

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2021  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 001-38466

GOOSEHEAD INSURANCE, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

1500 Solana Blvd, Building 4, Suite 4500

Westlake

Texas

(Address of principal executive offices)

82-3886022

(IRS Employer  
Identification No.)

76262

(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:

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange on Which Registered</u>
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  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  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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of October 27, 2021, there were 19,798,351 shares of Class A common stock outstanding and 17,226,519 shares of Class B common stock outstanding.

# Table of contents

	<b>Page</b>
<b><u>Part I</u></b>	
Item 1. Condensed Consolidated Financial Statements (Unaudited)	<a href="#">5</a>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<a href="#">30</a>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<a href="#">43</a>
Item 4. Controls and Procedures	<a href="#">43</a>
<b><u>Part II</u></b>	
Item 1. Legal Proceedings	<a href="#">44</a>
Item 1A. Risk Factors	<a href="#">44</a>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<a href="#">44</a>
Item 3. Defaults Upon Senior Securities	<a href="#">44</a>
Item 4. Mine Safety Disclosures	<a href="#">44</a>
Item 5. Other Information	<a href="#">44</a>
Item 6. Exhibits	<a href="#">45</a>
<b><u>SIGNATURES</u></b>	<a href="#">45</a>

## 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, 2020.
- **ASC 606 ("Topic 606"):** ASU 2014-09 - *Revenue from Contracts with Customers*.
- **ASC 842 ("Topic 842"):** ASU 2016-02 - *Leases*.
- **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.
- **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.
- **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.
- **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)

	Page
Condensed Consolidated Statements of Operations	<a href="#">6</a>
Condensed Consolidated Balance Sheets	<a href="#">7</a>
Condensed Consolidated Statements of Stockholders' Equity	<a href="#">8</a>
Condensed Consolidated Statements of Cash Flows	<a href="#">11</a>
Notes to the Condensed Consolidated Financial Statements	<a href="#">12</a>
Note 1    Organization	<a href="#">12</a>
Note 2    Summary of significant accounting policies	<a href="#">12</a>
Note 3    Revenues	<a href="#">13</a>
Note 4    Franchise fees receivable	<a href="#">17</a>
Note 5    Allowance for uncollectible agency fees	<a href="#">18</a>
Note 6    Property and equipment	<a href="#">18</a>
Note 7    Debt	<a href="#">18</a>
Note 8    Income taxes	<a href="#">20</a>
Note 9    Stockholder's equity	<a href="#">21</a>
Note 10   Non-controlling interest	<a href="#">22</a>
Note 11   Equity-based compensation	<a href="#">23</a>
Note 12   Dividends	<a href="#">24</a>
Note 13   Segment information	<a href="#">25</a>
Note 14   Litigation	<a href="#">29</a>

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

(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Revenues:</b>				
Commissions and agency fees	\$ 22,420	\$ 19,385	\$ 61,007	\$ 49,444
Franchise revenues	18,960	12,418	49,234	32,347
Interest income	301	212	841	573
<b>Total revenues</b>	<b>41,681</b>	<b>32,015</b>	<b>111,082</b>	<b>82,364</b>
<b>Operating Expenses:</b>				
Employee compensation and benefits	26,078	17,901	69,862	47,308
General and administrative expenses	10,141	5,872	29,549	17,108
Bad debts	732	376	1,825	1,004
Depreciation and amortization	1,188	900	3,320	2,152
<b>Total operating expenses</b>	<b>38,139</b>	<b>25,049</b>	<b>104,556</b>	<b>67,572</b>
<b>Income from operations</b>	<b>3,542</b>	<b>6,966</b>	<b>6,526</b>	<b>14,792</b>
<b>Other Income (Expense):</b>				
Other income	7	10	146	76
Interest expense	(756)	(582)	(1,903)	(1,665)
<b>Income before taxes</b>	<b>2,793</b>	<b>6,394</b>	<b>4,769</b>	<b>13,203</b>
Tax expense (benefit)	(2,575)	(331)	(2,646)	(612)
<b>Net Income</b>	<b>5,368</b>	<b>6,725</b>	<b>7,415</b>	<b>13,815</b>
Less: net income attributable to non-controlling interests	1,332	3,458	2,288	7,325
<b>Net Income attributable to Goosehead Insurance, Inc.</b>	<b>\$ 4,036</b>	<b>\$ 3,267</b>	<b>\$ 5,127</b>	<b>\$ 6,490</b>
<b>Earnings per share:</b>				
Basic	\$ 0.21	\$ 0.19	\$ 0.27	\$ 0.39
Diluted	\$ 0.19	\$ 0.17	\$ 0.25	\$ 0.36
<b>Weighted average shares of Class A common stock outstanding</b>				
Basic	19,559	17,376	18,903	16,466
Diluted	21,206	18,915	20,570	17,926
Dividends declared per share	\$ 1.63	\$ 1.15	\$ 1.63	\$ 1.15

See Notes to the Condensed Consolidated Financial Statements

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

(In thousands, except per share amounts)

	September 30, 2021	December 31, 2020
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 25,512	\$ 24,913
Restricted cash	1,179	1,323
Commissions and agency fees receivable, net	8,349	18,604
Receivable from franchisees, net	866	2,100
Prepaid expenses	6,487	3,705
<b>Total current assets</b>	<b>42,393</b>	<b>50,645</b>
Receivable from franchisees, net of current portion	25,734	18,179
Property and equipment, net of accumulated depreciation	21,794	16,650
Right-of-use asset	35,384	22,513
Intangible assets, net of accumulated amortization	2,256	549
Deferred income taxes, net	114,376	73,363
Other assets	5,203	3,938
<b>Total assets</b>	<b>\$ 247,140</b>	<b>\$ 185,837</b>
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 10,643	\$ 8,101
Premiums payable	1,179	1,323
Lease liability	4,400	3,203
Contract liabilities	5,646	4,233
Note payable	3,750	3,500
<b>Total current liabilities</b>	<b>25,618</b>	<b>20,360</b>
Lease liability, net of current portion	47,200	32,933
Note payable, net of current portion	119,555	79,408
Contract liabilities, net of current portion	38,963	29,968
Liabilities under tax receivable agreement, net of current portion	91,488	61,572
<b>Total liabilities</b>	<b>322,824</b>	<b>224,241</b>
Class A common stock, \$0.01 par value per share - 300,000 shares authorized, 19,786 shares issued and outstanding as of September 30, 2021, 18,304 shares issued and outstanding as of December 31, 2020	196	183
Class B common stock, \$0.01 par value per share - 50,000 shares authorized, 17,239 issued and outstanding as of September 30, 2021, 18,447 shares issued and outstanding as of December 31, 2020	173	184
Additional paid in capital	41,820	29,371
Accumulated deficit	(61,049)	(34,614)
<b>Total stockholders' equity</b>	<b>(18,860)</b>	<b>(4,876)</b>
Non-controlling interests	(56,824)	(33,528)
<b>Total equity</b>	<b>(75,684)</b>	<b>(38,404)</b>
<b>Total liabilities and equity</b>	<b>\$ 247,140</b>	<b>\$ 185,837</b>

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, 2021	18,304	18,447	183	184	29,371	(34,614)	(4,876)	(33,528)	(38,404)
Net income	—	—	—	—	—	(396)	(396)	(693)	(1,089)
Exercise of stock options	9	—	—	—	226	—	226	—	226
Equity-based compensation	—	—	—	—	1,941	—	1,941	—	1,941
Activity under employee stock purchase plan	2	—	—	—	205	—	205	—	205
Redemption of LLC Units	133	(133)	1	(1)	(249)	—	(249)	249	—
Deferred tax adjustments related to Tax Receivable Agreement	—	—	—	—	798	—	798	18	816
Reallocation of Non-controlling interest	—	—	—	—	—	2	2	(2)	—
Balance March 31, 2021	18,448	18,314	184	183	32,292	(35,008)	(2,349)	(33,956)	(36,305)
Net income	—	—	—	—	—	1,487	1,487	1,649	3,136
Exercise of stock options	31	—	—	—	439	—	439	—	439
Equity-based compensation	—	—	—	—	1,851	—	1,851	—	1,851
Activity under employee stock purchase plan	2	—	—	—	214	—	214	—	214
Redemption of LLC Units	728	(728)	7	(7)	(1,280)	—	(1,280)	1,280	—
Deferred tax adjustments related to Tax Receivable Agreement	—	—	—	—	3,063	—	3,063	101	3,164
Reallocation of Non-controlling interest	—	—	—	—	—	(6)	(6)	6	—
Balance June 30, 2021	19,209	17,586	191	176	36,579	(33,527)	3,419	(30,920)	(27,501)
Dividends declared	—	—	—	—	—	(31,657)	(31,657)	(28,343)	(60,000)
Net income	—	—	—	—	—	4,036	4,036	1,332	5,368
Exercise of stock options	229	—	2	—	2,309	—	2,311	—	2,311
Equity-based compensation	—	—	—	—	1,851	—	1,851	—	1,851
Activity under employee stock purchase plan	1	—	—	—	194	—	194	—	194
Redemption of LLC Units	347	(347)	3	(3)	(1,144)	—	(1,144)	1,144	—
Deferred tax adjustments related to Tax Receivable Agreement	—	—	—	—	2,031	—	2,031	62	2,093
Reallocation of Non-controlling interest	—	—	—	—	—	99	99	(99)	—
Balance September 30, 2021	19,786	17,239	196	173	41,820	(61,049)	(18,860)	(56,824)	(75,684)

	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 income	—	—	—	—	—	(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)
Distributions	—	—	—	—	—	—	—	(835)	(835)
Dividends declared	—	—	—	—	—	(19,895)	(19,895)	(22,105)	(42,000)
Net income	—	—	—	—	—	3,267	3,267	3,458	6,725
Exercise of stock options	116	—	1	—	1,160	—	1,161	—	1,161
Equity-based compensation	—	—	—	—	1,416	—	1,416	—	1,416
Activity under employee stock purchase plan	2	—	—	—	142	—	142	—	142
Redemption of LLC Units	297	(297)	3	(3)	(577)	—	(577)	577	—
Deferred tax adjustments related to Tax Receivable Agreement	—	—	—	—	1,112	—	1,112	33	1,145
Reallocation of Non-controlling interest	—	—	—	—	—	51	51	(51)	—
Balance September 30, 2020	17,499	19,158	175	191	24,601	(37,102)	(12,135)	(37,297)	(49,432)

See Notes to the Condensed Consolidated Financial Statements

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

(In thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 7,415	\$ 13,815
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	3,508	2,499
Bad debt expense	1,825	1,004
Equity-based compensation	5,644	3,330
Impacts of Tax Receivable Agreement	31,884	28,815
Deferred income taxes	(34,942)	(28,077)
Noncash lease activity	2,594	—
<b>Changes in operating assets and liabilities:</b>		
Receivable from franchisees	(6,861)	(4,029)
Commissions and agency fees receivable	8,947	(5,731)
Prepaid expenses	(2,782)	(1,916)
Other assets	(1,257)	(2,432)
Accounts payable and accrued expenses	1,113	(495)
Deferred rent	—	1,023
Contract liabilities	10,408	6,789
Premiums payable	(144)	455
Payments pursuant to the tax receivable agreement	(549)	(9)
<b>Net cash provided by operating activities</b>	<b>26,803</b>	<b>15,041</b>
<b>Cash flows from investing activities:</b>		
Proceeds from notes receivable	24	26
Purchase of software	(1,989)	(318)
Purchase of property and equipment	(8,181)	(4,765)
<b>Net cash used for investing activities</b>	<b>(10,146)</b>	<b>(5,057)</b>
<b>Cash flows from financing activities:</b>		
Debt issuance costs	(666)	(677)
Repayment of note payable	(3,744)	(27,321)
Proceeds from notes payable	44,619	64,821
Proceeds from the issuance of Class A common stock	3,589	3,965
Member distributions and dividends	(60,000)	(44,697)
<b>Net cash provided by (used for) financing activities</b>	<b>(16,202)</b>	<b>(3,909)</b>
<b>Net increase in cash and restricted cash</b>	<b>455</b>	<b>6,075</b>
Cash and cash equivalents, and restricted cash, beginning of period	26,236	15,260
<b>Cash and cash equivalents, and restricted cash, end of period</b>	<b>\$ 26,691</b>	<b>\$ 21,335</b>
<b>Supplemental disclosures of cash flow data:</b>		
Cash paid during the year for interest	1,715	1,318
Cash paid for income taxes	272	270

See Notes to the Condensed Consolidated Financial Statements

# Goosehead Insurance, Inc.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### 1. Organization

Goosehead Insurance, Inc. ("GSHD") is the sole managing member of Goosehead Financial, LLC ("GF") and 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 12 and 9 corporate-owned locations in operation at September 30, 2021 and 2020, 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 September 30, 2021 and 2020, the Company onboarded 92 and 110 franchise locations, respectively, and had 1,139 and 823 operating franchise locations as of September 30, 2021 and 2020, respectively. No franchises were purchased by the Company during the three and nine months ended September 30, 2021 or 2020.

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 September 30, 2021, the condensed consolidated results of operations, stockholders' equity and statements of cash flows for the three and nine months ended September 30, 2021 and 2020. 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 nine months ended September 30, 2021 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 availability, effectiveness and utilization of vaccines for COVID-19 and its variant strains, the duration, severity and spread of the outbreak, including as a result of new variants, 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 do so 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 ability to generate new business, add new franchises, or retain existing franchises or policies. 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.

#### ***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

**Goosehead Insurance, Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

of the financial statements, and the reported amounts of revenues and expenses during the reported period. 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 \$1.2 million and \$1.4 million as of September 30, 2021 and 2020, respectively.

The following is a reconciliation of our cash and restricted cash balances as presented in the condensed consolidated statements of cash flows for the nine months ended September 30, 2021 and 2020 (*in thousands*):

	September 30,	
	2021	2020
Cash and cash equivalents	\$ 25,512	\$ 19,957
Restricted cash	1,179	1,378
Cash and cash equivalents, and restricted cash	<u>\$ 26,691</u>	<u>\$ 21,335</u>

**Recently Issued Accounting Pronouncements**

Reference Rate Reform (ASU 2020-04): In March 2020, the Financial Accounting Standards Board issued ASU 2020-04. Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional expedients and exceptions for applying U.S. GAAP if certain criteria are met to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued. ASU 2020-04 became effective on March 12, 2020 and may be applied prospectively through December 31, 2022. A substantial portion of our indebtedness bears interest at variable interest rates, primarily based on USD-LIBOR. The adoption of ASU 2020-04 did not have a material impact on our condensed consolidated financial statements. The standard will ease, if warranted, the administrative requirements for accounting for the future effects of the rate reform. Our debt agreement contains a provision to move to the Secured Overnight Financing Rate ("SOFR") if or when LIBOR is phased out.

**Recently adopted accounting pronouncements**

Simplifying the Accounting for Income Taxes (ASU 2019-12): In 2019, the Financial Accounting Standards Board issued ASU 2019-12 to simplify the accounting for income taxes. The guidance primarily addresses how to (1) recognize a deferred tax liability after we transition to or from the equity method of accounting, (2) evaluate if a step-up in the tax basis of goodwill is related to a business combination or is a separate transaction, (3) recognize all of the effects of a change in tax law in the period of enactment, including adjusting the estimated annual tax rate, and (4) include the amount of tax based on income in the income tax provision and any incremental amount as a tax not based on income for hybrid tax regimes. We adopted the guidance in the first quarter of 2021. The adoption did not have a material impact on our condensed consolidated financial statements or related disclosures.

**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 based on an estimate of premiums placed, policy changes and cancellations, net of a constraint.

**Goosehead Insurance, Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

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, or 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 based on an estimate of premiums placed by the franchisee, policy changes, and cancellations, net of a constraint. 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.

**Goosehead Insurance, Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Disaggregation of Revenue**

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

Three Months Ended September 30, 2021:	Franchise Channel	Corporate Channel	Total
<u>Type of revenue stream:</u>			
Commissions and agency fees			
Renewal Commissions	\$ —	\$ 10,969	\$ 10,969
New Business Commissions	—	6,013	6,013
Agency Fees	—	3,050	3,050
Contingent Commissions	1,734	654	2,388
Franchise revenues			
Renewal Royalty Fees	13,206	—	13,206
New Business Royalty Fees	4,003	—	4,003
Initial Franchise Fees	1,680	—	1,680
Other Franchise Revenues	71	—	71
Interest Income	301	—	301
<b>Total Revenues</b>	<b>\$ 20,995</b>	<b>\$ 20,686</b>	<b>\$ 41,681</b>

<u>Timing of revenue recognition:</u>			
Transferred at a point in time	\$ —	\$ 20,032	\$ 20,032
Transferred over time	20,995	654	21,649
<b>Total Revenues</b>	<b>\$ 20,995</b>	<b>\$ 20,686</b>	<b>\$ 41,681</b>

Three Months Ended September 30, 2020:	Franchise Channel	Corporate Channel	Total
<u>Type of revenue stream:</u>			
Commissions and agency fees			
Renewal Commissions	\$ —	\$ 7,931	\$ 7,931
New Business Commissions	—	4,790	4,790
Agency Fees	—	2,491	2,491
Contingent Commissions	2,662	1,511	4,173
Franchise revenues			
Renewal Royalty Fees	8,117	—	8,117
New Business Royalty Fees	3,090	—	3,090
Initial Franchise Fees	1,152	—	1,152
Other Franchise Revenues	59	—	59
Interest Income	212	—	212
<b>Total Revenues</b>	<b>\$ 15,292</b>	<b>\$ 16,723</b>	<b>\$ 32,015</b>

<u>Timing of revenue recognition:</u>			
Transferred at a point in time	\$ —	\$ 15,212	\$ 15,212
Transferred over time	15,292	1,511	16,803
<b>Total Revenues</b>	<b>\$ 15,292</b>	<b>\$ 16,723</b>	<b>\$ 32,015</b>

Nine Months Ended September 30, 2021:	Franchise Channel	Corporate Channel	Total
<u>Type of revenue stream:</u>			
Commissions and agency fees			
Renewal Commissions	\$ —	\$ 29,036	\$ 29,036
New Business Commissions	—	16,573	16,573
Agency Fees	—	8,579	8,579
Contingent Commissions	4,986	1,833	6,819
Franchise revenues			
Renewal Royalty Fees	33,622	—	33,622
New Business Royalty Fees	10,840	—	10,840
Initial Franchise Fees	4,570	—	4,570
Other Franchise Revenues	202	—	202
Interest Income	841	—	841
<b>Total Revenues</b>	<b>\$ 55,061</b>	<b>\$ 56,021</b>	<b>\$ 111,082</b>

<u>Timing of revenue recognition:</u>			
Transferred at a point in time	\$ —	\$ 54,188	\$ 54,188
Transferred over time	55,061	1,833	56,894
<b>Total Revenues</b>	<b>\$ 55,061</b>	<b>\$ 56,021</b>	<b>\$ 111,082</b>

Nine Months Ended September 30, 2020:

	Franchise Channel	Corporate Channel	Total
<b><u>Type of revenue stream:</u></b>			
Commissions and agency fees			
Renewal Commissions	\$ —	\$ 21,382	\$ 21,382
New Business Commissions	—	12,452	12,452
Agency Fees	—	6,362	6,362
Contingent Commissions	6,130	3,118	9,248
Franchise revenues			
Renewal Royalty Fees	21,406	—	21,406
New Business Royalty Fees	7,737	—	7,737
Initial Franchise Fees	3,031	—	3,031
Other Franchise Revenues	173	—	173
Interest Income	573	—	573
<b>Total Revenues</b>	<b>\$ 39,050</b>	<b>\$ 43,314</b>	<b>\$ 82,364</b>

**Timing of revenue recognition:**

Transferred at a point in time	\$ —	\$ 40,196	\$ 40,196
Transferred over time	39,050	3,118	42,168
<b>Total Revenues</b>	<b>\$ 39,050</b>	<b>\$ 43,314</b>	<b>\$ 82,364</b>

**Goosehead Insurance, Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Contract Balances**

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

	<u>September 30, 2021</u>		<u>December 31, 2020</u>		<u>Increase/(decrease)</u>
Cost to obtain franchise contracts <sup>(1)</sup>	1,871	\$	1,412	\$	459
Commissions and agency fees receivable, net <sup>(2)</sup>	8,349		18,604		(10,255)
Receivable from franchisees <sup>(2)</sup>	26,600		20,279		6,321
Contract liability <sup>(2)(3)</sup>	44,609		34,201		10,408

(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.

The Company records Franchise Fees as contract liabilities on the Condensed Consolidated Balance Sheets when the agreement is executed. Contract liabilities are reduced as fees are recognized in revenue over the expected life of the franchise license. As the term of the franchise license is typically ten years, substantially all of the franchise fee revenue recognized in the period ended September 30, 2021 was included in the contract liabilities balance as of December 31, 2020.

The weighted average remaining amortization period for contract liabilities related to open franchises is 8.4 years.

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

Contract liability at December 31, 2020	\$	34,201
Revenue recognized during the period		(4,570)
New deferrals <sup>(1)</sup>		14,978
Contract liability at September 30, 2021		<u>44,609</u>

(1) Initial Franchise Fees where the consideration is received from the customer for services which are to be transferred to the Franchisee over the expected life 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*):

	<u>September 30, 2021</u>		<u>December 31, 2020</u>
Franchise fees receivable <sup>(1)</sup>	\$	35,555	\$ 25,757
Less: Unamortized discount <sup>(1)</sup>		(8,569)	(6,553)
Less: Allowance for uncollectible franchise fees <sup>(1)</sup>		(181)	(149)
Net franchise fees receivable <sup>(1)</sup>	\$	<u>26,805</u>	\$ <u>19,055</u>

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

**Goosehead Insurance, Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

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

Balance at December 31, 2020	\$	149
Charges to bad debts		516
Write offs		(484)
Balance at September 30, 2021	\$	<u>181</u>
Balance at December 31, 2019	\$	52
Charges to bad debts		182
Write offs		(127)
Balance at September 30, 2020	\$	<u>107</u>

**5. Allowance for Uncollectible Agency Fees**

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

Balance at December 31, 2020	\$	468
Charges to bad debts		1,309
Write offs		(1,270)
Balance at September 30, 2021	\$	<u>507</u>
Balance at December 31, 2019	\$	178
Charges to bad debts		822
Write offs		(541)
Balance at September 30, 2020	\$	<u>459</u>

**6. Property and equipment**

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

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Furniture & fixtures	\$ 6,307	\$ 4,404
Computer equipment	3,173	2,453
Network equipment	514	352
Phone system	937	937
Leasehold improvements	21,760	16,534
Total	<u>32,691</u>	<u>24,680</u>
Less accumulated depreciation	(10,897)	(8,030)
Property and equipment, net	<u>\$ 21,794</u>	<u>\$ 16,650</u>

**7. Debt**

On July 21, 2021, the Company refinanced its \$25.0 million revolving credit facility and \$80.0 million term note payable to a \$50.0 million revolving credit facility and \$100.0 million term note payable to finance general corporate purposes and the special dividend. 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 by an additional \$50.0 million.

The \$50.0 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 September

**Goosehead Insurance, Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

30, 2021 the Company was accruing interest at LIBOR plus 250 basis points. At September 30, 2021, the Company had \$25.0 million drawn against the revolving credit facility and had a letter of credit of \$0.2 million applied against the maximum borrowing availability, payable on July 21, 2026. Thus, amounts available to draw totaled \$24.8 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 \$0.6 million the first twelve months, \$1.3 million the next twelve months, \$1.9 million the next twelve months, and \$2.5 million the last twenty-four months, with a balloon payment on July 21, 2026. 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 September 30, 2021 the Company was accruing interest at LIBOR plus 250 basis points.

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

<b>Leverage Ratio</b>	<b>Interest Rate</b>
< 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 five years are as follows (*in thousands*):

	<b>Amount</b>
2021	\$ 625
2022	4,375
2023	6,875
2024	9,375
2025	10,000
2026	68,125
Total	<u>\$ 99,375</u>

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. As of September 30, 2021, the Company's maximum allowable trailing twelve months debt-to-EBITDA ratio, as defined by the credit agreement, was 4.5x. 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 September 30, 2021, the Company was in compliance with these covenants.

Because of both instruments' variable interest rate, the note payable balance at September 30, 2021 and December 31, 2020, 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.

# Goosehead Insurance, Inc.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

- 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. 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 nine months ended September 30, 2021 was \$(2,575) thousand and \$(2,646) thousand compared to \$(331) thousand and \$(612) thousand for the three and nine months ended September 30, 2020. The effective tax rate was (92)% and (55)% for the three and nine months ended September 30, 2021 and (5)% and (5)% for the three and nine months ended September 30, 2020. The decrease in the effective tax rate for the three and nine months ended September 30, 2021 compared to the three and nine months ended September 30, 2020 was primarily due to a increase in exercises of employee stock options, resulting in excess tax-deductible expenses.

#### ***Deferred taxes***

Deferred tax assets at September 30, 2021 were \$114.4 million compared to \$73.4 million at December 31, 2020. 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 nine months ended September 30, 2021.

#### ***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 nine months ended September 30, 2021, an aggregate of 348,120 and 1,209,420 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 348,120 and 1,209,420 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 September 30, 2021, the total amount of TRA Payments due to the Pre-IPO LLC Members under the tax receivable agreement was \$93.5 million, of which \$2.0 million was current and included in Accounts payables and accrued expenses on the Consolidated Balance Sheet. Future exchanges of LLC Units for Class A common stock will result in additional TRA payments.

**Goosehead Insurance, Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Uncertain tax positions**

GSHD has determined there are no material uncertain tax positions as of September 30, 2021.

**9. Stockholders' Equity**

**Class A Common Stock**

GSHD has a total of 19,786 thousand shares of its Class A common stock outstanding at September 30, 2021. 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 17,239 thousand shares of its Class B common stock outstanding at September 30, 2021. 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 nine months ended September 30, 2021 and 2020, divided by the basic weighted average number of Class A common stock as of September 30, 2021 and September 30, 2020 (*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.

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>Numerator:</b>				
Income before taxes	\$ 2,793	\$ 6,394	\$ 4,769	\$ 13,203
Less: income before taxes attributable to non-controlling interests	1,332	3,458	2,288	7,325
Income before taxes attributable to GSHD	1,461	2,936	2,481	5,878
Less: income tax expense (benefit) attributable to GSHD	(2,575)	(331)	(2,646)	(612)
Net income attributable to GSHD	\$ 4,036	\$ 3,267	\$ 5,127	\$ 6,490
<b>Denominator:</b>				
Weighted average shares of Class A common stock outstanding - basic	19,559	17,376	18,903	16,466
<b>Effect of dilutive securities:</b>				
Stock options <sup>(1)</sup>	1,647	1,539	1,667	1,460
Weighted average shares of Class A common stock outstanding - diluted	21,206	18,915	20,570	17,926
Earnings per share of Class A common stock - basic	\$ 0.21	\$ 0.19	\$ 0.27	\$ 0.39
Earnings per share of Class A common stock - diluted	\$ 0.19	\$ 0.17	\$ 0.25	\$ 0.36

(1) 41 thousand and 66 thousand stock options were excluded from the computation of diluted earnings per share of Class A common stock for the three and nine months ended September 30, 2021, respectively, because the effect would have been anti-dilutive.

**Goosehead Insurance, Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

**10. 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 nine months ended September 30, 2021, GF made no distributions to LLC Unit holders. For the three and nine months ended September 30, 2020, GF made distributions of \$1.6 million and \$4.8 million, of which \$0.8 million and \$2.7 million were made to Pre-IPO LLC Members. The remaining \$0.7 million and \$2.2 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 nine months ended September 30, 2021, an aggregate of 348 thousand and 1,209 thousand LLC Units were redeemed by the non-controlling interest holders. Pursuant to the GF LLC Agreement, GSHD issued 348 thousand and 1,209 thousand shares of Class A common stock in connection with these redemptions and received 348 thousand and 1,209 thousand LLC Interests, increasing GSHD's ownership interest in GF. Simultaneously, and in connection with these redemptions, 348 thousand and 1,209 thousand shares of Class B common stock were surrendered and cancelled.

The following table summarizes the ownership interest in GF as of September 30, 2021 (*in thousands*):

	<b>September 30, 2021</b>	
	<b>LLC Units</b>	<b>Ownership %</b>
Number of LLC Units held by GSHD	19,786	53.4%
Number of LLC Units held by non-controlling interest holders	17,239	46.6%
Number of LLC Units outstanding	37,025	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 nine months ended September 30, 2021 was 47.0% and 48.6%, respectively.

**Goosehead Insurance, Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

The following table summarizes the effects of changes in ownership in GF on the equity of GSHD for the three and nine months ended September 30, 2021 and 2020 as follows *(in thousands)*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income attributable to Goosehead Insurance Inc.	\$ 4,036	\$ 3,267	\$ 5,127	\$ 6,490
Transfers (to) from non-controlling interests:				
Decrease in additional paid-in capital as a result of the redemption of LLC interests	(1,144)	(577)	(2,673)	(2,208)
Increase in additional paid-in capital as a result of activity under employee stock purchase plan	194	142	613	396
<b>Total effect of changes in ownership interest on equity attributable to Goosehead Insurance Inc.</b>	<b>\$ 3,086</b>	<b>\$ 2,832</b>	<b>\$ 3,067</b>	<b>\$ 4,678</b>

## 11. Equity-Based Compensation

Stock option expense was \$1.9 million and \$5.6 million for the three and nine months ended September 30, 2021. Stock option expense was \$1.4 million and \$3.3 million for the three and nine months ended September 30, 2020.

On January 4, 2021, the Company granted an additional 153,500 stock options to its Board of Directors and Managing Directors at an exercise price equal to \$131.87 per share. The weighted average grant date fair value of \$47.43 per option was determined using the Black-Scholes valuation model using the following weighted average assumptions:

Expected volatility	45 %
Expected dividend yield	— %
Expected term (in years)	4.25
Risk-free interest rate	0.29 %

**Goosehead Insurance, Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

**12. Dividends**

On July 28, 2021, GF approved an extraordinary dividend in the aggregate amount of \$60.0 million payable to holders of LLC Units, including GSHD. The board of directors of the Company subsequently declared an extraordinary dividend of \$1.63 (rounded) to all holders of Class A common stock of GSHD with a record date of August 9, 2021, which was paid on August 23, 2021. A summary of the total amounts declared and paid by GF is as follows (in thousands):

	<b>LLC Units held as of August 9, 2021</b>	<b>Dividend paid</b>
Class A common stockholders	19,429 \$	31,657
Class B common stockholders via LLC Units held	17,401	28,343
Total	36,830	60,000

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.

**Goosehead Insurance, Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

**13. 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.

**Goosehead Insurance, Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

	Franchise Channel	Corporate Channel	Other	Total
Three months ended September 30, 2021				
Revenues:				
<u>Commissions and agency fees</u>				
Renewal Commissions	\$ —	\$ 10,969	\$ —	\$ 10,969
Agency Fees	—	3,050	—	3,050
New Business Commissions	—	6,013	—	6,013
Contingent Commissions	1,734	654	—	2,388
<b>Total Commissions and Agency Fees</b>	<b>1,734</b>	<b>20,686</b>	<b>—</b>	<b>22,420</b>
<u>Franchise revenue</u>				
Renewal Royalty Fees	13,206	—	—	13,206
New Business Royalty Fees	4,003	—	—	4,003
Initial Franchise Fees	1,680	—	—	1,680
Other Income	71	—	—	71
<b>Total Franchise Revenues</b>	<b>18,960</b>	<b>—</b>	<b>—</b>	<b>18,960</b>
<u>Interest income</u>				
Interest Income	301	—	—	301
<b>Total Interest Income</b>	<b>301</b>	<b>—</b>	<b>—</b>	<b>301</b>
<b>Total Revenues</b>	<b>20,995</b>	<b>20,686</b>	<b>—</b>	<b>41,681</b>
Operating expenses:				
Employee compensation and benefits, excluding equity based compensation	9,051	15,176	—	24,227
General and administrative expenses	3,908	5,035	1,198	10,141
Bad debts	220	512	—	732
<b>Total Operating Expenses</b>	<b>13,179</b>	<b>20,723</b>	<b>1,198</b>	<b>35,100</b>
<b>Adjusted EBITDA</b>	<b>7,816</b>	<b>(37)</b>	<b>(1,198)</b>	<b>6,581</b>
Other income (expense)	7	—	—	7
Equity based compensation	—	—	(1,851)	(1,851)
Interest expense	—	—	(756)	(756)
Depreciation and amortization	(759)	(429)	—	(1,188)
Taxes	—	—	2,575	2,575
<b>Net income (loss)</b>	<b>\$ 7,064</b>	<b>\$ (466)</b>	<b>\$ (1,230)</b>	<b>\$ 5,368</b>
September 30, 2021				
Total Assets	\$ 45,700	\$ 43,257	\$ 158,183	\$ 247,140

**Goosehead Insurance, Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

	Franchise Channel	Corporate Channel	Other	Total
Three months ended September 30, 2020				
Revenues:				
<i>Commissions and agency fees</i>				
Renewal Commissions	\$ —	\$ 7,931	\$ —	\$ 7,931
Agency Fees	—	2,491	—	2,491
New Business Commissions	—	4,790	—	4,790
Contingent Commissions	2,662	1,511	—	4,173
<b>Total Commissions and Agency Fees</b>	<b>2,662</b>	<b>16,723</b>	<b>—</b>	<b>19,385</b>
<i>Franchise revenue</i>				
Renewal Royalty Fees	8,117	—	—	8,117
New Business Royalty Fees	3,090	—	—	3,090
Initial Franchise Fees	1,152	—	—	1,152
Other Income	59	—	—	59
<b>Total Franchise Revenues</b>	<b>12,418</b>	<b>—</b>	<b>—</b>	<b>12,418</b>
<i>Interest income</i>				
Interest Income	212	—	—	212
<b>Total Interest Income</b>	<b>212</b>	<b>—</b>	<b>—</b>	<b>212</b>
<b>Total Revenues</b>	<b>15,292</b>	<b>16,723</b>	<b>—</b>	<b>32,015</b>
Operating expenses:				
Employee compensation and benefits, excluding equity based compensation	6,552	9,933	—	16,485
General and administrative expenses	2,329	2,781	762	5,872
Bad debts	45	331	—	376
<b>Total Operating Expenses</b>	<b>8,926</b>	<b>13,045</b>	<b>762</b>	<b>22,733</b>
<b>Adjusted EBITDA</b>	<b>6,366</b>	<b>3,678</b>	<b>(762)</b>	<b>9,282</b>
Other income (expense)	10	—	—	10
Equity based compensation	—	—	(1,416)	(1,416)
Interest expense	—	—	(582)	(582)
Depreciation and amortization	(473)	(427)	—	(900)
Taxes	—	—	331	331
<b>Net income (loss)</b>	<b>\$ 5,903</b>	<b>\$ 3,251</b>	<b>\$ (2,429)</b>	<b>\$ 6,725</b>
September 30, 2020				
Total Assets	\$ 40,578	\$ 24,977	\$ 54,399	\$ 119,954

**Goosehead Insurance, Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

	Franchise Channel	Corporate Channel	Other	Total
Nine months ended September 30, 2021				
<b>Revenues:</b>				
<i>Commissions and agency fees</i>				
Renewal Commissions	\$ —	\$ 29,036	\$ —	\$ 29,036
Agency Fees	—	8,579	—	8,579
New Business Commissions	—	16,573	—	16,573
Contingent Commissions	4,986	1,833	—	6,819
<b>Total Commissions and Agency Fees</b>	<b>4,986</b>	<b>56,021</b>	<b>—</b>	<b>61,007</b>
<i>Franchise revenue</i>				
Renewal Royalty Fees	33,622	—	—	33,622
New Business Royalty Fees	10,840	—	—	10,840
Initial Franchise Fees	4,570	—	—	4,570
Other Income	202	—	—	202
<b>Total Franchise Revenue</b>	<b>49,234</b>	<b>—</b>	<b>—</b>	<b>49,234</b>
<i>Interest income</i>				
Interest Income	841	—	—	841
<b>Total Interest Income</b>	<b>841</b>	<b>—</b>	<b>—</b>	<b>841</b>
<b>Total</b>	<b>55,061</b>	<b>56,021</b>	<b>—</b>	<b>111,082</b>
<b>Operating expenses:</b>				
Employee compensation and benefits, excluding equity-based compensation	24,640	39,578	—	64,218
General and administrative expenses	13,048	13,943	2,558	29,549
Bad debts	516	1,309	—	1,825
<b>Total</b>	<b>38,204</b>	<b>54,830</b>	<b>2,558</b>	<b>95,592</b>
<b>Adjusted EBITDA</b>	<b>16,857</b>	<b>1,191</b>	<b>(2,558)</b>	<b>15,490</b>
Other income (expense)	38	108	—	146
Equity based compensation	—	—	(5,644)	(5,644)
Interest expense	—	—	(1,903)	(1,903)
Depreciation and amortization	(2,134)	(1,186)	—	(3,320)
Taxes	—	—	2,646	2,646
<b>Net income (loss)</b>	<b>\$ 14,761</b>	<b>\$ 113</b>	<b>\$ (7,459)</b>	<b>\$ 7,415</b>
At September 30, 2021:				
<b>Total Assets</b>	<b>\$ 45,700</b>	<b>\$ 43,257</b>	<b>\$ 158,183</b>	<b>\$ 247,140</b>

**Goosehead Insurance, Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

	Franchise Channel	Corporate Channel	Other	Total
Nine months ended September 30, 2020				
Revenues:				
<u>Commissions and agency fees</u>				
Renewal Commissions	\$ —	\$ 21,382	\$ —	\$ 21,382
Agency Fees	—	6,362	—	6,362
New Business Commissions	—	12,452	—	12,452
Contingent Commissions	6,130	3,118	—	9,248
<b>Total Commissions and Agency Fees</b>	<b>6,130</b>	<b>43,314</b>	<b>—</b>	<b>49,444</b>
<u>Franchise revenue</u>				
Renewal Royalty Fees	21,406	—	—	21,406
New Business Royalty Fees	7,737	—	—	7,737
Initial Franchise Fees	3,031	—	—	3,031
Other Income	173	—	—	173
<b>Total Franchise Revenues</b>	<b>32,347</b>	<b>—</b>	<b>—</b>	<b>32,347</b>
<u>Interest income</u>				
Interest Income	573	—	—	573
<b>Total Interest Income</b>	<b>573</b>	<b>—</b>	<b>—</b>	<b>573</b>
<b>Total Revenues</b>	<b>39,050</b>	<b>43,314</b>	<b>—</b>	<b>82,364</b>
Operating expenses:				
Employee compensation and benefits, excluding equity based compensation	18,413	25,565	—	43,978
General and administrative expenses	6,488	8,111	2,509	17,108
Bad debts	182	822	—	1,004
<b>Total Operating Expenses</b>	<b>25,083</b>	<b>34,498</b>	<b>2,509</b>	<b>62,090</b>
<b>Adjusted EBITDA</b>	<b>13,967</b>	<b>8,816</b>	<b>(2,509)</b>	<b>20,274</b>
Other income (expense)	76	—	—	76
Equity based compensation	—	—	(3,330)	(3,330)
Interest expense	—	—	(1,665)	(1,665)
Depreciation and amortization	(1,182)	(970)	—	(2,152)
Taxes	—	—	612	612
<b>Net income (loss)</b>	<b>\$ 12,861</b>	<b>\$ 7,846</b>	<b>\$ (6,892)</b>	<b>\$ 13,815</b>
At September 30, 2020:				
Total Assets	\$ 40,578	\$ 24,977	\$ 54,399	\$ 119,954

#### 14. 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.

**Goosehead Insurance, Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

**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 48% of the company, representing our commitment to the long-term success of the Company.

**Financial Highlights for the Third Quarter of 2021:**

- Total revenue increased 30% from the third quarter of 2020 to \$41.7 million
- Core Revenue\* increased by 41% from third quarter of 2020 to \$37.2 million
- Total Written Premiums placed increased 44% from the prior-year period to \$435 million
- Net income decreased by \$1.4 million from the third quarter of 2020 to \$5.4 million, or 13% of total revenues
- Adjusted EBITDA\* decreased 29% from the third quarter of 2020 to \$6.6 million, or 16% of total revenues.
- Basic and diluted earnings per share were \$0.21 and \$0.19, respectively, and Adjusted EPS\*, a non-GAAP measure, was \$0.26 for the three months ended September 30, 2021
- Policies in Force increased 44% from September 30, 2020 to 948,000 at September 30, 2021
- Corporate sales headcount increased 35% from September 30, 2020 to 502 at September 30, 2021
  - As of September 30, 2021, 301 of these Corporate sales agents had less than one year of tenure and 201 had greater than one year of tenure
- Total franchises increased 55% compared to the prior year period to 1,958; total operating franchises increased 38% from September 30, 2020 to 1,139 at September 30, 2021
  - In Texas as of September 30, 2021, 56 operating Franchisees had less than one year of tenure and 206 operating Franchisees had greater than one year of tenure.
  - Outside of Texas as of September 30, 2021, 335 operating Franchisees had less than one year of tenure and 542 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")**

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 availability, effectiveness and utilization of vaccines for COVID-19 and its variant strains, the duration, severity and spread of the outbreak, including as a result of new variants, and its impact on home sales and consumer spending.

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 will 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 "Item 1A. Risk factors—Risks relating to our business—The ongoing global outbreak of the 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 the Annual Report on Form 10-K for more information.

## Certain income statement line items

### Revenues

For the three months ended September 30, 2021, revenue increased by 30% to \$41.7 million from \$32.0 million for the three months ended September 30, 2020. For the nine months ended September 30, 2021, revenue increased by 35% to \$111.1 million from \$82.4 million for the nine months ended September 30, 2020. Total Written Premium growth, which is the best leading indicator of future revenue growth, was 44% for the three months ended September 30, 2021. Total Written Premium increased to \$435 million for the three months ended September 30, 2021 from \$301 million for the three months ended September 30, 2020 and grew 46% to \$1,153 million for the nine months ended September 30, 2021 from \$789 million for the nine months ended September 30, 2020. 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:

<i>(in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021		2020		2021		2020	
<b>Core Revenue:</b>								
Renewal Commissions <sup>(1)</sup>	\$10,969	26 %	\$7,931	25 %	\$29,036	26 %	\$21,382	26 %
Renewal Royalty Fees <sup>(2)</sup>	13,206	32 %	8,117	25 %	33,622	30 %	21,406	26 %
New Business Commissions <sup>(1)</sup>	6,013	14 %	4,790	15 %	16,573	15 %	12,452	15 %
New Business Royalty Fees <sup>(2)</sup>	4,003	10 %	3,090	10 %	10,840	10 %	7,737	9 %
Agency Fees <sup>(1)</sup>	3,050	7 %	2,491	8 %	8,579	8 %	6,362	8 %
<b>Total Core Revenue</b>	<b>37,241</b>	<b>89 %</b>	<b>26,419</b>	<b>83 %</b>	<b>98,650</b>	<b>89 %</b>	<b>69,339</b>	<b>84 %</b>
<b>Cost Recovery Revenue:</b>								
Initial Franchise Fees <sup>(2)</sup>	1,680	4 %	1,152	4 %	4,570	4 %	3,031	4 %
Interest Income	301	1 %	212	1 %	841	1 %	573	1 %
<b>Total Cost Recovery Revenue</b>	<b>1,981</b>	<b>5 %</b>	<b>1,364</b>	<b>4 %</b>	<b>5,411</b>	<b>5 %</b>	<b>3,604</b>	<b>4 %</b>
<b>Ancillary Revenue:</b>								
Contingent Commissions <sup>(1)</sup>	2,388	6 %	4,173	13 %	6,819	6 %	9,248	11 %
Other Income <sup>(2)</sup>	71	— %	59	— %	202	— %	173	— %
<b>Total Ancillary Revenue</b>	<b>2,459</b>	<b>6 %</b>	<b>4,232</b>	<b>13 %</b>	<b>7,021</b>	<b>6 %</b>	<b>9,421</b>	<b>11 %</b>
<b>Total Revenues</b>	<b>\$41,681</b>	<b>100 %</b>	<b>\$32,015</b>	<b>100 %</b>	<b>\$111,082</b>	<b>100 %</b>	<b>\$82,364</b>	<b>100 %</b>

(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 operations.

(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 operations.

## Consolidated results of operations

The following is a discussion of our consolidated results of operations for each of the three and nine months ended September 30, 2021 and 2020. 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 and nine months ended September 30, 2021 and 2020 (*in thousands*):

	Three Months Ended September 30,				Nine Months Ended September 30,					
	2021		2020		2021		2020			
<b>Revenues:</b>										
Commissions and agency fees	\$	22,420	54 %	\$	19,385	61 %	\$	49,444	60 %	
Franchise revenues		18,960	45 %		12,418	39 %		32,347	39 %	
Interest income		301	1 %		212	1 %		573	1 %	
<b>Total revenues</b>		<b>41,681</b>	<b>100 %</b>		<b>32,015</b>	<b>100 %</b>		<b>111,082</b>	<b>100 %</b>	
<b>Operating Expenses:</b>										
Employee compensation and benefits		26,078	68 %		17,901	71 %		47,308	70 %	
General and administrative expenses		10,141	27 %		5,872	23 %		17,108	26 %	
Bad debts		732	2 %		376	2 %		1,004	1 %	
Depreciation and amortization		1,188	3 %		900	4 %		2,152	3 %	
<b>Total operating expenses</b>		<b>38,139</b>	<b>100 %</b>		<b>25,049</b>	<b>100 %</b>		<b>104,556</b>	<b>100 %</b>	
<b>Income from operations</b>		<b>3,542</b>			<b>6,966</b>			<b>14,792</b>		
<b>Other Income (Expense):</b>										
Other income		7			10			76		
Interest expense		(756)			(582)			(1,665)		
<b>Income before taxes</b>		<b>2,793</b>			<b>6,394</b>			<b>13,203</b>		
Tax expense (benefit)		(2,575)			(331)			(612)		
<b>Net Income</b>		<b>5,368</b>			<b>6,725</b>			<b>13,815</b>		
Less: net income attributable to non-controlling interests		1,332			3,458			7,325		
<b>Net income attributable to Goosehead Insurance Inc.</b>	<b>\$</b>	<b>4,036</b>		<b>\$</b>	<b>3,267</b>		<b>\$</b>	<b>5,127</b>	<b>\$</b>	<b>6,490</b>

### Revenues

For the three months ended September 30, 2021, revenue increased by 30% to \$41.7 million from \$32.0 million for the three months ended September 30, 2020. For the nine months ended September 30, 2021 revenue increased 35% to \$111.1 million from \$82.4 million for the nine months ended September 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 September 30,				Nine Months Ended September 30,			
	2021		2020		2021		2020	
<b>Core Revenue:</b>								
Renewal Commissions	10,969	48 %	7,931	41 %	29,036	48 %	21,382	43 %
New Business Commissions	6,013	27 %	4,790	25 %	16,573	27 %	12,452	25 %
Agency Fees	3,050	14 %	2,491	13 %	8,579	14 %	6,362	13 %
<b>Total Core Revenue:</b>	<b>20,032</b>	<b>89 %</b>	<b>15,212</b>	<b>78 %</b>	<b>54,188</b>	<b>89 %</b>	<b>40,196</b>	<b>81 %</b>
<b>Ancillary Revenue:</b>								
Contingent Commissions	2,388	11 %	4,173	22 %	6,819	11 %	9,248	19 %
<b>Commissions and agency fees</b>	<b>\$ 22,420</b>	<b>100 %</b>	<b>\$ 19,385</b>	<b>100 %</b>	<b>\$ 61,007</b>	<b>100 %</b>	<b>\$ 49,444</b>	<b>100 %</b>

Renewal Commissions increased by \$3.0 million or 38%, to \$11.0 million for the three months ended September 30, 2021 from \$7.9 million for the three months ended September 30, 2020. Renewal Commissions increased by \$7.7 million or 36%, to \$29.0 million for the nine months ended September 30, 2021 from \$21.4 million for the nine months ended September 30, 2020. These increases were primarily attributable to an increase in the number of policies in the renewal term from September 30, 2020 to September 30, 2021 plus an increase in client retention to 89% as of September 30, 2021 from 88% as of September 30, 2020.

New Business Commissions increased by \$1.2 million, or 26%, to \$6.0 million for the three months ended September 30, 2021 from \$4.8 million for the three months ended September 30, 2020. Revenue from Agency Fees increased by \$559 thousand, or 22%, to \$3.1 million for the three months ended September 30, 2021 from \$2.5 million for the three months ended September 30, 2020. New Business Commission increased by \$4.1 million or 33%, to \$16.6 million for the nine months ended September 30, 2021 from \$12.5 million for the nine months ended September 30, 2020. Revenue from Agency Fees increased by \$2.2 million or 35%, to \$8.6 million for the nine months ended September 30, 2021 from \$6.4 million for the nine months ended September 30, 2020. These increases were primarily attributable to a 35% increase in total sales agent head count to 502 at September 30, 2021, from 371 at September 30, 2020.

Revenue from Contingent Commissions decreased by \$1.8 million, to \$2.4 million for the three months ended September 30, 2021 from \$4.2 million for the three months ended September 30, 2020. Revenue from Contingent Commissions decreased by \$2.4 million, to \$6.8 million for the nine months ended September 30, 2021 from \$9.2 million for the nine months ended September 30, 2020. This change in Revenue from Contingent Commissions was primarily attributable to increases in loss ratio related to specific contingent commission programs coming off a historically low loss ratio year in 2020.

### 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 September 30,				Nine Months Ended September 30,			
	2021		2020		2021		2020	
<b>Core Revenues:</b>								
Renewal Royalty Fees	13,206	70 %	8,117	65 %	33,622	68 %	21,406	66 %
New Business Royalty Fees	4,003	21 %	3,090	25 %	10,840	22 %	7,737	24 %
Total Core Revenues:	17,209	91 %	11,207	90 %	44,462	90 %	29,143	90 %
<b>Cost Recovery Revenues:</b>								
Initial Franchise Fees	1,680	9 %	1,152	9 %	4,570	9 %	3,031	9 %
<b>Ancillary Revenues:</b>								
Other Franchise Revenues	71	— %	59	— %	202	1 %	173	1 %
<b>Franchise revenues</b>	<b>\$ 18,960</b>	<b>100 %</b>	<b>\$ 12,418</b>	<b>100 %</b>	<b>\$ 49,234</b>	<b>100 %</b>	<b>\$ 32,347</b>	<b>100 %</b>

Revenue from Renewal Royalty Fees increased by \$5.1 million, or 63%, to \$13.2 million, for the three months ended September 30, 2021 from \$8.1 million for the three months ended September 30, 2020. Revenue from Renewal Royalty Fees increased by \$12.2 million, or 57%, to \$33.6 million for the nine months ended September 30, 2021 from \$21.4 million for the nine months ended September 30, 2020. The increase in revenue from Renewal Royalty Fees was primarily attributable to an increase in the number of policies in the renewal term and an increase in client retention to 89% as of September 30, 2021 from 88% as of September 30, 2020.

Revenue from New Business Royalty Fees increased by \$0.9 million, or 30%, to \$4.0 million for the three months ended September 30, 2021 from \$3.1 million for the three months ended September 30, 2020. Revenue from New Business Royalty Fees increased by \$3.1 million, or 40%, to \$10.8 million for the nine months ended September 30, 2021 from \$7.7 million for the nine months ended September 30, 2020. The increase in revenue from New Business Royalty Fees was primarily attributable to a 38% increase in the total number of operating franchises to 1,139 at September 30, 2021, from 823 at September 30, 2020.

Revenues from Initial Franchise Fees increased by \$0.5 million or 46% to \$1.7 million for the three months ended September 30, 2021 from \$1.2 million during the three months ended September 30, 2020. Revenue from Initial Franchise Fees increased by \$1.5 million, or 51%, to \$4.6 million for the nine months ended September 30, 2021 from \$3.0 million for the nine months ended September 30, 2020. The primary reason for this increase is an increase of 55% in total franchises to 1,958 at September 30, 2021, from 1,261 at September 30, 2020.

#### *Interest income*

Interest income increased by \$89 thousand, or 42%, to \$301 thousand for the three months ended September 30, 2021 from \$212 thousand for the three months ended September 30, 2020. Interest income increased by \$268 thousand, or 47%, to \$841 thousand for the nine months ended September 30, 2021 from \$573 thousand for the nine months ended September 30, 2020. 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 \$8.2 million, or 46%, to \$26.1 million for the three months ended September 30, 2021 from \$17.9 million for the three months ended September 30, 2020. Employee compensation and benefits expenses increased by \$22.6 million, or 48%, to \$69.9 million for the nine months ended September 30, 2021 from \$47.3 million for the nine months ended September 30, 2020. The increase is caused by a 41% increase in total headcount from 2020 to 2021.

##### *General and administrative expenses*

General and administrative expenses increased by \$4.3 million, or 73%, to \$10.1 million for the three months ended September 30, 2021 from \$5.9 million for the three months ended September 30, 2020. General and administrative expenses increased by \$12.4 million, or 73%, to \$29.5 million for the nine months ended September 30, 2021 from

\$17.1 million for the nine months ended September 30, 2020. This increase was primarily attributable to higher costs associated with an increase in operating franchises, total employees, opening of three new corporate office locations, and investments made in technology. Additionally, during 2020, general and administrative expenses were significantly lower than what we had expended historically or expect to expend in the future due to COVID-related limitations on travel, meals, entertainment, and other related expenses.

#### *Bad debts*

Bad debts increased by \$356 thousand for the three months ended September 30, 2021 to \$732 thousand from \$376 thousand for the three months ended September 30, 2020. Bad debts increased by \$821 thousand, or 82%, to \$1.8 million for the nine months ended September 30, 2021 from \$1.0 million for the nine months ended September 30, 2020. The increase in bad debts is attributable to an increase in total franchises and an increase in revenue from Agency fees during the three and nine months ended September 30, 2021 from the three and nine months ended September 30, 2020.

#### *Depreciation and amortization*

Depreciation and amortization increased by \$0.3 million, or 32%, to \$1.2 million for the three months ended September 30, 2021 from \$0.9 million for the three months ended September 30, 2020. Depreciation and amortization increased by \$1.2 million, or 54%, to \$3.3 million for the nine months ended September 30, 2021 from \$2.2 million for the nine months ended September 30, 2020. This increase was primarily attributable to the increase in fixed assets since September 30, 2020, including the opening of three additional corporate sales offices, expansion of existing corporate offices and hardware for additional employees hired.

#### *Interest expense*

Interest expenses increased by \$0.2 million for the three months ended September 30, 2021, to \$0.8 million from \$0.6 million for the three months ended September 30, 2020. Interest expenses increased by \$0.2 million for the nine months ended September 30, 2021, to \$1.9 million from \$1.7 million for the nine months ended September 30, 2020. The primary driver of the increase in interest expense is the increase in total borrowing outstanding.

## **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 nine months ended and 2021 and 2020 (*in thousands*).

	<b>Three Months Ended September 30,</b>		<b>% Change</b>
	<b>2021</b>	<b>2020</b>	
Corporate Channel Total Written Premium	\$ 116,605	\$ 88,517	32 %
Franchise Channel Total Written Premium	318,147	212,520	50 %
<b>Total Written Premium</b>	<b>\$ 434,752</b>	<b>\$ 301,037</b>	<b>44 %</b>

  

	<b>Nine Months Ended September 30,</b>		<b>% Change</b>
	<b>2021</b>	<b>2020</b>	
Corporate Channel Total Written Premium	\$ 318,008	\$ 237,317	34 %
Franchise Channel Total Written Premium	834,559	551,550	51 %
<b>Total Written Premium</b>	<b>\$ 1,152,567</b>	<b>\$ 788,867</b>	<b>46 %</b>

### **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 September 30, 2021, we had 948,000 in Policies in Force compared to 713,000 as of December 31, 2020 and 657,000 as of September 30, 2020, representing a 33% and 44% 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 remained steady at 92 as of September 30, 2021 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 increased to 89% at September 30, 2021 from 88% as of December 31, 2020, again driven by the service team's continued focus on delivering highly differentiated service levels. For the trailing twelve months ended September 30, 2021, we retained 92% of the premiums we distributed in the trailing twelve months ended September 30, 2020, which increased modestly from the 89% premium retention at December 31, 2020. 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 September 30, 2021, New Business Revenue grew 26% to \$13.1 million, from \$10.4 million for the three months ended September 30, 2020. For the nine months ended September 30, 2021, New Business Revenue grew 36% to \$36.0 million, from \$26.6 million for the nine months ended September 30, 2020. Growth in New Business Revenue is driven by an increase in Corporate Channel sales agent headcount of 35% and growth in operating franchises in the Franchise Channel of 38%.

### **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 September 30, 2021, Renewal Revenue grew 51% to \$24.2 million, from \$16.0 million for the three months ended September 30, 2020. For the nine months ended September 30, 2021, Renewal Revenue grew 46% to \$62.7 million, from \$42.8 million for the nine months ended September 30, 2020. Growth in Renewal Revenue was driven by Client Retention of 89% at September 30, 2021. 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**

Core Revenue, Cost Recovery Revenue, Ancillary Revenue, Adjusted EBITDA, Adjusted EBITDA Margin, and Adjusted EPS are not measures of financial performance under GAAP and should not be considered substitutes for total revenue (with respect to Core Revenue, Cost Recovery Revenue and Ancillary Revenue), net income (with respect to Adjusted EBITDA and Adjusted EBITDA Margin) or earnings per share (with respect to Adjusted EPS), 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. Core Revenue, Cost Recovery Revenue, Ancillary Revenue, Adjusted EBITDA, Adjusted EBITDA Margin, and Adjusted EPS have limitations as analytical tools, and when assessing our operating performance, you should not consider Core Revenue, Cost Recovery Revenue, Ancillary Revenue, Adjusted EBITDA, Adjusted EBITDA Margin, or Adjusted EPS in isolation or as substitutes for total revenue, net income, earnings per share, as applicable, or other consolidated income statement data prepared in accordance with GAAP. Other companies may calculate Core Revenue, Cost Recovery Revenue, Ancillary Revenue, 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 \$10.8 million, or 41%, to \$37.2 million for the three months ended September 30, 2021 from \$26.4 million for the three months ended September 30, 2020. Core Revenue increased by \$29.3 million, or 42%, to \$98.7 million for the nine months ended September 30, 2021 from \$69.3 million for the nine months ended September 30, 2020. The primary drivers of the increase are increases in operating franchises, corporate agent sales headcount, the number of policies in the renewal term from September 30, 2020 to September 30, 2021, plus an increase in client retention to 89% as of September 30, 2021 from 88% as of September 30, 2020.

### **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 increased by \$0.6 million, or 45%, to \$2.0 million for the three months ended September 30, 2021 from \$1.4 million for the three months ended September 30, 2020. Cost Recovery Revenue increased by \$1.8 million, or 50%, to \$5.4 million for the nine months ended September 30, 2021 from \$3.6 million for the nine months ended September 30, 2020. The primary driver of the increase is an increase in total franchises from September 30, 2020 to September 30, 2021.

### **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 decreased by \$1.8 million to \$2.5 million for the three months ended September 30, 2021 from \$4.2 million for the three months ended September 30, 2020. Ancillary Revenue decreased by \$2.4 million to \$7.0 million for the nine months ended September 30, 2021 from \$9.4 million for the nine months ended September 30, 2020. The decrease in Ancillary Revenue is primarily due to increases in loss ratio related to specific contingent commission programs coming off historically low loss ratios in 2020.

### **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 decreased by \$2.7 million, or 29%, to \$6.6 million for the three months ended September 30, 2021 from \$9.3 million for the three months ended September 30, 2020. Adjusted EBITDA decreased by \$4.8 million, or 24%, to \$15.5 million for the nine months ended September 30, 2021 from \$20.3 million for the nine months ended September 30, 2020. The primary drivers of the decreases in Adjusted EBITDA are decreases in

revenue from Contingent Commissions and increases in General and Administrative expenses driven by increases in corporate agent headcount, operating franchises, and investments in technology.

### 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 September 30, 2021, Adjusted EBITDA Margin was 16% compared to 29% for the three months ended September 30, 2020. For the nine months ended September 30, 2021, Adjusted EBITDA Margin was 14% compared to 25% for the nine months ended September 30, 2020. The primary drivers of the decreases in Adjusted EBITDA Margin are decreases in revenue from Contingent Commissions and increases in General and Administrative expenses driven by increases in corporate agent headcount, operating franchises, and investments in technology.

### 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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Total Revenues	\$ 41,681	\$ 32,015	\$ 111,082	\$ 82,364
Core Revenue:				
Renewal Commissions <sup>(1)</sup>	\$ 10,969	\$ 7,931	\$ 29,036	\$ 21,382
Renewal Royalty Fees <sup>(2)</sup>	13,206	8,117	33,622	21,406
New Business Commissions <sup>(1)</sup>	6,013	4,790	16,573	12,452
New Business Royalty Fees <sup>(2)</sup>	4,003	3,090	10,840	7,737
Agency Fees <sup>(1)</sup>	3,050	2,491	8,579	6,362
Total Core Revenue	37,241	26,419	98,650	69,339
Cost Recovery Revenue:				
Initial Franchise Fees <sup>(2)</sup>	1,680	1,152	4,570	3,031
Interest Income	301	212	841	573
Total Cost Recovery Revenue	1,981	1,364	5,411	3,604
Ancillary Revenue:				
Contingent Commissions <sup>(1)</sup>	2,388	4,173	6,819	9,248
Other Income <sup>(2)</sup>	71	59	202	173
Total Ancillary Revenue	2,459	4,232	7,021	9,421
Total Revenues	\$ 41,681	\$ 32,015	\$ 111,082	\$ 82,364

(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 operations.

(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 operations.

The following tables show a reconciliation from net income to Adjusted EBITDA and Adjusted EBITDA margin for the three and nine months ended September 30, 2021 and 2020 (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net Income	\$ 5,368	\$ 6,725	\$ 7,415	\$ 13,815
Interest expense	756	582	1,903	1,665
Depreciation and amortization	1,188	900	3,320	2,152
Tax (benefit) expense	(2,575)	(331)	(2,646)	(612)
Equity-based compensation	1,851	1,416	5,644	3,330
Other (income) expense	(7)	(10)	(146)	(76)
Adjusted EBITDA	\$ 6,581	\$ 9,282	\$ 15,490	\$ 20,274
Adjusted EBITDA Margin <sup>(1)</sup>	16 %	29 %	14 %	25 %

(1) Adjusted EBITDA Margin is calculated as Adjusted EBITDA divided by Total Revenue (\$6,581/\$41,681), and (\$9,282/\$32,015) for the three months ended September 30, 2021 and 2020, respectively. Adjusted EBITDA Margin is calculated as Adjusted EBITDA divided by Total Revenue (\$15,490/\$111,082), and (\$20,274/\$82,364) for the nine months ended September 30, 2021 and 2020, respectively.

The following tables show a reconciliation from basic earnings per share to Adjusted EPS (non-GAAP basis) for the three and nine months ended September 30, 2021 (in thousands, except per share amounts). Note that totals may not sum due to rounding:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Earnings per share - basic (GAAP)	\$ 0.21	\$ 0.19	\$ 0.27	\$ 0.39
Add: equity-based compensation <sup>(1)</sup>	0.05	0.04	0.15	0.09
Adjusted EPS (non-GAAP)	\$ 0.26	\$ 0.23	\$ 0.42	\$ 0.48

(1) Calculated as equity-based compensation divided by sum of weighted average Class A and Class B shares [ \$1.9 million / ( 19.6 million + 17.3 million ) ] and [ \$5.6 million / (\$18.9 million + \$17.9 million) ] for the three and nine months ended September 30, 2021 and [ \$1.4 million / ( 16.5 million + 20.0 million ) ] and [ \$3.3 million / (\$16.0 million + \$20.4 million) ] for the three and nine months ended September 30, 2020.

## Liquidity and capital resources

### 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 September 30, 2021, our cash and cash equivalents balance was \$25.5 million. We have used cash flow from operations primarily to pay compensation and related expenses, general, administrative and other expenses, debt service, special dividends 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*):

	Nine Months Ended September 30,		
	2021	2020	Change
Net cash provided by operating activities	\$ 26,803	\$ 15,041	\$ 11,762
Net cash used for investing activities	(10,146)	(5,057)	(5,089)
Net cash used for financing activities	(16,202)	(3,909)	(12,293)
Net increase in cash and cash equivalents	455	6,075	(5,620)
Cash and cash equivalents, and restricted cash, beginning of period	26,236	15,260	10,976
Cash and cash equivalents, and restricted cash, end of period	\$ 26,691	\$ 21,335	\$ 5,356

#### Operating activities

Net cash provided by operating activities was \$26.8 million for the nine months ended September 30, 2021 as compared to net cash provided by operating activities of \$15.0 million for the nine months ended September 30, 2020. This increase in net cash provided by operating activities was attributable to a decrease in commissions and agency fees receivables of \$14.7 million as a result of the receipts of contingent commissions during the period, offset by an increase of \$2.8 million in receivables from franchisees.

#### Investing activities

Net cash used for investing activities was \$10.1 million for the nine months ended September 30, 2021, compared to net cash used in investing activities of \$5.1 million for the nine months ended September 30, 2020. This increase was driven by continued expansion of corporate offices to support increased hiring.

#### Financing activities

Net cash used for financing activities was \$16.2 million for the nine months ended September 30, 2021 as compared to net cash used for financing activities of \$3.9 million for the nine months ended September 30, 2020. This increase in net cash used for financing activities was attributable to the Company's 2021 extraordinary dividend payment.

#### 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

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 September 30, 2021, aggregated by type (*in thousands*).

<i>(in thousands)</i>	<b>Contractual obligations, commitments and contingencies</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Operating leases <sup>(1)</sup>	\$ 59,369	\$ (1,554)	\$ 14,436	\$ 15,066	\$ 31,421
Debt obligations payable <sup>(2)</sup>	99,375	3,750	15,000	80,625	—
Interest expense <sup>(3)</sup>	21,177	8,518	3,225	9,434	—
Liabilities under the tax receivable agreement <sup>(4)</sup>	93,720	1,958	9,544	10,498	71,720
<b>Total</b>	<b>\$ 273,641</b>	<b>\$ 12,672</b>	<b>\$ 42,205</b>	<b>\$ 115,623</b>	<b>\$ 103,141</b>

- (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 \$1.5 million and \$890 thousand for the three months ended September 30, 2021 and 2020.
- (2) The Company refinanced its credit facilities on July 21, 2021 in the form of a \$100 million term loan, and \$50 million revolving credit facility, of which \$25 million was drawn as of September 30, 2021.
- (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 September 30, 2021.
- (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.

### **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 September 30, 2021. 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 September 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II**

### **Item 1. Legal Proceedings**

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**

There have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

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

None.

Subject to the terms of the amended and restated Goosehead Financial LLC Agreement, each LLC Unit is redeemable (along with the cancellation of the corresponding share of Class B common stock) for one share of Class A common stock.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

Not applicable.

### **Item 5. Other Information**

None.



## 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: October 27, 2021

/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: October 27, 2021

/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 September 30, 2021 (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: October 27, 2021

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

Date: October 27, 2021

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