisees. These business owners have a contractual relationship with Goosehead to use our processes, training, implementation, systems and back-office support team to place insurance. In exchange, Goosehead is entitled to an Initial Franchise Fee and Royalty Fees.
- Franchise Channel Adjusted EBITDA: Segment earnings before interest, income taxes, depreciation and amortization, adjusted to exclude other non-operating items allocable to the Franchise Channel.
- Franchisee: An individual or entity who has entered into a Franchise Agreement with us.
- GF: Goosehead Financial, LLC.
- Initial Franchise Fee: Contracted fees paid by Franchisees to compensate Goosehead for the training, onboarding and ongoing support of new franchise locations.
- LLC Unit: a limited liability company unit of Goosehead Financial, LLC.
- New Business Commission: Commissions received from Carriers relating to policies in their first term.
- New Business Revenue: New Business Commissions, Agency Fees, and New Business Royalty Fees.
- New Business Royalty Fees: Royalty Fees received from Franchisees relating to policies in their first term

- NPS: Net Promoter Score is calculated based on a single question: “How likely are you to refer Goosehead Insurance to a friend, family member or colleague?” Clients that respond with a 6 or below are Detractors, a score of 7 or 8 are called Passives, and a 9 or 10 are Promoters. NPS is calculated by subtracting the percentage of Detractors from the percentage of Promoters.
- Policies in Force: As of any reported date, the total count of current (non-cancelled) policies placed by us with our Carriers.
- Pre-IPO LLC Members: owners of LLC Units of GF prior to the Offering.
- Renewal Revenue: Renewal Commissions and Renewal Royalty Fees.
- Royalty Fees: Fees paid by Franchisees to the Company that are tied to the gross commissions paid by the Carriers related to policies sold or renewed in the Franchise Channel.
- Segment: One of the two Goosehead sales distribution channels, the Corporate Channel or the Franchise Channel.
- Segment Adjusted EBITDA: Either Corporate Channel Adjusted EBITDA or Franchise Channel Adjusted EBITDA.
- The Offering: The initial public offering completed by Goosehead Insurance, Inc. on May 1, 2018.
- Total Written Premium: As of any reported date, the total amount of current (non-cancelled) gross premium that is placed with Goosehead’s portfolio of Carriers.

Special note regarding forward-looking statements

We have made statements in this Form 10-Q that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as “may,” “might,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential” or “continue,” the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include the potential impact of COVID-19 on the Company's business, projections of our future financial performance, our anticipated growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements, including those factors discussed under the caption entitled “Item 1A. Risk factors” in the Annual Report on Form 10-K.

The forward-looking statements included in this Form 10-Q are made only as of the date hereof. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. We are under no duty to update any of these forward-looking statements after the date of this Form 10-Q to conform our prior statements to actual results or revised expectations.

PART I

Item 1. Condensed Consolidated Financial Statements (Unaudited)

Goosehead Insurance, Inc.
Condensed Consolidated Statements of Income
(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020 [1]	2019 [2]	2020 [1]	2019 [2]
Revenues:				
Commissions and agency fees	$ 18,248	$ 10,763	$ 30,059	$ 26,933
Franchise revenues	11,484	8,475	19,929	15,303
Interest income	192	148	361	283
Total revenues	29,924	19,386	50,349	42,519
Operating Expenses:				
Employee compensation and benefits	15,904	10,378	29,407	19,569
General and administrative expenses	5,364	4,201	11,236	8,631
Bad debts	319	482	628	883
Depreciation and amortization	712	452	1,252	875
Total operating expenses	22,299	15,513	42,523	29,958
Income from operations	7,625	3,873	7,826	12,561
Other Income (Expense):				
Other income	—	—	66	—
Interest expense	(479)	(626)	(1,083)	(1,252)
Income before taxes	7,146	3,247	6,809	11,309
Tax expense (benefit)	(240)	430	(281)	1,174
Net income	7,386	2,817	7,090	10,135
Less: net income attributable to non-controlling interests	4,007	1,914	3,867	6,760
Net income attributable to Goosehead Insurance, Inc.	$ 3,379	$ 903	$ 3,223	$ 3,375
Earnings per share:				
Basic	$ 0.21	$ 0.06	$ 0.20	$ 0.23
Diluted	$ 0.19	$ 0.06	$ 0.18	$ 0.22
Weighted average shares of Class A common stock outstanding				
Basic	16,458	14,876	16,011	14,545
Diluted	17,947	16,065	17,432	15,685
Dividends declared per share	$ —	$ —	$ —	$ 0.41

(1) - The three and six months ended June 30, 2020 are reported under ASC 606
(2) - The three and six months ended June 30, 2019 are reported under ASC 605

See Notes to the Condensed Consolidated Financial Statements

Goosehead Insurance, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(In thousands, except per share amounts)

	June 30, 2020	December 31, 2019
Assets		
Current Assets:		
Cash and cash equivalents	$ 54,318	$ 14,337
Restricted cash	1,488	923
Commissions and agency fees receivable, net	7,628	6,884
Receivable from franchisees, net	3,944	2,602
Prepaid expenses	4,981	1,987
Total current assets	72,359	26,733
Receivable from franchisees, net of current portion	13,199	11,014
Property and equipment, net of accumulated depreciation	12,349	9,542
Intangible assets, net of accumulated amortization	491	445
Deferred income taxes, net	41,424	15,537
Other assets	2,767	1,357
Total assets	$ 142,589	$ 64,628
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable and accrued expenses	$ 4,152	$ 5,033
Premiums payable	1,488	923
Deferred rent	881	683
Contract liabilities	3,365	2,771
Note payable	2,500	4,000
Total current liabilities	12,386	13,410
Deferred rent, net of current portion	7,571	6,681
Note payable, net of current portion	81,272	42,161
Contract liabilities, net of current portion	23,395	20,024
Liabilities under tax receivable agreement, net of current portion	35,151	13,359
Total liabilities	159,775	95,635
Commitments and contingencies (see note 8)		
Class A common stock, $0.01 par value per share - 300,000 shares authorized, 17,084 shares issued and outstanding as of June 30, 2020, 15,238 shares issued and outstanding as of December 31, 2019	171	152
Class B common stock, $0.01 par value per share - 50,000 shares authorized, 19,455 issued and outstanding as of June 30, 2020, 21,055 shares issued and outstanding as of December 31, 2019	194	210
Additional paid in capital	21,348	14,442
Accumulated deficit	(20,525)	(23,811)
Total stockholders' equity	1,188	(9,007)
Non-controlling interests	(18,374)	(22,000)
Total equity	(17,186)	(31,007)
Total liabilities and equity	$ 142,589	$ 64,628

See Notes to the Condensed Consolidated Financial Statements

Goosehead Insurance, Inc.
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

(In thousands)

	Issued shares of Class A common stock	Issued shares of Class B common stock	Class A Common stock	Class B Common Stock	Additional paid in capital	Accumulated deficit	Total stockholders' equity	Non-controlling interest	Total equity
Balance, January 1, 2020	15,238	21,055	152	210	14,442	(23,811)	(9,007)	(22,000)	(31,007)
Distributions	—	—	—	—	—	—	—	(1,003)	(1,003)
Net loss	—	—	—	—	—	(156)	(156)	(140)	(296)
Equity-based compensation	—	—	—	—	498	—	498	—	498
Activity under employee stock purchase plan	3	—	—	—	116	—	116	—	116
Redemption of LLC Units	791	(791)	8	(8)	(869)	—	(869)	869	—
Deferred tax adjustments related to Tax Receivable Agreement	—	—	—	—	1,704	—	1,704	—	1,704
Balance March 31, 2020	16,032	20,264	160	202	15,891	(23,967)	(7,714)	(22,274)	(29,988)
Distributions	—	—	—	—	—	—	—	(859)	(859)
Net income	—	—	—	—	—	3,379	3,379	4,007	7,386
Exercise of stock options	241	—	3	—	2,404	—	2,407	—	2,407
Equity-based compensation	—	—	—	—	1,416	—	1,416	—	1,416
Activity under employee stock purchase plan	2	—	—	—	138	—	138	—	138
Redemption of LLC Units	809	(809)	8	(8)	(762)	—	(762)	762	—
Deferred tax adjustments related to Tax Receivable Agreement	—	—	—	—	2,261	—	2,261	53	2,314
Reallocation of Non-controlling interest	—	—	—		—	63	63	(63)	—
Balance June 30, 2020	17,084	19,455	171	194	21,348	(20,525)	1,188	(18,374)	(17,186)

	Issued shares of Class A common stock	Issued shares of Class B common stock	Class A Common stock	Class B Common Stock	Additional paid in capital	Accumulated deficit	Total stockholders' equity	Non-controlling interest	Total equity
Balance, January 1, 2019	13,799	22,486	138	224	11,899	(20,761)	(8,500)	(16,703)	(25,203)
Distributions	—	—	—	—	—	—	—	(245)	(245)
Dividends declared	—	—	—	—	—	(5,962)	(5,962)	(9,038)	(15,000)
Net income	—	—	—	—	—	2,472	2,472	4,846	7,318
Equity-based compensation	—	—	—	—	368	—	368	—	368
Redemption of LLC Units	723	(723)	7	(7)	(679)	—	(679)	679	—
Deferred tax adjustments related to Tax Receivable Agreement	—	—	—	—	911	—	911	—	911
Balance March 31, 2019	14,522	21,763	145	217	12,499	(24,251)	(11,390)	(20,461)	(31,851)
Distributions	—	—	—	—	—	—	—	(2,708)	(2,708)
Net income	—	—	—	—	—	903	903	1,914	2,817
Equity-based compensation	—	—	—	—	368	—	368	—	368
Activity under employee stock purchase plan	3	—	—	—	142	—	142	—	142
Redemption of LLC Units	488	(488)	5	(5)	(477)	—	(477)	477	—
Deferred tax adjustments related to Tax Receivable Agreement	—	—	—	—	684	—	684	—	684
Balance June 30, 2019	15,013	21,275	150	212	13,216	(23,348)	(9,770)	(20,778)	(30,548)

See Notes to the Condensed Consolidated Financial Statements

Goosehead Insurance, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2020	2019
Cash flows from operating activities:		
Net income	$ 7,090	$ 10,135
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,540	982
Bad debt expense	628	883
Equity-based compensation	1,914	736
Impacts of Tax Receivable Agreement	22,472	9,126
Deferred income taxes	(21,869)	(8,945)
Changes in operating assets and liabilities:		
Receivable from franchisees	(3,682)	(1,438)
Commissions and agency fees receivable	(1,235)	(892)
Prepaid expenses	(2,994)	(111)
Other assets	(1,410)	(69)
Accounts payable and accrued expenses	(1,546)	(935)
Deferred rent	1,087	1,042
Contract liabilities	3,965	—
Premiums payable	565	203
Unearned revenue	—	(35)
Payments pursuant to the tax receivable agreement	(9)	—
Net cash provided by operating activities	6,516	10,682
Cash flows from investing activities:		
Proceeds from notes receivable	18	11
Purchase of software	(142)	(251)
Purchase of property and equipment	(3,969)	(1,636)
Net cash used for investing activities	(4,093)	(1,876)
Cash flows from financing activities:		
Debt issuance costs	(677)	—
Repayment of note payable	(26,821)	(1,000)
Proceeds from notes payable	64,821	
Proceeds from the issuance of Class A common stock	2,662	142
Member distributions and dividends	(1,862)	(17,953)
Net cash provided by (used for) financing activities	38,123	(18,811)
Net increase (decrease) in cash and restricted cash	40,546	(10,005)
Cash and cash equivalents, and restricted cash, beginning of period	15,260	19,011
Cash and cash equivalents, and restricted cash, end of period	$ 55,806	$ 9,006
Supplemental disclosures of cash flow data:		
Cash paid during the year for interest	795	1,252
Cash paid for income taxes	250	875

See Notes to the Condensed Consolidated Financial Statements

1. Organization

On May 1, 2018 Goosehead Insurance, Inc. ("GSHD") completed an initial public offering (the "Offering") of 9,810 thousand shares of Class A common stock at a price of $10.00 per share, which included 1,280 thousand shares issued pursuant to the underwriter's over-allotment option. Following completion of the Offering, GSHD owned 37.3% of Goosehead Financial, LLC ("GF") and the Pre-IPO LLC Members owned the remaining 62.7%. GSHD is the sole managing member of GF and, although GSHD holds a minority economic interest in GF, GSHD has the sole voting power and control of management of GF. Accordingly, GSHD consolidates the financial results of GF and reports non-controlling interest in GSHD's condensed consolidated financial statements.

GF was organized on January 1, 2016 as a Delaware Limited Liability Company and is headquartered in Westlake, TX.

GSHD (collectively with its consolidated subsidiaries, the "Company") provides personal and commercial property and casualty insurance brokerage services for its clients through a network of corporate-owned agencies and franchise units across the nation.

The Company had nine and seven corporate-owned locations in operation at June 30, 2020 and 2019, respectively. Franchisees are provided access to insurance Carrier Appointments, product training, technology infrastructure, client service centers and back office services. During the three months ended June 30, 2020 and 2019, the Company onboarded 60 and 57 franchise locations, respectively and had 730 and 535 operating franchise locations as of June 30, 2020 and 2019, respectively. No franchises were purchased by the Company during the three and six months ended June 30, 2020 or 2019.

All intercompany accounts and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q. Therefore, they do not include all of the annual disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). However, in the opinion of management, these statements include all adjustments, consisting of normal recurring adjustments, which are necessary for a fair presentation of the condensed consolidated financial positions at June 30, 2020, the condensed consolidated results of operations, stockholders' equity and statements of cash flows for the three and six months ended June 30, 2020 and 2019. The interim period condensed consolidated financial statements should be read in conjunction with the *Consolidated Financial Statements* that are included in the Annual Report on Form 10-K.

The results of operations for the three and six months ended June 30, 2020 are not necessarily indicative of the results that can be expected for the entire year. The Company experiences seasonal fluctuations of its revenue due to the timing of contingent commission revenue recognition and trends in housing market activity.

Impact of the coronavirus ("COVID-19") pandemic

The extent to which the COVID-19 pandemic and the related economic impact may affect our financial condition or results of operations is uncertain. The extent of the impact on our operational and financial performance will depend on various factors, including the duration and spread of the outbreak and its impact on home sales and consumer spending. To date, the pandemic has not increased our costs of or access to capital under our term note and revolving credit facility and we do not believe it is reasonably likely to in the future. In addition, we do not believe that the pandemic will affect our ongoing ability to meet the covenants in our debt instruments, including under our term note and revolving credit facility. To date, the pandemic has not impacted the collectability of receivables or adversely affected our revenue. Due to the nature of our business, the effect of the COVID-19 pandemic may not be fully reflected in our results of operations until future periods. Changes in consumer behavior linked to the COVID-19 pandemic may have contributed to reduced loss ratios through the six months ended June 30, 2020, increasing the amount of revenue from Contingent Commissions the Company expects to receive.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period.

We are not presently aware of any events or circumstances arising from the COVID-19 pandemic, outside of those described above, that would require us to update our estimates, judgments or revise the carrying value of our assets or liabilities. Our estimates may change, however, as new events occur and additional information is obtained, any such changes will be recognized in the condensed consolidated financial statements. Accordingly, actual results could differ from those estimates as more information becomes known.

Income Taxes

The Company accounts for income taxes pursuant to the asset and liability method which requires the recognition of deferred income tax assets and liabilities related to the expected future tax consequences arising from temporary differences between the carrying amounts and tax bases of assets and liabilities based on enacted statutory tax rates applicable to the periods in which the temporary differences are expected to reverse. Any effects of changes in income tax rates or laws are included in income tax expense in the period of enactment.

Restricted Cash

The Company holds premiums received from the insured, but not yet remitted to the insurance Carrier in a fiduciary capacity. Premiums received but not yet remitted included in restricted cash were $1.5 million and $579 thousand as of June 30, 2020 and 2019, respectively.

The following is a reconciliation of our cash and restricted cash balances as presented in the condensed consolidated statement of cash flows for the six months ended June 30, 2020 and 2019 *(in thousands)*:

	June 30,	
	2020	2019
Cash and cash equivalents	$ 54,318	$ 8,427
Restricted cash	1,488	579
Cash and cash equivalents, and restricted cash	$ 55,806	$ 9,006

Recently Issued Accounting Pronouncements

Leases (ASU 2016-02): This standard establishes a new lease accounting model, which introduces the recognition of lease assets and liabilities for those leases classified as operating leases under previous GAAP. It should be applied using a modified retrospective approach, with the option to elect various practical expedients. Early adoption is permitted. The standard became effective for the Company January 1, 2020, but the Company is not required to present the impacts of the standard until it files its Annual Report on Form 10-K for the fiscal year ended December 31, 2020, at which point the company will become a large accelerated filer. The Company is currently evaluating the impact this standard will have on the Company's consolidated financial statements. However, the Company expects the impact of this guidance on its consolidated financial statements could be significant, as its future minimum operating lease commitments totaled $26.0 million as of June 30, 2020.

Credit Losses (ASU 2016-13): Measurement of Credit Losses on Financial Instruments. Under the new guidance an entity is required to measure all credit losses on certain financial instruments, including trade receivables and various off-balance sheet credit exposures, using an expected credit loss model. This model incorporates past experience, current conditions and reasonable and supportable forecasts affecting collectability of these instruments. This standard became effective for the Company beginning January 1, 2020, but the Company is not required to present the impacts of the standard until it files its Annual Report on Form 10-K for the fiscal year ended December 31, 2020, at which point the company will become a large accelerated filer. The Company does not expect the adoption of this amendment will have a material impact on the Company's consolidated financial statements.

Recently adopted accounting pronouncements

Revenue from Contracts with Customers (ASU 2014-09) ("Topic 606"): This standard supersedes the existing revenue recognition guidance and provides a new framework for recognizing revenue. The core principle of the standard is that an entity should recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Additionally, the guidance requires improved disclosure to help users of financial statements better understand the nature, amount, timing and uncertainty of revenue that is recognized. Guidance subsequent to ASU 2014-09 has been issued to clarify various provisions in the standard, including principal versus agent considerations, identifying performance obligations, licensing transactions, as well as various technical corrections and improvements. According to the superseding standard ASU 2015-14 that deferred the effective dates of the preceding, and because the Company is filing as an emerging growth company, the standard became effective for the Company January 1, 2019, but the Company was not required to present the impacts of the standard until the Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

The Company adopted this standard by recognizing the cumulative effect as an adjustment to opening accumulated deficit and non-controlling interests at January 1, 2019, under the modified retrospective method for contracts not completed as of the day of adoption. Under the modified retrospective method, the Company was not required to restate comparative financial information prior to the adoption of these standards and, therefore, such information presented prior to the filing of the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 will continue to be reported under the Company's previous accounting policies.

Impact on Financial Statements

The following tables summarize the impacts of adopting the revenue recognition standard on the Company's condensed consolidated statement of income:

(in thousands)	Legacy GAAP	Adjustments due to Topic 606	As Reported
Consolidated Statement of Income			
Three Months Ended June 30, 2020			
Revenues:			
Commissions and agency fees	15,252	2,996	18,248
Franchise revenues	12,111	(627)	11,484
Expenses:			
Employee compensation and benefits	15,982	(78)	15,904
Bad debts	312	7	319
Tax expense (benefit)	(553)	313	(240)
Net income	5,259	2,127	7,386
Earnings per share:			
Basic	0.16	0.05	0.21
Diluted	0.15	0.04	0.19

(in thousands)	Legacy GAAP	Adjustments due to Topic 606	As Reported
Consolidated Statement of Income			
Six Months Ended June 30, 2020			
Revenues:			
Commissions and agency fees	29,753	306	30,059
Franchise revenues	22,336	(2,407)	19,929
Expenses:			
Employee compensation and benefits	29,557	(150)	29,407
Bad Debts	925	(297)	628
Tax expense (benefit)	(94)	(187)	(281)
Net income	8,556	(1,466)	7,090
Earnings per share:			
Basic	0.23	(0.03)	0.20
Diluted	0.22	(0.04)	0.18

(in thousands)	Legacy GAAP	Adjustments due to Topic 606	As Reported
Consolidated Balance Sheet			
June 30, 2020			
Assets:			
Commissions and agency fees receivable, net[(1)]	2,707	4,921	7,628
Receivable from franchisees, net[(1)]	4,832	12,311	17,143
Deferred income taxes, net	41,104	320	41,424
Other assets	1,568	1,199	2,767
Liabilities:			
Accounts payable and accrued expenses	3,843	309	4,152
Unearned revenue	25	(25)	—
Contract liabilities[(1)]	—	26,760	26,760
Liabilities under tax receivable agreement	35,128	23	35,151
Stockholders' Equity:			
Accumulated Deficit	(17,155)	(3,370)	(20,525)
Non-controlling interests	(13,961)	(4,413)	(18,374)
Total equity	(9,403)	(7,783)	(17,186)

(1) - Includes both the current and long term portion of this balance.

(in thousands)	Legacy GAAP	Adjustments due to Topic 606	As Reported
Consolidated Statement of Cash Flows			
Six Months Ended June 30, 2020			
Operating Cash Flows:			
Net Income	8,556	(1,466)	7,090
Bad debt expense	925	(297)	628
Receivable from franchisees	(1,031)	(2,651)	(3,682)
Commissions and agency fees receivables	(1,132)	(103)	(1,235)
Other assets	(1,737)	327	(1,410)
Accounts payable and accrued expenses	(1,281)	(265)	(1,546)
Contract liabilities	—	3,965	3,965
Unearned revenue	(490)	490	—
Net cash provided by operating activities	6,516	—	6,516

3. Revenue

Commissions and fees

The Company earns new and renewal commissions paid by insurance Carriers and fees paid by its clients for the binding of insurance coverage. The transactions price is set as the estimated commissions to be received over the term of the policy, net of a constraint for policy changes and cancellations. These commissions and fees are earned at a point in time upon the effective date of bound insurance coverage, as no performance obligation exists after coverage is bound.

For Agency Fees, the Company enters into a contract with the insured, in which the Company's performance obligation is to place an insurance policy. The transaction price of the agency fee is set at the time the sale is agreed upon, and is included in the contract. Agency Fee revenue is recognized at a point in time, which is the effective date of the policy.

Contingent Commission revenue is generated from contracts between the Company and insurance Carriers, for which the Company is compensated for certain growth, profitability, and other performance-based metrics. The performance obligations for Contingent Commissions will vary by contract, but generally include the Company increasing profitable written premium with the insurance Carrier. The transaction price for Contingent Commissions is estimated based on all available information and is recognized over time as the Company completes its performance obligations, as the underlying policies are placed, net of a constraint.

Franchise revenues

Franchise revenues include initial franchise fees and ongoing new and renewal royalty fees from franchisees.

Revenue from Initial Franchise Fees is generated from a contract between the Company and a Franchisee. The Company's performance obligation is to provide initial training, onboarding, ongoing support and use of the Company's business operations over the period of the Franchise Agreement. The transaction price is set by the Franchise Agreement and revenue is recognized over time as the Company completes its performance obligations.

Revenue from New and Renewal Royalty Fees is recorded by applying the sales- and usage-based royalties exception. Under the sales- and usage-based exception, the Company estimates the anticipated amount of the royalties to be received over the term of the policy. Revenue from Royalty Fees is recognized over time as the placement of the underlying policies occur.

Contract Costs

Additionally, the Company has evaluated ASC Topic 340 - Other Assets and Deferred Cost (“ASC 340”) which requires companies to defer certain incremental cost to obtain customer contracts, and certain costs to fulfill customer contracts.

Incremental cost to obtain - The adoption of ASC 340 resulted in the Company deferring certain costs to obtain customer contracts primarily as they relate to commission-based compensation plans in the Franchise Channel, in which the Company pays an incremental amount of compensation on new Franchise Agreements. These incremental costs are deferred and amortized over a 10-year period, which is consistent with the term of the contract.

Costs to fulfill - The Company has evaluated the need to capitalize costs to fulfill customer contracts and has determined that there are no costs that meet the definition for capitalization under ASC 340.

Disaggregation of Revenue

The following table disaggregates revenue by Segment and source *(in thousands)*:

Three Months Ended June 30, 2020:	Franchise Channel	Corporate Channel	Total
Type of revenue stream:			
Commissions and agency fees			
Renewal Commissions	$ —	$ 7,718	$ 7,718
New Business Commissions	—	4,329	4,329
Agency Fees	—	2,185	2,185
Contingent Commissions	2,774	1,242	4,016
Franchise revenues			
Renewal Royalty Fees	7,903	—	7,903
New Business Royalty Fees	2,599	—	2,599
Initial Franchise Fees	901	—	901
Other Franchise Revenues	81	—	81
Interest Income	192	—	192
Total Revenues	$ 14,450	$ 15,474	$ 29,924
Timing of revenue recognition:			
Transferred at a point in time	$ —	$ 14,232	$ 14,232
Transferred over time	14,450	1,242	15,692
Total Revenues	$ 14,450	$ 15,474	$ 29,924

Six Months Ended June 30, 2020:	Franchise Channel	Corporate Channel	Total
Type of revenue stream:			
Commissions and agency fees			
Renewal Commissions	$ —	$ 13,451	$ 13,451
New Business Commissions	—	7,662	7,662
Agency Fees	—	3,871	3,871
Contingent Commissions	3,468	1,607	5,075
Franchise revenues			
Renewal Royalty Fees	13,289	—	13,289
New Business Royalty Fees	4,647	—	4,647
Initial Franchise Fees	1,879	—	1,879
Other Franchise Revenues	114	—	114
Interest Income	361	—	361
Total Revenues	$ 23,758	$ 26,591	$ 50,349
Timing of revenue recognition:			
Transferred at a point in time	$ —	$ 24,984	$ 24,984
Transferred over time	23,758	1,607	25,365
Total Revenues	$ 23,758	$ 26,591	$ 50,349

Contract Balances

The following table provides information about receivables, cost to obtain, and contract liabilities from contracts with customers *(in thousands)*:

	June 30, 2020	December 31, 2019	Increase/(decrease)
Cost to obtain franchise contracts(1)	1,153	$ 1,004	$ 149
Commissions and agency fees receivable, net(2)	7,628	6,884	744
Receivable from franchisees(2)	17,143	13,616	3,527
Contract liability(3)	26,760	22,795	3,965

(1) Cost to obtain franchise contracts is included in Other assets on the condensed consolidated balance sheets.
(2) Includes both the current and long term portion of this balance.
(3) Initial Franchise Fees to be recognized over the life of the contract

Significant changes in contract liabilities are as follows *(in thousands)*:

Contract liability at December 31, 2019	$ 22,795
Revenue recognized during the period	(1,879)
New deferrals(1)	5,844
Contract liability at June 30, 2020	26,760

(1) Initial Franchise Fees where the consideration is received from the customer for services which are to be transferred to the Franchisee over the term of the Franchise Agreement

4. Franchise Fees Receivable

The balance of Franchise fees receivable included in Receivable from franchisees consisted of the following *(in thousands)*:

	June 30, 2020	December 31, 2019
Franchise fees receivable[1]	$ 18,855	$ 15,314
Less: Unamortized discount[1]	(4,858)	(3,771)
Less: Allowance for uncollectible franchise fees[1]	(92)	(52)
Net franchise fees receivable[1]	$ 13,905	$ 11,491

(1) Includes both the current and long term portion of this balance

Activity in the allowance for uncollectible franchise fees was as follows *(in thousands)*:

Balance at December 31, 2019	$ 52
Charges to bad debts	137
Write offs	(97)
Balance at June 30, 2020	$ 92
Balance at December 31, 2018	$ 455
Charges to bad debts	367
Write offs	(289)
Balance at June 30, 2019	$ 533

5. Allowance for Uncollectible Agency Fees

Activity in the allowance for uncollectible Agency Fees was as follows *(in thousands)*:

Balance at December 31, 2019	$ 178
Charges to bad debts	491
Write offs	(359)
Balance at June 30, 2020	$ 310
Balance at December 31, 2018	$ 242
Charges to bad debts	516
Write offs	(472)
Balance at June 30, 2019	$ 286

6. Property and equipment

Property and equipment consisted of the following *(in thousands)*:

	June 30, 2020	December 31, 2019
Furniture & fixtures	$ 4,010	$ 3,012
Computer equipment	2,242	1,480
Network equipment	324	268
Phone system	940	885
Leasehold improvements	11,165	9,073
Total	18,681	14,718
Less accumulated depreciation	(6,332)	(5,176)
Property and equipment, net	$ 12,349	$ 9,542

7. Debt

On March 6, 2020, the Company refinanced its $13.0 million revolving credit facility and $40.0 million term note payable to a $25.0 million revolving credit facility and $80.0 million term note payable to finance general corporate purposes. The Company also has the right, subject to approval by the administrative agent and each issuing bank, to increase the commitments under the credit facilities an additional $50.0 million. As part of the refinancing, $172 thousand of debt issuance costs from previous debt were immediately recognized as interest expense.

The $25.0 million revolving credit facility accrues interest on amounts drawn at an initial interest rate of LIBOR plus 2.50%, then at an interest rate determined by the Company's leverage ratio for the preceding period. At June 30, 2020 the Company was accruing interest at LIBOR plus 200 basis points. At June 30, 2020, the Company had $5.0 million drawn against the revolver and had a letter of credit of $333 thousand applied against the maximum borrowing availability, payable on March 6, 2023. Thus, amounts available to draw totaled $19.7 million. The revolving credit facility is collateralized by substantially all the Company’s assets, which includes rights to future commissions.

The term note is payable in quarterly installments of $500 thousand the first twelve months, $1.0 million the next twelve months and $2.0 million the last twelve months, with a balloon payment on March 6, 2023. The note is collateralized by substantially all of the Company’s assets, which includes rights to future commissions. Interest is calculated initially at LIBOR plus 2.50%, then at an interest rate based on the Company's leverage ratio for the preceding period. At June 30, 2020 the Company was accruing interest at LIBOR plus 200 basis points. On June 24, 2020 the Company drew down the remaining $37.9 million of the term loan. As of June 30, 2020, the Company had $79.5 million of the term note drawn.

The interest rate for each leverage ratio tier are as follows:

Leverage Ratio	Interest Rate
< 1.50x	LIBOR + 175 bps
> 1.50x	LIBOR + 200 bps
> 2.50x	LIBOR + 225 bps
> 3.50x	LIBOR + 250 bps

Maturities of the term note payable for the next four years are as follows (*in thousands*):

		Amount
2020	$	1,000
2021		3,500
2022		7,000
2023		68,000
Total	$	79,500

The Company's note payable agreement contains certain restrictions and covenants. Under these restrictions, the Company is limited in the amount of debt incurred and distributions payable. In addition, the credit agreement contains certain change of control provisions that, if broken, would trigger a default. Finally, the Company must maintain certain financial ratios. As of June 30, 2020, the Company was in compliance with these covenants.

Because of both instruments' variable interest rate, the note payable balance at June 30, 2020 and December 31, 2019, approximates fair value using Level 2 inputs, described below.

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets.
- Level 2—Significant other observable inputs other than Level 1 prices such as quoted prices in markets that are not active, quoted prices for similar assets or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset.
- Level 3—Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

8. Commitments and Contingencies

The Company leases its facilities under non-cancelable operating leases, expiring in various years through 2029. In addition to monthly lease payments, the lease agreements require the Company to reimburse the lessors for its portion of operating costs each year. Rent expense was $0.6 million and $1.1 million for the three and six months ended June 30, 2020 and $0.4 million and $0.9 million for three and six months ended June 30, 2019.

The following is a schedule of future minimum lease payments as of June 30, 2020 *(in thousands)*:

	Amount
2020	$ 1,661
2021	3,507
2022	3,491
2023	3,324
2024	3,156
Thereafter	10,814
Total	$ 25,953

9. Income Taxes

As a result of the Reorganization Transactions and the Offering, GSHD became the sole managing member of GF, which is treated as a partnership for U.S. federal and most applicable state and local income tax purposes. As a partnership, GF is not subject to U.S. federal and certain state and local income taxes. Any taxable income or loss generated by GF is passed through to and included in the taxable income or loss of its members, including GSHD, on a pro rata basis. GSHD is subject to U.S. federal income taxes, in addition to state and local income taxes, with respect to GSHD's allocable share of income of GF.

Income tax expense (benefit)

Provision for/(benefit from) income taxes for the three and six months ended June 30, 2020 was $(240) thousand and $(281) thousand compared to $430 thousand and $1.2 million for the three and six months ended June 30, 2019. The effective tax rate was (3)% and (4)% for the three and six months ended June 30, 2020 and 13% and 10% for the three and six months ended June 30, 2019. These effective tax rates are calculated using extended values from our condensed consolidated statements of income, and are therefore more precise tax rates than can be calculated from rounded values. The decrease in the effective tax rate for the period ended June 30, 2020 compared to the period ended June 30, 2019 was primarily due to exercises of employee stock options resulting in excess tax deductible expenses.

Deferred taxes

Deferred tax assets at June 30, 2020 were $41.4 million compared to $15.5 million at December 31, 2019. The primary contributing factor to the increase in deferred tax assets is additional redemptions of LLC Units of GF for shares of Class A common stock of GSHD during the three and six months ended June 30, 2020.

Tax Receivable Agreement

GF intends to make an election under Section 754 of the Internal Revenue Code of 1986, as amended, and the regulations thereunder (the “Code”) effective for each taxable year in which a redemption or exchange of LLC Units and corresponding Class B common stock for shares of Class A common stock occurs. Future taxable redemptions or exchanges are expected to result in tax basis adjustments to the assets of GF that will be allocated to the Company and thus produce favorable tax attributes. These tax attributes would not be available to GSHD in the absence of those transactions. The anticipated tax basis adjustments are expected to reduce the amount of tax that GSHD would otherwise be required to pay in the future.

GSHD entered into a tax receivable agreement with the Pre-IPO LLC Members on May 1, 2018 that provides for the payment by GSHD to the Pre-IPO LLC Members of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that GSHD actually realizes as a result of (i) any increase in tax basis in GSHD's assets and (ii) tax benefits related to imputed interest deemed arising as a result of payments made under the tax receivable agreement.

During the three and six months ended June 30, 2020, an aggregate of 809 thousand and 1,600 thousand LLC Units, respectively, were redeemed by the Pre-IPO LLC Members for newly issued shares of Class A common stock. In connection with these redemptions, GSHD received 809 thousand and 1,600 thousand LLC Units, which resulted in an increase in the tax basis of its investment in GF subject to the provisions of the tax receivable agreement. The Company recognized a liability for the TRA Payments due to the Pre-IPO LLC Members, representing 85% of the aggregate tax benefits the Company expects to realize from the tax basis increases related to the redemptions of LLC Units, after concluding it was probable that such TRA Payments would be paid based on its estimates of future taxable income. As of June 30, 2020, the total amount of TRA Payments due to the Pre-IPO LLC Members under the tax receivable agreement was $35.8 million, of which $681 thousand was current and included in Accounts payables and accrued expenses on the Consolidated Balance Sheet.

Uncertain tax positions

GSHD has determined there are no material uncertain tax positions as of June 30, 2020.

10. Stockholders' Equity

Class A Common Stock

GSHD has a total of 17,084 thousand shares of its Class A common stock outstanding at June 30, 2020. Each share of Class A common stock holds economic rights and entitles its holder to one vote per share on all matters submitted to a vote of the stockholders of GSHD.

Class B Common Stock

GSHD has a total of 19,455 thousand shares of its Class B common stock outstanding at June 30, 2020. Each share of Class B common stock has no economic rights but entitles its holder to one vote per share on all matters submitted to a vote of the stockholders of GSHD.

Holders of Class A common stock and Class B common stock vote together as a single class on all matters presented to GSHD's shareholders for their vote or approval, except as otherwise required by applicable law, by agreement, or by GSHD's certificate of incorporation.

Earnings Per Share

The following table sets forth the calculation of basic earnings per share ("EPS") based on net income attributable to GSHD for the three and six months ended June 30, 2020 and 2019, divided by the basic weighted average number of Class A common stock as of June 30, 2020 and June 30, 2019 *(in thousands, except per share amounts)*. Diluted earnings per share of Class A common stock is computed by dividing net income attributable to GSHD by the weighted average number of shares of Class A common stock outstanding adjusted to give effect to potentially dilutive securities *(in thousands, except per share amounts)*. The Company has not included the effects of conversion of Class B shares to Class A shares in the diluted EPS calculation using the "if-converted" method, because doing so has no impact on diluted EPS.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Numerator:				
Income before taxes	$ 7,146	$ 3,247	$ 6,809	$ 11,309
Less: income before taxes attributable to non-controlling interests	4,007	1,952	3,867	6,861
Income before taxes attributable to GSHD	3,139	1,295	2,942	4,448
Less: income tax expense (benefit) attributable to GSHD	(240)	392	(281)	1,073
Net income attributable to GSHD	$ 3,379	$ 903	$ 3,223	$ 3,375
Denominator:				
Weighted average shares of Class A common stock outstanding - basic	16,458	14,876	16,011	14,545
Effect of dilutive securities:				
Stock options	1,489	1,189	1,421	1,140
Weighted average shares of Class A common stock outstanding - diluted	17,947	16,065	17,432	15,685
Earnings per share of Class A common stock - basic	$ 0.21	$ 0.06	$ 0.20	$ 0.23
Earnings per share of Class A common stock - diluted	$ 0.19	$ 0.06	$ 0.18	$ 0.22

11. Non-controlling interest

Following the Offering, GSHD became the sole managing member of GF and, as a result, it consolidates the financial results of GF. GSHD reports a non-controlling interest representing the economic interest in GF held by the other members of GF.

On a quarterly basis, GF makes distributions to the LLC Unit holders on a pro rata basis to facilitate the LLC Unit holder's quarterly tax payments. For the three and six months ended June 30, 2020, GF made distributions of $1.5 million and $3.3 million, of which $0.9 million and $1.9 million where made to Pre-IPO LLC Members. The remaining $0.7 million and $1.4 million were made to GSHD and were eliminated in consolidation. For the three and six months ended June 30, 2019, GF made distributions of $4.5 million and $5.0 million, of which $2.7 million and $3.0 million were made to Pre-IPO LLC Members. The remaining $1.8 million and $2.0 million were made to GSHD and were eliminated in consolidation.

Under the amended and restated Goosehead Financial, LLC Agreement, the Pre-IPO LLC Members have the right, from and after the completion of the Offering (subject to the terms of the amended and restated Goosehead Financial, LLC Agreement), to require GSHD to redeem all or a portion of their LLC Units for, at GSHD's election, newly-issued shares of Class A common stock on a one-for-one basis or a cash payment equal to the volume weighted average market price of one share of GSHD's Class A common stock for each LLC Unit redeemed (subject to customary adjustments, including for stock splits, stock dividends and reclassifications) in accordance with the terms of the amended and restated Goosehead Financial, LLC Agreement. Additionally, in the event of a redemption request by a Pre-IPO LLC Member, GSHD may, at its option, effect a direct exchange of cash or Class A common stock for LLC Units in lieu of such a redemption. Shares of Class B common stock will be cancelled on a one-for-one basis if GSHD, at the election of a Pre-IPO LLC Member, redeems or exchanges LLC Units of such Pre-IPO LLC Member pursuant to the terms of the amended and restated Goosehead Financial, LLC Agreement. Except for transfers to GSHD pursuant to the amended and restated Goosehead Financial, LLC Agreement or to certain permitted transferees, the Pre-IPO LLC Members are not permitted to sell, transfer or otherwise dispose of any LLC Units or shares of Class B common stock.

During the three and six months ended June 30, 2020, an aggregate of 809 thousand and 1,600 thousand LLC Units were redeemed by the non-controlling interest holders. Pursuant to the GF LLC Agreement, GSHD issued 809 thousand and 1,600 thousand shares of Class A common stock in connection with these redemptions and received 809 thousand and 1,600 thousand LLC Interests, increasing GSHD's ownership interest in GF. Simultaneously, and in connection with these redemptions, 809 thousand and 1,600 thousand shares of Class B common stock were surrendered and cancelled.

The following table summarizes the ownership interest in GF as of June 30, 2020 *(in thousands)*:

	June 30, 2020	
	LLC Units	**Ownership %**
Number of LLC Units held by GSHD	17,084	46.8%
Number of LLC Units held by non-controlling interest holders	19,455	53.2%
Number of LLC Units outstanding	36,539	100.0%

The weighted average ownership percentages for the applicable reporting periods are used to attribute net income to GSHD and the non-controlling interest holders. The non-controlling interest holders' weighted average ownership percentage for the three and six months ended June 30, 2020 was 54.8% and 56.0%, respectively.

The following table summarizes the effects of changes in ownership in GF on the equity of GSHD for the three and six months ended June 30, 2020 and 2019 as follows *(in thousands)*:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2020	**2019**	**2020**	**2019**
Net Income attributable to Goosehead Insurance Inc.	$ 3,379	$ 903	$ 3,223	$ 3,375
Transfers (to) from non-controlling interests:				
Decrease in additional paid-in capital as a result of the redemption of LLC interests	(762)	(477)	(1,631)	(1,156)
Increase in additional paid-in capital as a result of activity under employee stock purchase plan	138	142	254	142
Total effect of changes in ownership interest on equity attributable to Goosehead Insurance Inc.	**$ 2,755**	**$ 568**	**$ 1,846**	**$ 2,361**

12. Equity-Based Compensation

Stock option expense was $1,416 thousand and $1,914 thousand three and six months ended June 30, 2020, respectively. Stock option expense was $368 thousand and $735 thousand for the three and six months ended June 30, 2019, respectively.

On April 1, 2020, the Company granted an additional 900,000 stock options to its Managing Directors at an exercise price equal to $40.88 per share. The grant date fair value of $16.31 per option was determined using the Black-Scholes valuation model using the following assumptions:

Expected volatility	40 %
Expected dividend yield	— %
Expected term (in years)	6.5
Risk-free interest rate	0.47 %

13. Dividends

On March 7, 2019, GF approved a $15.0 million extraordinary dividend to all holders of LLC Units, including GSHD. The board of directors of the Company then declared an extraordinary dividend of $0.41 (rounded) to all holders of Class A common stock of GSHD with a record date of March 18, 2019, paid on or before April 1, 2019. A summary of the total amounts declared by GF is as follows *(in thousands)*:

	LLC Units held as of March 18, 2019		Dividends declared
Class A common stockholders	14,421	$	5,962
Class B common stockholders via LLC Units held	21,864		9,038
Total	36,285	$	15,000

Any future extraordinary dividends will be declared at the sole discretion of GF's managing members with respect to GF and the Company's board of directors with respect to GSHD. In determining whether a future extraordinary dividend will be declared by the Company, the board of directors may, at its sole discretion, consider the following: the Company's financial condition and operating results, the Company's available cash and current and anticipated cash needs, the Company's capital requirements, any contractual, legal, tax and regulatory restrictions, general economic and business conditions, and such other factors or conditions as the board of directors deems relevant.

14. Segment Information

The Company has two reportable Segments: Corporate Channel and Franchise Channel. The Corporate Channel consists of company-owned and financed operations with employees who are hired, trained, and managed by Goosehead. The Franchise Channel network consists of Franchisee operations that are owned and managed by individual business owners. These business owners have a contractual relationship with Goosehead to use the Company's processes, systems, and back-office support team to sell insurance and manage their business. In exchange, Goosehead is entitled to an Initial Franchise Fee and ongoing royalty fees. Allocations of contingent commissions and certain operating expenses are based on reasonable assumptions and estimates primarily using revenue, headcount and other information. The Company’s chief operating decision maker uses net income before interest, income taxes, depreciation and amortization, adjusted to exclude equity-based compensation and other non-operating items, including, among other things, certain non-cash charges and certain non-recurring or non-operating gains or losses (“Adjusted EBITDA”) as a performance measure to manage resources and make decisions about the business. Summarized financial information concerning the Company’s reportable Segments is shown in the following tables (in thousands). There are no intersegment sales, only interest income and interest expense related to an intersegment line of credit, all of which eliminate in consolidation. The “Other” column includes any income and expenses not allocated to reportable Segments and corporate-related items, including equity-based compensation, certain legal expenses and interest related to the note payable.

	Franchise Channel	Corporate Channel	Other	Total
Three months ended June 30, 2020				
Revenues:				
Commissions and agency fees				
Renewal Commissions	$ —	$ 7,718	$ —	$ 7,718
Agency Fees	—	2,185	—	2,185
New Business Commissions	—	4,329	—	4,329
Contingent Commissions	2,774	1,242	—	4,016
Total Commissions and Agency Fees	2,774	15,474	—	18,248
Franchise revenue				
Renewal Royalty Fees	7,903	—	—	7,903
New Business Royalty Fees	2,599	—	—	2,599
Initial Franchise Fees	901	—	—	901
Other Income	81	—	—	81
Total Franchise Revenues	11,484	—	—	11,484
Interest income				
Interest Income	192	—	—	192
Total Interest Income	192	—	—	192
Total Revenues	14,450	15,474	—	29,924
Operating expenses:				
Employee compensation and benefits, excluding equity based compensation	5,965	8,523	—	14,488
General and administrative expenses	1,934	2,621	809	5,364
Bad debts	56	263	—	319
Total Operating Expenses	7,955	11,407	809	20,171
Adjusted EBITDA	6,495	4,067	(809)	9,753
Other income (expense)	—	—	—	—
Equity based compensation	—	—	(1,416)	(1,416)
Interest expense	—	—	(479)	(479)
Depreciation and amortization	(396)	(316)	—	(712)
Income tax benefit	—	—	240	240
Net income	$ 6,099	$ 3,751	$ (2,464)	$ 7,386
June 30, 2020:				
Total Assets	$ 31,904	$ 21,818	$ 88,867	$ 142,589

	Franchise Channel	Corporate Channel	Other	Total
Three months ended June 30, 2019:				
Revenues:				
Commissions and agency fees				
Renewal Commissions	$ —	$ 5,899	$ —	$ 5,899
Agency Fees	—	1,740	—	1,740
New Business Commissions	—	3,013	—	3,013
Contingent Commissions	91	20	—	111
Total Commissions and Agency Fees	91	10,672	—	10,763
Franchise revenue				
Renewal Royalty Fees	5,062	—	—	5,062
New Business Royalty Fees	1,864	—	—	1,864
Initial Franchise Fees	1,515	—	—	1,515
Other Income	34	—	—	34
Total Franchise Revenues	8,475	—	—	8,475
Interest income				
Interest Income	148	—	—	148
Total Interest Income	148	—	—	148
Total Revenues	8,714	10,672	—	19,386
Operating expenses:				
Employee compensation and benefits, excluding equity based compensation	4,038	5,972	—	10,010
General and administrative expenses	1,531	2,078	592	4,201
Bad debts	207	275	—	482
Total Operating Expenses	5,776	8,325	592	14,693
Adjusted EBITDA	2,938	2,347	(592)	4,693
Equity based compensation	—	—	(368)	(368)
Interest expense	—	—	(626)	(626)
Depreciation and amortization	(218)	(234)	—	(452)
Taxes	—	—	(430)	(430)
Net income	$ 2,720	$ 2,113	$ (2,016)	$ 2,817
June 30, 2019:				
Total Assets	$ 13,165	$ 7,018	$ 17,909	$ 38,092

	Franchise Channel	Corporate Channel	Other	Total
Six months ended June 30, 2020				
Revenues:				
Commissions and agency fees				
Renewal Commissions	$ —	$ 13,451	$ —	$ 13,451
Agency Fees	—	3,871	—	3,871
New Business Commissions	—	7,662	—	7,662
Contingent Commissions	3,468	1,607	—	5,075
Total Commissions and Agency Fees	3,468	26,591	—	30,059
Franchise revenue				
Renewal Royalty Fees	13,289	—	—	13,289
New Business Royalty Fees	4,647	—	—	4,647
Initial Franchise Fees	1,879	—	—	1,879
Other Income	114	—	—	114
Total Franchise Revenues	19,929	—	—	19,929
Interest income				
Interest Income	361	—	—	361
Total Interest Income	361	—	—	361
Total Revenues	23,758	26,591	—	50,349
Operating expenses:				
Employee compensation and benefits, excluding equity based compensation	11,861	15,632	—	27,493
General and administrative expenses	4,159	5,330	1,747	11,236
Bad debts	137	491	—	628
Total Operating Expenses	16,157	21,453	1,747	39,357
Adjusted EBITDA	7,601	5,138	(1,747)	10,992
Other income (expense)	66	—	—	66
Equity based compensation	—	—	(1,914)	(1,914)
Interest expense	—	—	(1,083)	(1,083)
Depreciation and amortization	(709)	(543)	—	(1,252)
Income tax benefit	—	—	281	281
Net income	$ 6,958	$ 4,595	$ (4,463)	$ 7,090
June 30, 2020:				
Total Assets	$ 31,904	$ 21,818	$ 88,867	$ 142,589

	Franchise Channel	Corporate Channel	Other	Total
Six months ended June 30, 2019:				
Revenues:				
Commissions and agency fees				
Renewal Commissions	$ —	$ 10,688	$ —	$ 10,688
Agency Fees	—	3,177	—	3,177
New Business Commissions	—	5,472	—	5,472
Contingent Commissions	4,306	3,290	—	7,596
Total Commissions and Agency Fees	4,306	22,627	—	26,933
Franchise revenue				
Renewal Royalty Fees	8,825	—	—	8,825
New Business Royalty Fees	3,219	—	—	3,219
Initial Franchise Fees	3,225	—	—	3,225
Other Income	34	—	—	34
Total Franchise Revenues	15,303	—	—	15,303
Interest income				
Interest Income	283	—	—	283
Total Interest Income	283	—	—	283
Total Revenues	19,892	22,627	—	42,519
Operating expenses:				
Employee compensation and benefits, excluding equity based compensation	7,795	11,039	—	18,834
General and administrative expenses	3,162	3,980	1,489	8,631
Bad debts	367	516	—	883
Total Operating Expenses	11,324	15,535	1,489	28,348
Adjusted EBITDA	8,568	7,092	(1,489)	14,171
Equity based compensation	—	—	(735)	(735)
Interest expense	—	—	(1,252)	(1,252)
Depreciation and amortization	(402)	(473)	—	(875)
Income tax benefit	—	—	(1,174)	(1,174)
Net income	$ 8,166	$ 6,619	$ (4,650)	$ 10,135
June 30, 2019:				
Total Assets	$ 13,165	$ 7,018	$ 17,909	$ 38,092

15. Litigation

From time to time, GSHD may be involved in various legal proceedings, lawsuits and claims incidental to the conduct of the Company's business. The amount of any loss from the ultimate outcomes is not probable or reasonably estimable. It is the opinion of management that the resolution of outstanding claims will not have a material adverse effect on the financial position or results of operations of the Company.

16. Subsequent events

On July 30, 2020, GF approved an extraordinary dividend in the aggregate amount of $42.0 million payable to holders of LLC Units, including GSHD. The board of directors of the Company subsequently declared an extraordinary dividend of $1.15 (rounded) to all holders of Class A common stock of GSHD with a record date of August 10, 2020, paid on or before August 24, 2020. A summary of the total amounts declared by GF is as follows *(in thousands)*:

	LLC Units held as of July 30, 2020	Estimated dividend to be paid
Class A common stockholders	17,263	$ 19,843
Class B common stockholders via LLC Units held	19,276	22,157
Total	36,539	$ 42,000

Any future extraordinary dividends will be declared at the sole discretion of the Company as GF's managing member with respect to GF and the Company's board of directors with respect to the Company. In determining whether a future extraordinary dividend will be declared by the Company, the board of directors may, at its sole discretion, consider the following: the Company's financial condition and operating results, the Company's available cash and current and anticipated cash needs, the Company's capital requirements, any contractual, legal, tax and regulatory restrictions, general economic and business conditions, and such other factors or conditions as the board of directors deems relevant.

Item 2: Management's discussion and analysis of financial condition and results of operations

OVERVIEW

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes and other financial information included elsewhere in this Form 10-Q. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results and timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under "Risk factors" and elsewhere in this report and in the Annual Report on Form 10-K.

We are a rapidly growing personal lines independent insurance agency, reinventing the traditional approach to distributing personal lines products and services throughout the United States. We were founded with one vision in mind—to provide consumers with superior insurance coverage at the best available price and in a timely manner. By leveraging our differentiated business model and innovative technology platform, we are able to deliver to consumers a superior insurance experience. Our management team continues to own approximately 58% of the company, representing our commitment to the long-term success of the Company.

Financial Highlights for the Second Quarter of 2020:

- Total revenue increased 54% from the second quarter of 2019 to $29.9 million; on a comparable ASC 605 accounting basis, revenue increased $8.2 million or 42%
- Core Revenue* increased by 41% from second quarter of 2019 to $24.7 million; on a comparable ASC 605 accounting basis, Core Revenue increased $7.2 million or 41%
- Total Written Premiums placed increased 41% from the prior-year period to $274 million
- Net income increased by $4.6 million from the second quarter of 2019 to $7.4 million; on a comparable ASC 605 accounting basis, net income increased by $2.4 million
- Adjusted EBITDA* increased 108% from the second quarter of 2019 to $9.8 million, or 33% of total revenues. On a comparable ASC 605 accounting basis, Adjusted EBITDA increased by $2.6 million.
- Franchise Channel Adjusted EBITDA increased 121% from the second quarter of 2019 to $6.5 million, or 45% of Franchise Channel revenues. On a comparable ASC 605 accounting basis, Franchise Channel Adjusted EBITDA increased by $2.0 million or 70%.
- Corporate Channel Adjusted EBITDA decreased 73% from the second quarter of 2019 to $4.1 million, or 26% of Corporate Channel revenues. On a comparable ASC 605 accounting basis, Corporate Channel Adjusted EBITDA increased by $0.8 million or 34%.
- Basic and diluted earnings per share were $0.21 and $0.19, respectively, and Adjusted EPS*, a non-GAAP measure, was $0.25 for the three months ended June 30, 2020
- Policies in Force increased 45% from June 30, 2019 to 590,000 at June 30, 2020
- Corporate sales headcount increased 49% from June 30, 2019 to 317 at June 30, 2020
    - As of June 30, 2020, 182 of these Corporate sales agents had less than one year of tenure and 135 had greater than one year of tenure
- Total franchises increased 48% compared to the prior year period to 1,132; total operating franchises increased 36% from June 30, 2019 to 730 at June 30, 2020
    - In Texas as of June 30, 2020, 26 operating Franchisees had less than one year of tenure and 182 operating Franchisees had greater than one year of tenure.
    - Outside of Texas as of June 30, 2020, 235 operating Franchisees had less than one year of tenure and 287 had greater than one year of tenure.

*Core Revenue, Adjusted EBITDA and Adjusted EPS are non-GAAP measures. Reconciliation of Core Revenue to total revenue, Adjusted EBITDA to net income and Adjusted EPS to EPS, the most directly comparable financial measures presented in accordance with GAAP, are set forth under "Key performance indicators".

Novel coronavirus ("COVID-19")

An outbreak of a novel strain of the coronavirus, COVID-19, was identified in China and has subsequently been recognized as a pandemic by the World Health Organization. This COVID-19 outbreak has severely restricted the level of economic activity around the world. In response to this outbreak, the governments of many countries, states, cities and other geographic regions, including in the United States, have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes. In the United States, temporary closures of businesses have been ordered and numerous other businesses have temporarily closed voluntarily.

During the first quarter, the Company reduced workforce density at all corporate offices by requiring employees to work from home. Additionally, the Company indefinitely suspended all corporate travel, field support visits, in-person marketing efforts and in-person team meetings. Leveraging the Company's cloud based technology, video conferencing technology and importantly the Company's mortgage activity database to continue marketing efforts allowed operations to be largely uninterrupted. Changes in consumer behavior linked to the COVID-19 pandemic, may have resulted in reduced loss ratios through the six months ended June 30, 2020, increasing the amount of revenue from Contingent Commissions the Company expects to receive.

During the first quarter, we took steps to strengthen our liquidity, including amending our credit agreement on March 6, 2020 to increase the term loan available borrowing to $80.0 million and to increase the amount available under our revolving credit facility to $25.0 million. Because of the continued strength and resiliency of our business and our outlook for the remainder of 2020, we declared a special dividend to be distributed during the third quarter. See "Liquidity and capital resources”.

Given the uncertainty regarding the spread and severity of COVID-19 and the adverse effects on the national and global economy, the related financial impact on our business cannot be accurately predicted at this time. We continue to monitor the rapidly evolving situation and guidance from the authorities, including federal, state and local public health officials and as a result may take additional actions. While we intend to continue to execute on our strategic plans and operational initiatives during the outbreak, in these circumstances, there may be developments outside our control requiring us to adjust our operating plan. See Part II, Item 1A. “Risk Factors—The global outbreak of the coronavirus disease (COVID-19) may negatively impact the global economy in a significant manner for an extended period of time, and could also materially adversely affect our business and operating results.”

Certain income statement line items

Revenues

Effective with the filing of the Annual Report on Form 10-K, the Company adopted new accounting guidance, ASU 2014-09 - *Revenue from Contracts with Customers* ("Topic 606"), related to revenue from contracts with customers. The Company adopted Topic 606 using the modified retrospective method, which applies the new guidance prospectively, beginning as of 2019, the year of adoption. Accordingly, the adoption of Topic 606 using the modified retrospective method does not impact prior years' financial statements.

For the three months ended June 30, 2020, revenue increased by 54% to $29.9 million from $19.4 million for the three months ended June 30, 2019. For the six months ended June 30, 2020, revenue increased by 18% to $50.3 million from $42.5 million for the six months ended June 30, 2019. For the three and six months ended June 30, 2020 if results were reported under ASC 605, total revenue would have grown 42% to $27.6 million and 23% to $52.4 million, respectively. Total Written Premium growth, which is the best leading indicator of future revenue growth, was 41% to $274 million for the three months ended June 30, 2020 from $194 million for the three months ended June 30, 2019 and 43% to $488 million for the six months ended June 30, 2020 from $341 million for the six months ended June 30, 2019. Total Written Premiums drive our current and future Core Revenue and gives us potential opportunities to earn Ancillary Revenue in the form of Contingent Commissions.

Our various revenue streams do not equally contribute to the long-term value of Goosehead. For instance, Renewal Revenue and Renewal Royalty Fees are more predictable and have higher margin profiles, thus are higher quality revenue streams for the Company. Alternatively, Contingent Commissions, while high margin, are unpredictable and dependent on insurance company underwriting and forces of nature and thus are lower quality revenue for the Company. Our revenue streams can be viewed in three distinct categories: Core Revenue, Cost Recovery Revenue, and Ancillary Revenue, which are non-GAAP measures. A reconciliation of Core Revenue, Cost Recovery Revenue, and Ancillary Revenue to total revenue, the most directly comparable financial measures presented in accordance with GAAP, are set forth under "Key performance indicators".

Core Revenue:

- Renewal Commissions - highly predictable, higher-margin revenue stream, which is managed by our service team.
- Renewal Royalty Fees - highly predictable, higher-margin revenue stream, which is managed by our service team. For policies in their first renewal term, we see an increase in our share of royalties from 20% to 50% on the commission paid by the Carriers.
- New Business Commissions - predictable based on agent headcount and consistent ramp-up of agents, but lower margin than Renewal Commissions because of higher commissions paid to agents and higher back-office costs associated with policies in their first term. This revenue stream has predictably converted into higher-margin Renewal Commissions historically, and we expect this to continue moving forward.
- New Business Royalty Fees - predictable based on franchise count and consistent ramp-up of franchises, but lower margin than Renewal Royalty Fees because the Company only receives a royalty fee of 20% on the commissions paid by the Carrier in the first term of every policy and higher back-office costs associated with policies in their first term. This revenue stream has predictably converted into higher-margin Renewal Royalty Fees historically, and we expect this to continue moving forward.
- Agency Fees - although predictable based on agent count, Agency Fees do not renew like New Business Commissions and Renewal Commissions.

Cost Recovery Revenue:

- Initial Franchise Fees - one-time Cost Recovery Revenue stream per franchise unit that covers the Company's costs to recruit, train, onboard, and support the franchise for the first year. These fees are fully earned and non-refundable when a franchise attends our initial training.
- Interest Income - like Initial Franchise Fees, interest income is a Cost Recovery Revenue stream that reimburses the Company for those franchises on a payment plan.

Ancillary Revenue:

- Contingent Commissions - although high margin, Contingent Commissions are unpredictable and susceptible to weather events and Carrier underwriting results. Management does not rely on Contingent Commissions for operating cash flow or budget planning.
- Other Income - book transfer fees, marketing investments from Carriers and other items that are unpredictable and supplemental to other revenue streams.

We discuss below the breakdown of our revenue by stream:

(in thousands)	Three Months Ended June 30, 2020 (ASC 606)		2020 (ASC 605)		2019 (ASC 605)	
Core Revenue:						
Renewal Commissions(1)	$7,718	26 %	$7,712	28 %	$5,899	30 %
Renewal Royalty Fees(2)	7,903	26 %	7,815	28 %	5,062	26 %
New Business Commissions(1)	4,329	14 %	4,333	16 %	3,013	16 %
New Business Royalty Fees(2)	2,599	9 %	2,610	9 %	1,864	10 %
Agency Fees(1)	2,185	7 %	2,344	9 %	1,740	9 %
Total Core Revenue	24,734	83 %	24,814	90 %	17,578	91 %
Cost Recovery Revenue:						
Initial Franchise Fees(2)	901	3 %	1,605	6 %	1,515	8 %
Interest Income	192	1 %	192	1 %	148	1 %
Total Cost Recovery Revenue	1,093	4 %	1,797	7 %	1,663	9 %
Ancillary Revenue:						
Contingent Commissions(1)	4,016	13 %	863	3 %	111	1 %
Other Income(2)	81	— %	81	— %	34	— %
Total Ancillary Revenue	4,097	14 %	944	3 %	145	1 %
Total Revenues	**$29,924**	**100 %**	**$27,555**	**100 %**	**$19,386**	**100 %**

(1) Renewal Commissions, New Business Commissions, Agency Fees, and Contingent Commissions are in.

(2) Renewal Royalty Fees, New Business Royalty Fees, Initial Franchise Fees, and Other Income are included in "Franchise revenues" as shown on the Consolidated statements of income.

(in thousands)	Six Months Ended June 30, 2020 (ASC 606)		2020 (ASC 605)		2019 (ASC 605)	
Core Revenue:						
Renewal Commissions(1)	$13,451	27 %	$13,856	26 %	$10,688	25 %
Renewal Royalty Fees(2)	13,289	26 %	13,569	26 %	8,825	21 %
New Business Commissions(1)	7,662	15 %	7,734	15 %	5,472	13 %
New Business Royalty Fees(2)	4,647	9 %	4,738	9 %	3,219	8 %
Agency Fees(1)	3,871	8 %	4,339	8 %	3,177	7 %
Total Core Revenue	42,920	85 %	44,236	84 %	31,381	74 %
Cost Recovery Revenue:						
Initial Franchise Fees(2)	1,879	4 %	3,915	7 %	3,225	8 %
Interest Income	361	1 %	361	1 %	283	1 %
Total Cost Recovery Revenue	2,240	4 %	4,276	8 %	3,508	8 %
Ancillary Revenue:						
Contingent Commissions(1)	5,075	10 %	3,824	7 %	7,596	18 %
Other Income(2)	114	— %	114	— %	34	— %
Total Ancillary Revenue	5,189	10 %	3,938	8 %	7,630	18 %
Total Revenues	**$50,349**	**100 %**	**$52,450**	**100 %**	**$42,519**	**100 %**

(1) Renewal Commissions, New Business Commissions, Agency Fees, and Contingent Commissions are included in "Commissions and agency fees" as shown on the Consolidated statements of income.

(2) Renewal Royalty Fees, New Business Royalty Fees, Initial Franchise Fees, and Other Income are included in "Franchise revenues" as shown on the Consolidated statements of income.

Effects of Topic 606

The below illustrates the impact of Topic 606 on the Company's income statement line items for the three and six months ended June 30, 2020

	Three Months Ended June 30, 2020		
(in thousands)	ASC 605	Impact of Adoption	ASC 606
Core Revenue:			
Renewal Commissions[1]	7,712	6	$ 7,718
Renewal Royalty Fees[2]	7,815	88	7,903
New Business Commissions[1]	4,333	(4)	4,329
New Business Royalty Fees[2]	2,610	(11)	2,599
Agency Fees[1]	2,344	(159)	2,185
Total Core Revenue	24,814	(80)	24,734
Cost Recovery Revenue:			
Initial Franchise Fees[2]	1,605	(704)	901
Interest Income	192	—	192
Total Cost Recovery Revenue	1,797	(704)	1,093
Ancillary Revenue:			
Contingent Commissions[1]	863	3,153	4,016
Other Income[2]	81	—	81
Total Ancillary Revenue	944	3,153	4,097
Total Revenues	27,555	2,369	29,924
Operating Expenses:			
Employee compensation and benefits, excluding equity-based compensation	14,566	(78)	14,488
General and administrative expenses	5,364	—	5,364
Bad debts	312	7	319
Total	20,242	(71)	20,171
Adjusted EBITDA	7,313	2,440	9,753
Adjusted EBITDA Margin	*27 %*	*6 %*	*33 %*
Other income (expense)	—	—	—
Equity-based compensation	(1,416)	—	(1,416)
Interest expense	(479)	—	(479)
Depreciation and amortization	(712)	—	(712)
Tax benefit (expense)	553	793	240
Net Income	5,259	3,233	7,386
Less: net income attributable to non-controlling interests	2,585	1,422	4007
Net Income attributable to Goosehead Insurance Inc.	$ 2,674	$ 1,811	$ 3,379
Earnings per share:			
Basic	$ 0.16	0.05	$ 0.21
Diluted	$ 0.15	0.04	$ 0.19

(1) Renewal Commissions, New Business Commissions, Agency Fees, and Contingent Commissions are included in "Commissions and agency fees" as shown on the Consolidated statements of income.

(2) Renewal Royalty Fees, New Business Royalty Fees, Initial Franchise Fees, and Other Income are included in "Franchise revenues" as shown on the Consolidated statements of income.

	Six Months Ended June 30, 2020		
(in thousands)	**ASC 605**	**Impact of Adoption**	**ASC 606**
Core Revenue:			
Renewal Commissions[1]	13,856	(405)	$ 13,451
Renewal Royalty Fees[2]	13,569	(280)	13,289
New Business Commissions[1]	7,734	(72)	7,662
New Business Royalty Fees[2]	4,738	(91)	4,647
Agency Fees[1]	4,339	(468)	3,871
Total Core Revenue	44,236	(1,316)	42,920
Cost Recovery Revenue:			
Initial Franchise Fees[2]	3,915	(2,036)	1,879
Interest Income	361	—	361
Total Cost Recovery Revenue	4,276	(2,036)	2,240
Ancillary Revenue:			
Contingent Commissions[1]	3,824	1,251	5,075
Other Income[2]	114	—	114
Total Ancillary Revenue	3,938	1,251	5,189
Total Revenues	52,450	(2,101)	50,349
Operating Expenses:			
Employee compensation and benefits, excluding equity-based compensation	27,643	(150)	27,493
General and administrative expenses	11,236	—	11,236
Bad debts	925	(297)	628
Total	39,804	(447)	39,357
Adjusted EBITDA	12,646	(1,654)	10,992
Adjusted EBITDA Margin	*24 %*	*(2) %*	*22 %*
Other income (expense)	66	—	66
Equity-based compensation	(1,914)	—	(1,914)
Interest expense	(1,083)	—	(1,083)
Depreciation and amortization	(1,252)	—	(1,252)
Tax benefit (expense)	94	187	281
Net Income	8,557	(1,467)	7,090
Less: net income attributable to non-controlling interests	4,782	(914)	3,867
Net Income attributable to Goosehead Insurance Inc.	$ 3,775	$ (553)	$ 3,223
Earnings per share:			
Basic	$ 0.23	$ (0.03)	$ 0.20
Diluted	$ 0.22	$ (0.04)	$ 0.18

(1) Renewal Commissions, New Business Commissions, Agency Fees, and Contingent Commissions are included in "Commissions and agency fees" as shown on the Consolidated statements of income.

(2) Renewal Royalty Fees, New Business Royalty Fees, Initial Franchise Fees, and Other Income are included in "Franchise revenues" as shown on the Consolidated statements of income.

Consolidated results of operations

The following is a discussion of our consolidated results of operations for each of the three and six months ended June 30, 2020 and June 30, 2019. This information is derived from our accompanying condensed consolidated financial statements prepared in accordance with GAAP.

The following table summarizes our results of operations for the three months ended June 30, 2020 and 2019 *(in thousands)*:

	Three Months Ended June 30,					
	2020 (ASC 606)		2020 (ASC 605)		2019 (ASC 605)	
Revenues:						
Commissions and agency fees	$ 18,248	61 %	$ 15,252	55 %	$ 10,763	56 %
Franchise revenues	11,484	38 %	12,111	44 %	8,475	44 %
Interest income	192	1 %	192	1 %	148	1 %
Total revenues	29,924	100 %	27,555	100 %	19,386	100 %
Operating Expenses:						
Employee compensation and benefits	15,904	71 %	15,982	71 %	10,378	67 %
General and administrative expenses	5,364	24 %	5,364	24 %	4,201	27 %
Bad debts	319	1 %	312	1 %	482	3 %
Depreciation and amortization	712	3 %	712	3 %	452	3 %
Total operating expenses	22,299	100 %	22,370	100 %	15,513	100 %
Income from operations	7,625		5,185		3,873	
Other Income (Expense):						
Other income	—		—		—	
Interest expense	(479)		(479)		(626)	
Income before taxes	7,146		4,706		3,247	
Tax expense (benefit)	(240)		(553)		430	
Net income	7,386		5,259		2,817	
Less: net income attributable to non-controlling interests	4,007		2,585		1,914	
Net income attributable to Goosehead Insurance Inc.	$ 3,379		$ 2,674		$ 903	

The following table summarizes our results of operations for the six months ended June 30, 2020 and 2019 *(in thousands)*:

	Six Months Ended June 30,					
	2020 (ASC 606)		2020 (ASC 605)		2019 (ASC 605)	
Revenues:						
Commissions and agency fees	$ 30,059	60 %	$ 29,753	57 %	$ 26,933	63 %
Franchise revenues	19,929	40 %	22,336	43 %	15,303	36 %
Interest income	361	1 %	361	1 %	283	1 %
Total revenues	50,349	100 %	52,450	100 %	42,519	100 %
Operating Expenses:						
Employee compensation and benefits	29,407	69 %	29,557	69 %	19,569	65 %
General and administrative expenses	11,236	26 %	11,236	26 %	8,631	29 %
Bad debts	628	1 %	925	2 %	883	3 %
Depreciation and amortization	1,252	3 %	1,252	3 %	875	3 %
Total operating expenses	42,523	100 %	42,970	100 %	29,958	100 %
Income from operations	7,826		9,480		12,561	
Other Income (Expense):						
Other income	66		66		—	
Interest expense	(1,083)		(1,083)		(1,252)	
Income before taxes	6,809		8,463		11,309	
Tax expense (benefit)	(281)		(94)		1,174	
Net income	7,090		8,557		10,135	
Less: net income attributable to non-controlling interests	3,867		4,782		6,760	
Net income attributable to Goosehead Insurance Inc.	$ 3,223		$ 3,775		$ 3,375	

Revenues

For the three months ended June 30, 2020, revenue increased by 54% to $29.9 million from $19.4 million for the three months ended June 30, 2019. For the six months ended June 30, 2020, revenue increased by 18% to $50.3 million from $42.5 million six months ended June 30, 2019. On a comparable ASC 605 accounting basis, revenue increased $8.2 million or 42% for the three months ended June 30, 2020 and increased $9.9 million or 23% for the six months ended June 30, 2020.

Commissions and agency fees

Commissions and agency fees consist of new business commissions, renewal commissions, agency fees, and contingent commissions.

The following table sets forth our commissions and agency fees by amount and as a percentage of our revenues for the periods indicated (*in thousands*):

	Three Months Ended June 30,					
	2020 (ASC 606)		2020 (ASC 605)		2019 (ASC 605)	
Core Revenue:						
Renewal Commissions	7,718	42 %	7,712	52 %	5,899	55 %
New Business Commissions	4,329	24 %	4,333	28 %	3,013	28 %
Agency Fees	2,185	12 %	2,344	15 %	1,740	16 %
Total Core Revenue:	14,232	78 %	14,389	94 %	10,652	99 %
Ancillary Revenue:						
Contingent Commissions	4,016	22 %	863	6 %	111	1 %
Commissions and agency fees	**$ 18,248**	**100 %**	**$ 15,252**	**100 %**	**$ 10,763**	100 %

	Six Months Ended June 30,					
	2020 (ASC 606)		2020 (ASC 605)		2019 (ASC 605)	
Core Revenue:						
Renewal Commissions	13,451	45 %	13,856	47 %	10,688	40 %
New Business Commissions	7,662	25 %	7,734	26 %	5,472	20 %
Agency Fees	3,871	13 %	4,339	15 %	3,177	12 %
Total Core Revenue:	24,984	83 %	25,929	87 %	19,337	72 %
Ancillary Revenue:						
Contingent Commissions	5,075	17 %	3,824	13 %	7,596	28 %
Commissions and agency fees	**$ 30,059**	**100 %**	**$ 29,753**	**100 %**	**$ 26,933**	100 %

Renewal Commissions increased by $1.8 million or 31%, to $7.7 million for the three months ended June 30, 2020 from $5.9 million for the three months ended June 30, 2019. Renewal Commissions increased by $2.8 million or 26%, to $13.5 million for the six months ended June 30, 2020 from $10.7 million for the six months ended June 30, 2019. These increases were primarily attributable to an increase in the number of policies in the renewal term from June 30, 2019 to June 30, 2020.

New Business Commissions increased by $1.3 million, or 44%, to $4.3 million for the three months ended June 30, 2020 from $3.0 million for the three months ended June 30, 2019. Revenue from Agency Fees increased by $445 thousand, or 26%, to $2.2 million for the three months ended June 30, 2020 from $1.7 million for the three months ended June 30, 2019. New Business Commissions increased by $2.2 million or 40% for the six months ended June 30, 2020 from $5.5 million for the six months ended June 30, 2019. Revenue from Agency Fees increased by $694 thousand, or 22%, to $3.9 million for the six months ended June 30, 2020 from $3.2 million for the six months ended June 30, 2019. These increases were primarily attributable to a 49% increase in total sales agent head count to 317 at June 30, 2020, from 213 at June 30, 2019.

Revenue from Contingent Commissions increased by $3.9 million, to $4.0 million for the three months ended June 30, 2020 from $0.1 million for the three months ended June 30, 2019. Revenue from Contingent Commissions decreased by $2.5 million, or 33%, to $5.1 million for the six months ended June 30, 2020 from $7.6 million for the six months ended June 30, 2019.The primary reason for the change in both the three and six month periods is the adoption of ASC 606. If the three months ended June 30, 2020 were reported under ASC 605, revenue from

Contingent Commissions would have increased $0.8 million or 678% due to the timing of receipt of contingent commission in the 2020 compared to 2019. If the six months ended June 30, 2020 were reported under ASC 605 revenue from Contingent Commissions would have decreased $3.8 million, or 50%, due to higher loss ratios with our Carriers during 2019.

Franchise revenues

Franchise Revenues consist of Royalty Fees, Initial Franchise Fees, and Other Franchise Revenues.

The following table sets forth our franchise revenues by amount and as a percentage of our revenues for the periods indicated (*in thousands*):

	Three Months Ended June 30,					
	2020 (ASC 606)		**2020 (ASC 605)**		**2019 (ASC 605)**	
Core Revenues:						
Renewal Royalty Fees	7,903	69 %	7,815	65 %	5,062	60 %
New Business Royalty Fees	2,599	23 %	2,610	22 %	1,864	22 %
Total Core Revenues:	10,502	91 %	10,425	86 %	6,926	82 %
Cost Recovery Revenues:						
Initial Franchise Fees	901	8 %	1,605	13 %	1,515	18 %
Ancillary Revenues:						
Other Franchise Revenues	81	1 %	81	1 %	34	— %
Franchise revenues	$ 11,484	100 %	$ 12,111	100 %	$ 8,475	100 %

	Six Months Ended June 30,					
	2020 (ASC 606)		**2020 (ASC 605)**		**2019 (ASC 605)**	
Core Revenues:						
Renewal Royalty Fees	13,289	67 %	13,569	61 %	8,825	104 %
New Business Royalty Fees	4,647	23 %	4,738	21 %	3,219	38 %
Total Core Revenues:	17,936	90 %	18,307	82 %	12,044	142 %
Cost Recovery Revenues:						
Initial Franchise Fees	1,879	9 %	3,915	18 %	3,225	38 %
Ancillary Revenues:						
Other Franchise Revenues	114	1 %	114	1 %	34	— %
Franchise revenues	$ 19,929	100 %	$ 22,336	100 %	$ 15,303	181 %

Revenue from Renewal Royalty Fees increased by $2.8 million, or 56%, to $7.9 million, for the three months ended June 30, 2020 from $5.1 million for the three months ended June 30, 2019. Revenue from Renewal Royalty Fees increased by $4.5 million, or 51%, to $13.3 million for the six months ended June 30, 2020 from $8.8 million for the six months ended June 30, 2019. The increase in revenue from Renewal Royalty Fees was primarily attributable to an increase in the number of policies in the renewal term.

Revenue from New Business Royalty Fees increased by $0.7 million, or 39%, to $2.6 million for the three months ended June 30, 2020 from $1.9 million for the three months ended June 30, 2019. Revenue from New Business Royalty Fees increased by $1.4 million, or 44%, to $4.6 million for the six months ended June 30, 2020 from $3.2 million for the six months ended June 30, 2019. The increase in revenue from New Business Royalty Fees was primarily attributable to an increase in the total number of operating franchises from June 30, 2019 to 2020.

Revenues from Initial Franchise Fees decreased by $0.6 million or 41% to $901 thousand for the three months ended June 30, 2020 from $1.5 million during the three months ended June 30, 2019. Revenues from Initial Franchise Fees decreased by $1.3 million, or 42%, to $1.9 million for the six months ended June 30, 2020 from $3.2 million for the six months ended June 30, 2019. The primary reason for this decrease is the change in accounting principle from the three and six months ended June 30, 2019 to the three and six months ended June 30, 2020. If the three and six months ended June 30, 2020 were reported under ASC 605, revenue from Initial Franchise Fees would have increased $90 thousand and $0.7 million, respectively.

Interest income

Interest income increased by $44 thousand, or 30%, to $192 thousand for the three months ended June 30, 2020 from $148 thousand for the three months ended June 30, 2019. Interest income increased $78 thousand, or 28%, to $361 thousand for the six months ended June 30, 2020 from $283 thousand for the six months ended June 30, 2019. This increase was primarily attributable to additional Franchise Agreements signed under the payment plan option.

Expenses

Employee compensation and benefits

Employee compensation and benefits expenses increased by $5.5 million, or 53%, to $15.9 million for the three months ended June 30, 2020 from $10.4 million for the three months ended June 30, 2019. Employee compensation and benefits expenses increased by $9.8 million, or 50%, to $29.4 million for the six months ended June 30, 2020 from $19.6 million for the six months ended June 30, 2019.The increase is caused by a 35% increase in total headcount from 2019 to 2020 and an increase in stock based compensation resulting from the issuance of stock options during 2020.

General and administrative expenses

General and administrative expenses increased by $1.2 million, or 28%, to $5.4 million for the three months ended June 30, 2020 from $4.2 million for the three months ended June 30, 2019. General and administrative expenses increased by $2.6 million, or 30%, to $11.2 million for the six months ended June 30, 2020 from $8.6 million for the six months ended June 30, 2019. This increase was primarily attributable to higher costs associated with an increase in operating franchises and employees, investments made in technology, and the opening of two additional corporate sales offices during the period.

Bad debts

Bad debts decreased by $163 thousand for the three months ended June 30, 2020 to $319 thousand from $482 thousand for the three months ended June 30, 2019. Bad debts decreased by $255 thousand, or 29%, to $628 thousand for the six months ended June 30, 2020 from $883 thousand for the six months ended June 30, 2019. The change in both the three and six month periods is driven by the adoption of ASC 606, partially offset by an increase in write offs associated to higher revenues from Agency Fees.

Depreciation and amortization

Depreciation and amortization increased by $260 thousand, or 58%, to $712 thousand for the three months ended June 30, 2020 from $452 thousand for the three months ended June 30, 2019. Depreciation and amortization increased by $377 thousand, or 43%, to $1.3 million for the six months ended June 30, 2020 from $0.9 million for the six months ended June 30, 2019. This increase was primarily attributable to the increase in fixed assets during the same period, including the opening of two additional corporate sales offices, expansion of existing corporate offices and hardware for additional employees hired.

Interest expense

Interest expenses decreased by $147 thousand, or 23%, to $479 thousand for the three months ended June 30, 2020 from $626 thousand for the three months ended June 30, 2019. Interest expense decreased by $169 thousand, or 13%, to $1.1 million for the six months ended June 30, 2020 from $1.3 million for the six months ended June 30, 2019. This decrease was primarily attributable to the Company refinancing the existing term loan, and lower average amount outstanding.

Segment Adjusted EBITDA

Corporate Channel Adjusted EBITDA is Segment earnings before interest, income taxes, depreciation and amortization allocable to the Corporate Channel.

Corporate Channel Adjusted EBITDA increased by $1.7 million, or 73%, to $4.1 million for the three months ended June 30, 2020 from $2.3 million for the three months ended June 30, 2019. The primary reason for this increase is the change in accounting principle from the three months ended June 30, 2019 to the three months ended June 30, 2020. If the three months ended June 30, 2020 were reported under ASC 605, Corporate Channel Adjusted EBITDA would have increased $0.8 million or 34%, driven by an increase in Renewal and New Business Commissions. Corporate Channel Adjusted EBITDA decreased by $2.0 million, or 28%, to $5.1 million for the six months ended June 30, 2020 from $7.1 million for the six months ended June 30, 2019. The primary reason for this decrease is the change in accounting principle from the six months ended June 30, 2019 to the six months ended June 30, 2020. If the six months ended June 30, 2020 were reported under ASC 605, Corporate Channel adjusted EBITDA would have decreased by $1.5 million, driven by the a decrease in Contingent Commissions received.

Franchise Channel Adjusted EBITDA is Segment earnings before interest, income taxes, depreciation and amortization, adjusted to exclude other non-operating items.

Franchise Channel Adjusted EBITDA increased by $3.6 million, or 121%, to $6.5 million for the three months ended June 30, 2020 from $2.9 million for the three months ended June 30, 2019.The primary reason for this increase is the change in accounting principle from the three months ended June 30, 2019 to the three months ended June 30, 2020. If the three months ended June 30, 2020 were reported under ASC 605, Franchise Channel Adjusted EBITDA would have increased $2.0 million or 70%, driven by an increase in Renewal and New Business Royalty Fees received. Franchise Channel Adjusted EBITDA decreased by $1.0 million, or 11%, to $7.6 million for the six months ended June 30, 2020 from $8.6 million for the six months ended June 30, 2019.The primary reason for this decrease is the change in accounting principle from the six months ended June 30, 2019 to the six months ended June 30, 2020. If the six months ended June 30, 2020 were reported under ASC 605, Franchise Channel Adjusted EBITDA would have decreased $1.5 million or 21%, driven by the decrease in Contingent Commissions received.

Neither of Franchise Channel Adjusted EBITDA or Corporate Channel Adjusted EBITDA includes equity-based compensation, which is recorded at the consolidated level and excluded from the EBITDA calculation.

Key performance indicators

Our key operating metrics are discussed below:

Total Written Premium

Total Written Premium represents for any reported period, the total amount of current (non-cancelled) gross premium that is placed with Goosehead's portfolio of Carriers. Total Written Premium placed is an appropriate measure of operating performance because it reflects growth of our business relative to other insurance agencies.

The following tables show Total Written Premium placed by channel for the three and six months ended and 2020 and 2019 *(in thousands)*.

	Three Months Ended June 30,		% Change
	2020	2019	
Corporate Channel Total Written Premium	$ 82,675	$ 64,160	29 %
Franchise Channel Total Written Premium	191,018	129,868	47 %
Total Written Premium	$ 273,693	$ 194,028	41 %

	Six Months Ended June 30,		% Change
	2020	2019	
Corporate Channel Total Written Premium	$ 148,800	$ 114,835	30 %
Franchise Channel Total Written Premium	339,030	226,068	50 %
Total Written Premium	$ 487,830	$ 340,903	43 %

Policies in Force

Policies in Force means as of any reported date, the total count of current (non-cancelled) policies placed with Goosehead's portfolio of Carriers. We believe that Policies in Force is an appropriate measure of operating performance because it reflects growth of our business relative to other insurance agencies.

As of June 30, 2020, we had 590,000 in Policies in Force compared to 482,000 as of December 31, 2019 and 408,000 as of June 30, 2019, representing a 22% and 45% increase, respectively.

NPS

Net Promoter Score (NPS) is calculated based on a single question: "How likely are you to refer Goosehead Insurance to a friend, family member or colleague?" Clients that respond with a 6 or below are Detractors, a score of 7 or 8 are called Passives, and a 9 or 10 are Promoters. NPS is calculated by subtracting the percentage of Detractors from the percentage of Promoters. For example, if 50% of respondents were Promoters and 10% were Detractors, NPS is a 40. NPS is a useful gauge of the loyalty of client relationships and can be compared across companies and industries.

NPS has increased to 90 as of June 30, 2020 from 89 as of December 31, 2019 due to the service team's continued focus on delivering highly differentiated service levels.

Client retention

Client Retention is calculated by comparing the number of all clients that had at least one policy in force twelve months prior to the date of measurement and still have at least one policy in force at the date of measurement. We believe Client Retention is useful as a measure of how well Goosehead retains clients year-over-year and minimizes defections.

Client Retention has remained steady at 88% at June 30, 2020 from December 31, 2019, again driven by the service team's continued focus on delivering highly differentiated service levels. For the trailing twelve months ended June 30, 2020, we retained 89% of the premiums we distributed in the trailing twelve months ended June 30, 2019, which decreased modestly from the 91% premium retention at December 31, 2019. Our premium retention rate is higher than our Client Retention rate as a result of both premiums increasing year over year and additional coverages sold by our sales and service teams.

New Business Revenue

New Business Revenue is commissions received from the Carrier, Agency Fees received from clients, and New Business Royalty Fees relating to policies in their first term.

For the three months ended June 30, 2020, New Business Revenue grew 38% to $9.1 million, from $6.6 million for the three months ended June 30, 2019. For the six months ended June 30, 2020, New Business Revenue grew 36% to $16.2 million, from $11.9 million for the six months ended June 30, 2019. Growth in New Business Revenue is driven by an increase in Corporate Channel sales agent headcount of 49% and growth in operating franchises in the Franchise Channel of 36%.

Renewal Revenue

Renewal Revenue is commissions received from the Carrier and Renewal Royalty Fees received after the first term of a policy.

For the three months ended June 30, 2020, Renewal Revenue grew 43% to $15.6 million, from $11.0 million for the three months ended June 30, 2019. For the six months ended June 30, 2020, Renewal Revenue grew 37% to $26.7 million, from $19.5 million for the six months ended June 30, 2019. Growth in Renewal Revenue was driven by Client Retention of 88% at June 30, 2020. As our agent force matures on both the Corporate Channel and the Franchise Channel, the policies they wrote in prior years begins to convert from New Business Revenue to more profitable Renewal Revenue.

Non-GAAP Measures

Adjusted EBITDA, Adjusted EBITDA Margin, and Adjusted EPS are not measures of financial performance under GAAP and should not be considered substitutes for net income or earnings per share, which we consider to be the most directly comparable GAAP measures. We refer to these measures as "non-GAAP financial measures." We consider these non-GAAP financial measures to be useful metrics for management and investors to facilitate operating performance comparisons from period to period by excluding potential differences caused by variations in capital structures, tax position, depreciation, amortization and certain other items that we believe are not representative of our core business. Adjusted EBITDA, Adjusted EBITDA Margin, and Adjusted EPS have limitations as analytical tools, and when assessing our operating performance, you should not consider Adjusted EBITDA, Adjusted EBITDA Margin, or Adjusted EPS in isolation or as substitutes for net income, earnings per share or other consolidated income statement data prepared in accordance with GAAP. Other companies may calculate Adjusted EBITDA, Adjusted EBITDA Margin, and Adjusted EPS differently than we do, limiting their usefulness as comparative measures.

Core Revenue

Core Revenue is a supplemental measure of our performance and includes Renewal Commissions, Renewal Royalty Fees, New Business Commissions, New Business Royalty Fees, and Agency Fees. We believe that Core Revenue is an appropriate measure of operating performance because it summarizes all of our revenues from sales of individual insurance policies.

Core Revenue increased by $7.2 million, or 41%, to $24.7 million for the three months ended June 30, 2020 from $17.6 million for the three months ended June 30, 2019. Core Revenue increased by $11.5 million, or 37%, for the six months ended June 30, 2020 to $42.9 million from $31.4 million for the six months ended June 30, 2019. The primary driver of the increase is increases in operating franchises, corporate agent sales headcount, and number of policies in the renewal term from June 30, 2019 to June 30, 2020. If the three and six months ended June 30, 2020 were reported under ASC 605, Core Revenue would have increased $7.2 million and $12.9 million, respectively.

Cost Recovery Revenue

Cost Recovery Revenue is a supplemental measure of our performance and includes Initial Franchise Fees and Interest Income. We believe that Cost Recovery Revenue is an appropriate measure of operating performance because it summarizes revenues that are viewed by management as cost recovery mechanisms.

Cost Recovery Revenue decreased by $0.6 million, or 34%, to $1.1 million for the three months ended June 30, 2020 from $1.7 million for the three months ended June 30, 2019. Cost Recovery Revenue decreased by $1.3 million, or 36%, to $2.2 million for the six months ended June 30, 2020 from $3.5 million for the six months ended June 30, 2019. The primary driver of the decrease is the adoption of ASC 606. If the three and six months ended June 30, 2020 were reported under ASC 605, Cost Recovery Revenue would have increased $0.1 million and $0.8 million, respectively.

Ancillary Revenue

Ancillary Revenue is a supplemental measure of our performance and includes Contingent Commissions and Other Income. We believe that Ancillary Revenue is an appropriate measure of operating performance because it summarizes revenues that are ancillary to our core business.

Ancillary Revenue increased by $4.0 million to $4.1 million for the three months ended June 30, 2020 from $0.1 million for the three months ended June 30, 2019 primarily due to the adoption of ASC 606 resulting in acceleration of when we record Contingent Commissions. Ancillary Revenue decreased by $2.4 million, or 32%, to $5.2 million for the six months ended June 30, 2020 from $7.6 million for the six months ended June 30, 2019. The primary driver of the decrease is the adoption of ASC 606 changing the timing of when Contingent Commissions are recorded. If the three and six months ended June 30, 2020 were reported under ASC 605, Ancillary Revenue would have increased $0.8 million and decreased by $3.7 million, respectively.

Adjusted EBITDA

Adjusted EBITDA is a supplemental measure of our performance. We believe that Adjusted EBITDA is an appropriate measure of operating performance because it eliminates the impact of items that do not relate to business performance. Adjusted EBITDA is defined as net income (the most directly comparable GAAP measure) before interest, income taxes, depreciation and amortization, adjusted to exclude equity-based compensation and other non-operating items, including, among other things, certain non-cash charges and certain non-recurring or non-operating gains or losses.

Adjusted EBITDA increased by $5.1 million, or 108%, to $9.8 million for the three months ended June 30, 2020 from $4.7 million for the three months ended June 30, 2019. The primary driver of the decrease is the adoption of ASC 606. If the three months ended June 30, 2020 were reported under ASC 605, Adjusted EBITDA would have increased by $2.6 million, driven by increased Core Revenues, offset by additional employee compensation and benefits from additional hiring. Adjusted EBITDA decreased by $3.2 million, or 22%, to $11.0 million for the six months ended June 30, 2020 from $14.2 million for the six months ended June 30, 2019. The primary driver of the decrease is higher Contingent Commissions received during the six months ended June 30, 2019. If the six months ended June 30, 2020 were reported under ASC 605, Adjusted EBITDA would have decreased by $1.5 million.

Adjusted EBITDA Margin

Adjusted EBITDA Margin is Adjusted EBITDA as defined above, divided by total revenue excluding other non-operating items. Adjusted EBITDA Margin is helpful in measuring profitability of operations on a consolidated level.

For the three months ended June 30, 2020, Adjusted EBITDA Margin was 33% compared to 24% for the three months ended June 30, 2019. The primary driver of the expansion is the adoption of ASC 606, resulting in acceleration of the recognition of Contingent Commission revenue. If the three months ended June 30, 2020 were reported under ASC 605, Adjusted EBITDA Margin would have been 27%. Adjusted EBITDA Margin for the six months ended June 30, 2020 was 22% compared to 33% for the six months ended June 30, 2019. The primary driver of the compression is the adoption of ASC 606. If the six months ended June 30, 2020 had been reported under ASC 605, Adjusted EBITDA Margin would have been 24% driven by a decrease in contingent commissions received.

Adjusted EPS

Adjusted EPS is a supplemental measure of our performance, defined as earnings per share (the most directly comparable GAAP measure) before non-recurring or non-operating income and expenses. Adjusted EPS is a useful measure to management because it eliminates the impact of items that do not relate to business performance.

GAAP to Non-GAAP Reconciliations

	Three Months Ended June 30,		
	2020 (ASC 606)	**2020 (ASC 605)**	**2019 (ASC 605)**
Total Revenues	$ 29,924	$ 27,555	$ 19,386
Core Revenue:			
Renewal Commissions[1]	$ 7,718	$ 7,712	$ 5,899
Renewal Royalty Fees[2]	7,903	7,815	5,062
New Business Commissions[1]	4,329	4,333	3,013
New Business Royalty Fees[2]	2,599	2,610	1,864
Agency Fees[1]	2,185	2,344	1,740
Total Core Revenue	24,734	24,814	17,578
Cost Recovery Revenue:			
Initial Franchise Fees[2]	901	1,605	1,515
Interest Income	192	192	148
Total Cost Recovery Revenue	1,093	1,797	1,663
Ancillary Revenue:			
Contingent Commissions[1]	4,016	863	111
Other Income[2]	81	81	34
Total Ancillary Revenue	4,097	944	145
Total Revenues	**$ 29,924**	**$ 27,555**	**$ 19,386**

(1) Renewal Commissions, New Business Commissions, Agency Fees, and Contingent Commissions are included in "Commissions and agency fees" as shown on the Consolidated statements of income.

(2) Renewal Royalty Fees, New Business Royalty Fees, Initial Franchise Fees, and Other Income are included in "Franchise revenues" as shown on the Consolidated statements of income.

	Six Months Ended June 30,		
	2020 (ASC 606)	2020 (ASC 605)	2019 (ASC 605)
Total Revenues	$ 50,349	$ 52,449	$ 42,519
Core Revenue:			
Renewal Commissions(1)	$ 13,451	$ 13,856	$ 10,688
Renewal Royalty Fees(2)	13,289	13,569	8,825
New Business Commissions(1)	7,662	7,734	5,472
New Business Royalty Fees(2)	4,647	4,738	3,219
Agency Fees(1)	3,871	4,339	3,177
Total Core Revenue	42,920	44,236	31,381
Cost Recovery Revenue:			
Initial Franchise Fees(2)	1,879	3,915	3,225
Interest Income	361	361	283
Total Cost Recovery Revenue	2,240	4,276	3,508
Ancillary Revenue:			
Contingent Commissions(1)	5,075	3,824	7,596
Other Income(2)	114	114	34
Total Ancillary Revenue	5,189	3,938	7,630
Total Revenues	**$ 50,349**	**$ 52,450**	**$ 42,519**

(1) Renewal Commissions, New Business Commissions, Agency Fees, and Contingent Commissions are included in "Commissions and agency fees" as shown on the Consolidated statements of income.

(2) Renewal Royalty Fees, New Business Royalty Fees, Initial Franchise Fees, and Other Income are included in "Franchise revenues" as shown on the Consolidated statements of income.

The following tables show a reconciliation from net income to Adjusted EBITDA and Adjusted EBITDA margin for the three and six months ended June 30, 2020 and 2019 *(in thousands)*:

	Three Months Ended June 30,		
	2020 (ASC 606)	2020 (ASC 605)	2019 (ASC 605)
Net income	$ 7,386	$ 5,259	$ 2,817
Interest expense	479	479	626
Depreciation and amortization	712	712	452
Tax (benefit) expense	(240)	(553)	430
Equity-based compensation	1,416	1,416	368
Other (income) expense	—	—	—
Adjusted EBITDA	$ 9,753	$ 7,313	$ 4,693
Adjusted EBITDA Margin(1)	33 %	27 %	24 %

(1) Adjusted EBITDA Margin is calculated as Adjusted EBITDA divided by Total Revenue ($9,753/$29,924), ($7,313/$27,555) and ($4,693/$19,386) for the three months ended June 30, 2020 (ASC 606 and 605, respectively) and 2019.

	Six Months Ended June 30,		
	2020 (ASC 606)	2020 (ASC 605)	2019 (ASC 605)
Net income	$ 7,090	$ 8,556	$ 10,135
Interest expense	1,083	1,083	1,252
Depreciation and amortization	1,252	1,252	875
Tax (benefit) expense	(281)	(94)	1,174
Equity-based compensation	1,914	1,914	735
Other (income) expense	(66)	(66)	—
Adjusted EBITDA	$ 10,992	$ 12,645	$ 14,171
Adjusted EBITDA Margin(1)	22 %	24 %	33 %

(1) Adjusted EBITDA Margin is calculated as Adjusted EBITDA divided by Total Revenue ($10,992/$50,349), ($12,645/$52,449) and ($14,171/$42,519) for the six months ended June 30, 2020 (ASC 606 and 605, respectively) and 2019.

The following tables show a reconciliation from basic earnings per share to Adjusted EPS (non-GAAP basis) for the three and six months ended June 30, 2020 (in thousands, except per share amounts). Note that totals may not sum due to rounding:

	Three Months Ended June 30,		
	2020 (ASC 606)	2020 (ASC 605)	2019 (ASC 605)
Earnings per share - basic (GAAP)	$ 0.21	$ 0.16	$ 0.06
Add: equity-based compensation(1)	0.04	0.04	0.01
Adjusted EPS (non-GAAP)	$ 0.25	$ 0.20	$ 0.07

(1) Calculated as equity-based compensation divided by sum of weighted average Class A and Class B shares [$1.4 million / (16.5 million + 20.0 million)] for the three months ended June 30, 2020 and [$368 thousand / (14.9 million + 21.4 million)] for the three months ended June 30, 2019.

	Six Months Ended June 30,		
	2020 (ASC 606)	2020 (ASC 605)	2019 (ASC 605)
Earnings per share - basic (GAAP)	$ 0.20	$ 0.23	$ 0.23
Add: equity-based compensation(1)	0.05	0.05	0.02
Adjusted EPS (non-GAAP)	$ 0.25	$ 0.28	$ 0.25

(1) Calculated as equity-based compensation divided by sum of Class A and Class B shares [$1.9 million / (16.0 million + 20.4 million)] for the six months ended June 30, 2020 and [$735 thousand / ($14.5 million + $21.7 million)] for the three months ended June 30, 2019.

Liquidity and capital resources

Historical liquidity and capital resources

We have managed our historical liquidity and capital requirements primarily through the receipt of revenues from our Corporate Channel and our Franchise Channel. Our primary cash flow activities involve: (1) generating cash flow from Corporate Channel operations, which largely includes New Business Revenue (Corporate) and Renewal Revenue (Corporate); (2) generating cash flow from Franchise Channel operations, which largely includes Initial Franchise Fees and Royalty Fees; (3) borrowings, interest payments and repayments under our credit agreement; and (4) issuing shares of Class A common stock. As of June 30, 2020, our cash and cash equivalents balance was $54.3 million. We have used cash flow from operations primarily to pay compensation and related expenses, general, administrative and other expenses, debt service and distributions to our owners.

Credit agreement

See "Note 7. Debt" in the condensed consolidated financial statements included herein for a discussion of the Company's credit facilities.

Comparative cash flows

The following table summarizes our cash flows from operating, investing and financing activities for the periods indicated *(in thousands):*

	Six Months Ended June 30,		
	2020	**2019**	**Change**
Net cash provided by operating activities	$ 6,516	$ 10,682	$ (4,166)
Net cash used for investing activities	(4,093)	(1,876)	(2,217)
Net cash provided by (used for) financing activities	38,123	(18,811)	56,934
Net increase (decrease) in cash and cash equivalents	40,546	(10,005)	50,551
Cash and cash equivalents, and restricted cash, beginning of period	15,260	19,011	(3,751)
Cash and cash equivalents, and restricted cash, end of period	$ 55,806	$ 9,006	$ 46,800

Operating activities

Net cash provided by operating activities was $6.5 million for the six months ended June 30, 2020 as compared to net cash provided by operating activities of $10.7 million for the six months ended June 30, 2019. This decrease in net cash provided by operating activities was attributable to a decrease in net income of $3.0 million, and an increase in cash used for prepaid expenses of $2.9 million, which was offset by $0.3 million increase in cash provided by commissions and agency fees receivable and a $1.2 million increase in non-cash equity based compensation.

Investing activities

Net cash used for investing activities was $4.1 million for the six months ended June 30, 2020, compared to net cash used in investing activities of $1.9 million for the six months ended June 30, 2019. This increase was driven by continued expansion of corporate offices to support increased hiring and $0.8 million used for computer equipment to accommodate remote working.

Financing activities

Net cash provided by financing activities was $38.1 million for the six months ended June 30, 2020 as compared to net cash used for financing activities of $18.8 million for the six months ended June 30, 2019. This increase in net cash provided by financing activities was attributable to the Company's draw down of $37.9 million of the remaining term loan, amplified by $18.0 million of distributions made in the six months ended June 30, 2019.

Future sources and uses of liquidity

Our sources of liquidity are (1) cash on hand, (2) net working capital, (3) cash flows from operations and (4) our revolving credit facility. Based on our current expectations, we believe that these sources of liquidity will be sufficient to fund our working capital requirements and to meet our commitments in the foreseeable future.

We expect that our primary liquidity needs will comprise cash to (1) provide capital to facilitate the organic growth of our business, (2) pay operating expenses, including cash compensation to our employees, (3) make payments under the tax receivable agreement, (4) pay interest and principal due on borrowings under our Credit Agreement (5) pay income taxes, and (6) when deemed advisable by our board of directors, pay dividends.

Dividend policy

On March 7, 2019, GF approved a $15.0 million extraordinary dividend to all holders of LLC Units, including GSHD. The board of directors of the Company then declared an extraordinary dividend of $0.41 (rounded) to all holders of Class A common stock of GSHD with a record date of March 18, 2019, to be paid on or before April 1, 2019. See "Note 11. Dividends" in the condensed consolidated financial statements included herein.

On July 30, 2020, GF approved an extraordinary dividend in the aggregate amount of $42.0 million payable to holders of LLC Units, including GSHD. The board of directors of the Company subsequently declared an extraordinary dividend of $1.15 (rounded) to all holders of Class A common stock of GSHD with a record date of August 10, 2020, paid on or before August 24, 2020. See "Note 16: Subsequent events" in the condensed consolidated financial statements included herein.

There have been no material changes to our dividend policy as described in the Annual Report on Form 10-K.

Tax receivable agreement

We entered into a tax receivable agreement with the Pre-IPO LLC Members on May 1, 2018 that provides for the payment by us to the Pre-IPO LLC Members of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that we actually realize as a result of (i) any increase in tax basis in Goosehead Insurance, Inc.'s assets and (ii) tax benefits related to imputed interest deemed arising as a result of payments made under the tax receivable agreement. See "Item 13. Certain relationships and related transactions, and director independence" of the Annual Report on Form 10-K.

Holders of Goosehead Financial, LLC Units (other than Goosehead Insurance, Inc.) may, subject to certain conditions and transfer restrictions described above, redeem or exchange their LLC Units for shares of Class A common stock of Goosehead Insurance, Inc. on a one-for-one basis. Goosehead Financial, LLC intends to make an election under Section 754 of the Internal Revenue Code of 1986, as amended, and the regulations thereunder (the "Code") effective for each taxable year in which a redemption or exchange of LLC Units for shares of Class A common stock occurs, which is expected to result in increases to the tax basis of the assets of Goosehead Financial, LLC at the time of a redemption or exchange of LLC Units. The redemptions or exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Goosehead Financial, LLC. These increases in tax basis may reduce the amount of tax that Goosehead Insurance, Inc. would otherwise be required to pay in the future. We have entered into a tax receivable agreement with the Pre-IPO LLC Members that provides for the payment by us to the Pre-IPO LLC Members of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that we actually realize as a result of (i) any increase in tax basis in Goosehead Insurance, Inc.'s assets resulting from (a) the purchase of LLC Units from any of the Pre-IPO LLC Members using the net proceeds from any future offering, (b) redemptions or exchanges by the Pre-IPO LLC Members of LLC Units for shares of our Class A common stock or (c) payments under the tax receivable agreement and (ii) tax benefits related to imputed interest deemed arising as a result of payments made under the tax receivable agreement. This payment obligation is an obligation of Goosehead Insurance, Inc. and not of Goosehead Financial, LLC. For purposes of the tax receivable agreement, the cash tax savings in income tax will be computed by comparing the actual income tax liability of Goosehead Insurance, Inc. (calculated with certain assumptions) to the amount of such taxes that Goosehead Insurance, Inc. would have been required to pay had there been no increase to the tax basis of the assets of Goosehead Financial, LLC as a result of the redemptions or exchanges and had Goosehead Insurance, Inc. not entered into the tax receivable agreement. Estimating the amount of payments that may be made under the tax receivable agreement is by its nature imprecise, insofar as the calculation of amounts payable depends on a variety of factors. While the actual increase in tax basis, as well as the amount and timing of any payments under the tax receivable agreement, will vary depending upon a number of factors, including the timing of redemptions or exchanges, the price of shares of our Class A common stock at the time of the redemption or exchange, the extent to which such redemptions or exchanges are taxable and the amount and timing of our income. See "Item 13. Certain relationships and related transactions, and director independence" of the Annual Report on Form 10-K. We anticipate that we will account for the effects of these increases in tax basis and associated payments under the tax receivable agreement arising from future redemptions or exchanges as follows:

- we will record an increase in deferred tax assets for the estimated income tax effects of the increases in tax basis based on enacted federal and state tax rates at the date of the redemption or exchange;
- to the extent we estimate that we will not realize the full benefit represented by the deferred tax asset, based on an analysis that will consider, among other things, our expectation of future earnings, we will reduce the deferred tax asset with a valuation allowance; and
- we will record 85% of the estimated realizable tax benefit (which is the recorded deferred tax asset less any recorded valuation allowance) as an increase to the liability due under the tax receivable agreement and the remaining 15% of the estimated realizable tax benefit as an increase to additional paid-in capital.

All of the effects of changes in any of our estimates after the date of the redemption or exchange will be included in net income. Similarly, the effect of subsequent changes in the enacted tax rates will be included in net income.

Contractual obligations, commitments and contingencies

The following table represents our contractual obligations as of June 30, 2020, aggregated by type *(in thousands)*.

	Contractual obligations, commitments and contingencies				
(in thousands)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating leases[1]	$ 25,954	$ 3,439	$ 6,913	$ 6,331	$ 9,271
Debt obligations payable[2]	84,500	2,500	82,000	—	—
Interest expense[3]	3,141	3,141	5,128	—	—
Liabilities under the tax receivable agreement[4]	35,832	681	4,385	4,779	25,987
Total	$ 149,427	$ 9,761	$ 98,426	$ 11,110	$ 35,258

(1) The Company leases its facilities under non-cancelable operating leases. In addition to monthly lease payments, the lease agreements require the Company to reimburse the lessors for its portion of operating costs each year. Rent expense was $612 thousand and $447 thousand for the three months ended June 30, 2020 and 2019. Rent expense was $1.1 million and $0.9 million for the six months ended June 30, 2020 and 2019.

(2) The Company refinanced its credit facilities on March 6, 2020 in the form of a $80 million term loan, and $25 million revolving credit facility, of which $5.0 million was drawn as of June 30, 2020.

(3) Interest expense includes interest payments on our outstanding debt obligations under our credit agreement. Our debt obligations have variable interest rates. We have calculated future interest obligations based on the interest rate for our debt obligations as of June 30, 2020.

(4) See "Item 2. Management's discussion and analysis of financial condition and results of operation - Tax receivable agreement."

Off-balance sheet arrangements

We do not invest in any off-balance sheet vehicles that provide liquidity, capital resources, market or credit risk support, or engage in any activities that expose us to any liability that is not reflected in our condensed consolidated financial statements except for those described under “Contractual obligations, commitments and contingencies” above.

Critical accounting policies

Our discussion and analysis of our consolidated financial condition and results of operations is based upon the accompanying condensed consolidated financial statements and notes thereto, which have been prepared in accordance with GAAP. The preparation of the condensed consolidated financial statements requires us to make estimates, judgments and assumptions, which we believe to be reasonable, based on the information available. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. Variances in the estimates or assumptions used to actual experience could yield materially different accounting results. On an ongoing basis, we evaluate the continued appropriateness of our accounting policies and resulting estimates to make adjustments we consider appropriate under the facts and circumstances. There have been no significant changes to our critical accounting policies as disclosed in the Annual Report on Form 10-K.

Recent accounting pronouncements

See "Note 2: Summary of Significant Accounting Policies—Recently Issued Accounting Pronouncements” under Part I, Item 1 of this Form 10-Q.

Emerging growth company

Pursuant to the JOBS Act, an emerging growth company is provided the option to adopt new or revised accounting standards that may be issued by FASB or the SEC either (i) within the same periods as those otherwise applicable to non-emerging growth companies or (ii) within the same time periods as private companies. We intend to take advantage of the exemption for complying with new or revised accounting standards within the same time periods as private companies. Accordingly, the information contained herein may be different than the information you receive from other public companies.

We also intend to take advantage of some of the reduced regulatory and reporting requirements of emerging growth companies pursuant to the JOBS Act so long as we qualify as an emerging growth company, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation, and exemptions from the requirements of holding non-binding advisory votes on executive compensation and golden parachute payments.

The Company expects to lose its emerging growth company status as of the filing of the Annual Report on Form 10-K for the year ended December 31, 2020. As such, the Company will be required to comply with the requirements of Section 404(b) of Sarbanes-Oxley Act, have full disclosure obligations requiring executive compensation, and lose exemptions from the requirements of holding non-binding advisory votes on executive compensation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to our exposure to market risks as described in "Item 7A. Quantitative and qualitative disclosure of market risks" in the Annual Report on Form 10-K.

Item 4. Controls and Procedures

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2020. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports 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 management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There were no changes to our internal control over financial reporting that occurred during the quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation as it relates to our internal controls to minimize the impact on their design and operating effectiveness.

PART II

Item 1. Legal matters

The information required by this Item is incorporated by reference to "Part I, Item I, Note 13. Litigation" in the condensed consolidated financial statements included herein.

Item 1A. Risk factors

For a discussion of our potential risks and uncertainties, see the information set forth under Part I, Item 1A “Risk Factors” in the Annual Report on Form 10-K.

The global outbreak of the coronavirus disease ("COVID-19") has negatively impacted the global economy in a significant manner and may continue to do so for an extended period of time, and could also materially adversely affect our business and operating results

In December 2019, a novel strain of coronavirus was reported to have surfaced in Wuhan, China, which has and is continuing to spread throughout the world. On January 30, 2020, the WHO declared the outbreak of COVID-19 a ‘‘Public Health Emergency of International Concern.’’ On March 11, 2020 the WHO characterized the outbreak as a ‘‘pandemic’’. This outbreak of COVID-19 has resulted in a widespread health crisis that has and may continue to adversely affect the economies and financial markets worldwide.

The COVID-19 pandemic could materially adversely impact our business, results of operations and financial results, depending on numerous evolving factors that we may not be able to accurately predict, including: the duration and severity of the pandemic; business and individuals’ actions that have been and continue to be taken in response to the pandemic; and the impact of COVID-19 on economic activity and governmental actions taken in response. As the COVID-19 outbreak and any associated protective or preventative measures continue to spread in the United States, we may experience disruptions to our business, including but not limited to: (a) our clients choosing to limit purchases of insurance due to declining business conditions, which would inhibit our ability to generate commission revenue and other revenue based on premiums placed; (b) decrease in home closing transactions which would imply a decrease in the purchase of new home insurance policies; (c) our clients defaulting on mortgages, which would affect the client’s ability to pay their home insurance premiums and affect the renewal of policies; (d) travel restrictions and quarantines leading to a lack of in-person meetings, which could hinder our ability to manage our sales successfully and to establish relationships or originate new business and; (e) alternative working arrangements, including employees and Franchisees working and being trained remotely, which could negatively impact our business should such arrangements remain for an extended period of time.

The extent of the impact of the COVID-19 pandemic on our operational and financial performance, will depend on future developments. To the extent that the COVID-19 pandemic adversely impacts our business, results of operations, liquidity or financial condition, it may also have the effect of increasing many of the other risks and uncertainties enumerated in the Annual Report on Form 10-K.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit 31.1	Certifications of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certifications of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, we have duly caused this report to be signed on our behalf by the undersigned thereunto duly authorized.

GOOSEHEAD INSURANCE, INC.

Date: July 31, 2020	By:	/s/ Mark E. Jones
		Mark E. Jones
		Chairman and Chief Executive Officer
		(Principal Executive Officer)
Date: July 31, 2020	By:	/s/ Mark S. Colby
		Mark S. Colby
		Chief Financial Officer
		(Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002

I, Mark E. Jones, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Goosehead Insurance, 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 company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) 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 company 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 company, 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 company'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 company's internal control over financial reporting that occurred during the company'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 company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company'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 company's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2020

/s/ Mark E. Jones

Mark E. Jones
Chief Executive Officer

Exhibit 31.2

Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002

I, Mark S. Colby, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Goosehead Insurance, 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 company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) 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 company 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 company, 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 company'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 company's internal control over financial reporting that occurred during the company'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 company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company'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 company's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2020

/s/ Mark S. Colby
Mark S. Colby
Chief Financial Officer

Exhibit 32

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

The certification set forth below is being submitted in connection with Goosehead Insurance, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Mark E. Jones, the Chief Executive Officer and Mark S. Colby, the Chief Financial Officer of Goosehead Insurance, Inc., each certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Goosehead Insurance, Inc.

Date: July 31, 2020

/s/ Mark E. Jones
Mark E. Jones
Chief Executive Officer

Date: July 31, 2020

/s/ Mark S. Colby
Mark S. Colby
Chief Financial Officer