Risk Factors Comparison 2024-03-04 to 2023-03-06 Form: 10-K

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Our business is subject to a number of risks, some of which are discussed below. The risk factors discussed in this section should be considered together with all of the other information contained in this Annual Report on Form 10- K, including the section titled " Management' s Discussion and Analysis of Financial Condition and Results of Operations " and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10- K. If any of the following risks actually occurs, our business, prospects, results of operations, cash flows and financial condition could suffer materially, the trading price of our Class A common stock could decline and you could lose all or part of your investment. This Annual Report on Form 10- K also contains forward- looking statements and estimates that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward- looking statements as a result of specific factors, including the risks and uncertainties described in this section. The principal risk factors are: Risk Factor Summary • Our financial results are affected by **the** financial results of master franchisees and franchisees. • We may not be able to successfully implement our growth strategy. • Disruptions in the availability of financing for current or prospective franchisees. • The number of new studios that actually open in the future may differ materially from the number of studio licenses sold to potential, existing and new franchisees. • Our success depends substantially on our ability to maintain the value and reputation of our brands. • Our expansion into new markets may present increased risks due to our unfamiliarity with those markets. • Our expansion into international markets exposes us to a number of risks. • We have incurred operating losses in the past and may not achieve or maintain profitability in the future. • Franchisees may incur rising costs related to the construction of new studios. • Franchisees may not be able to identify and secure suitable sites for new studios. • ~~Opening new studios in close proximity to existing studios may negatively impact existing studios' revenue and profitability. •~~ New brands or services that we launch in the future may not be as successful as we anticipate. • Franchisees **have and** could **in the future** take actions that harm our business. • Franchisees may not successfully execute our suggested best practices, which could harm our business. • Macroeconomic conditions or economic downturn could adversely affect demand for our services. • Our future success depends on key employees and our ability to attract and retain highly skilled personnel. • ~~Our investments in underperforming studios may be unsuccessful. •~~ We operate in a highly competitive market. • Franchisees may be unable to attract and retain customers. • We may not be able to anticipate and satisfy consumer preferences and shifting views of health and fitness. • Our planned growth could place strains on our management, employees, information systems and internal controls, which may adversely impact our business. • Our business is subject to various laws and regulations and changes in such laws and regulations. • We ~~currently~~ are ~~, and may in the future be,~~ subject to ~~legal proceedings, regulatory disputes and~~ **an** ~~governmental inquiries~~ **SEC investigation which could have a material adverse impact on our business, financial condition, results of operation, cash flows and reputation** . • We, master franchisees and franchisees could be subject to claims related to health and safety risks to customers that arise while at our and franchisees' studios. • We rely heavily on information systems provided by a single provider. • We, master franchisees, franchisees or ~~ClubReady~~ **our third- party service providers** may fail to properly maintain the confidentiality and integrity of our customer personal data. • Failure by us, master franchisees, franchisees or third- party service providers to comply with existing or future data privacy laws and regulations could have a material adverse effect on our business. • Changes in legislation or requirements related to electronic funds transfer may adversely impact our business operations. • We and franchisees are subject to risks related to Automated Clearing House (" ACH "), credit card, debit card and gift card payments we accept. • We depend on a limited number of suppliers for certain equipment, services and products. • Our intellectual property rights, including trademarks and trade names, may be infringed, misappropriated or challenged by others. • ~~We may not be able to secure music licenses or to comply with the terms and conditions of such licenses, which may lead to third- party claims or lawsuits against us and / or franchisees. •~~ Our quarterly results of operations and other operating metrics may fluctuate from quarter to quarter. • Use of social media may adversely impact our reputation or subject us to fines or other penalties. • We may require additional capital to support business growth and objectives. • We may engage in merger and acquisition activities, which could require significant management attention, disrupt our business, dilute stockholder value and adversely affect our results of operations ~~. • Our retail products may be unacceptable to us or franchisees' customers. • If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our results of operations could be adversely affected~~ . • Goodwill and indefinite- lived intangible assets are a material component of our balance sheet and impairments of these assets could have a significant impact on our results. • Our substantial indebtedness could adversely affect our financial condition and limit our ability to pursue our growth strategy. • Our failure to satisfy the covenants in our credit agreement may result in events of default. • Restrictions imposed by our outstanding indebtedness and any future indebtedness may limit our ability to operate our business and to finance our future operations. • We may not be able to maintain required regulatory licenses and permits ~~. • We have a limited operating history~~ . • Shifts in consumer behavior may materially adversely impact our business. • The terms of our convertible preferred stock have provisions that could result in a change of control of our Board in the case of an event of default by us. • Our convertible preferred stock impacts our ability to pay dividends on our Class A common stock and imposes certain negative covenants on us. • Our convertible preferred stock ranks senior to our Class A common stock. • We are a holding company, and depend upon distributions from our subsidiary, XPO Holdings, to pay dividends, if any, and taxes, make payments under the **tax receivable agreement (the "** TRA **")** and pay other expenses. • In certain circumstances, XPO Holdings will be required to make substantial distributions to us and the other holders of limited liability company units (the " LLC Units "). • Continuing Pre- IPO LLC Members hold ~~a~~ significant voting power and their interests in our business may be different than yours. • We will be required to pay the TRA parties for certain tax benefits we may receive, and the amounts we may pay could be significant. • Delaware law and our certificate of incorporation and bylaws may deter third parties from acquiring us and diminish the value of our Class A common stock or limit our stockholders' ability to obtain a favorable judicial forum. • Our major stockholders may pursue corporate opportunities that could present conflicts with our and our ~~minority~~ **other** stockholders’ interests. • We are an “ emerging growth company ” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our Class A common stock less attractive to investors. • The requirements of being a public company may strain our resources and distract our management. • Failure to maintain effective internal control over financial reporting may have an adverse effect on our financial condition and stock price. • **The trading** ~~Your percentage ownership in us may be diluted by future issuances of capital stock, which could reduce your influence over matters on which stockholders vote. • A sale of a significant portion of our total outstanding shares could cause the market~~ price of our Class A common stock **has been and may continue** to ~~drop significantly~~ **be volatile, and the value of your investment could decline. • We have in the past and may in the future be subject to short selling strategies** . • Failure to comply with anti- corruption and anti- money laundering laws or similar laws and regulations could subject us to penalties and other adverse consequences. • **We may not be able to fully realize the cost savings and benefits initially** ~~Unanticipated~~ -- **anticipated** ~~changes in effective tax rates or adverse outcomes resulting~~ from ~~examination of~~ **the restructuring plan** ~~our~~ - **or** ~~income or other~~ -- **the** ~~tax returns~~ **expected charges may be greater than expected, any of which** could ~~adversely affect~~ **negatively impact** our **business** ~~results of operations and financial condition~~ . Risks Related to Our Business and Industry Our financial results are affected by the operating and financial results of, and our relationships with, master franchisees and franchisees. Franchisees are an integral part of our business. We would be unable to successfully implement our growth strategy without the participation of franchisees. The failure of franchisees to focus on the fundamentals of studio operations, such as quality, service and studio appearance, would adversely affect our business, results of operations, cash flows and financial condition. A substantial portion of our revenue comes from royalties generated by franchised studios and studios franchised through master franchisees, other fees and commissions generated from activities associated with franchisees and equipment sales and leases to franchisees. As a result, our financial results are largely dependent upon the operational and financial results of franchisees. As of December 31, ~~2021~~ **2023** , we had ~~1~~ **2** , **651** ~~556 franchisees operating 1, 954~~ open studios in North America and ~~nine~~ master franchisees with **411** ~~176 studios operating internationally on an adjusted basis (which includes historical studio counts for Rumble and BFT, which we acquired in March 2021 and October 2021, respectively). As of December 31, 2022, we had 1, 714 franchisees operating 2, 329 open studios in North America and 15 master franchisees with 312~~ studios operating internationally. Negative economic conditions, including inflation and the effect of decreased consumer confidence or changes in consumer behavior, or any continued disruptions in franchisees’ operations, could materially harm franchisees’ financial condition, which would cause our royalty and other revenues to decline and, as a result, materially and adversely affect our business, results of operations, cash flows and financial condition. In addition, if franchisees fail to renew their franchise agreements with us, or otherwise cease operating, our royalty and other revenues may decrease, which in turn could materially and adversely affect our business, results of operations, cash flows and financial condition. If we fail to successfully implement our growth strategy, which includes opening new studios by existing and new franchisees in existing and new markets, our ability to increase our revenue and results of operations could be adversely affected. Our growth strategy relies in large part upon new studio development by existing and new franchisees. Franchisees face many challenges in opening new studios, including: • availability and cost of financing; • selection and availability of suitable studio locations; • competition for studio sites; • negotiation of acceptable lease and financing terms; • impact of and responses to public health considerations; • construction and development cost management; • selection and availability of suitable general contractors; • punctual commencement and progress of construction and development; • equipment delivery or installation delays; • health, fitness and wellness trends in new geographic regions and acceptance of our and franchisees’ services and products; • employment, training and retention of qualified personnel; and • competition for consumers and qualified instructors. Our growth strategy also relies on our and master franchisees’ ability to identify, recruit and enter into agreements with a sufficient number of qualified franchisees. In addition, our ~~and~~ franchisees’ ability to successfully open and operate studios in new markets may be adversely affected by a lack of awareness or acceptance of our brands and a lack of existing marketing efforts and operational execution in these new markets. To the extent that we and franchisees are unable to implement effective marketing and promotional programs and foster recognition and affinity for our brands in new markets, franchisees’ studios in these new markets may not perform as expected and our growth may be significantly delayed or impaired. In addition, franchisees of new studios may have difficulty securing adequate financing, particularly in new markets, where there may be a lack of adequate operating history and brand familiarity. New studios may not be successful or same store sales may not increase at historical rates, which could materially and adversely affect our business, results of operations, cash flows and financial condition. In addition, new studios build their sales volume and customer base over time and, as a result, generally yield lower amounts of revenue for us than more mature studios. New studios may not achieve sustained results consistent with more mature studios on a timely basis, or at all, which could have an adverse effect on our financial condition, operating results and growth rate. To the extent franchisees are unable to open new studios on the timeline we anticipate, we will not realize the revenue growth that we expect. Franchisees’ failure to add a significant number of new studios would adversely affect our ability to increase our revenue and operating income and could materially and adversely affect our business, results of operations, cash flows and financial condition. Disruptions in the availability of financing for current or prospective franchisees could adversely affect our business, results of operations, cash flows and financial condition. Any decline in the capital markets, increases in financing costs, or limits on credit availability may negatively affect the ability of current or prospective franchisees to access the financial or management resources that they need to open or continue operating the studios contemplated by their agreements with us. Franchisees generally depend upon financing from banks or other financial institutions in order to construct and open new studios and to provide working capital. If there is a decline in the credit environment, financing may become difficult to obtain for some or all of our current and prospective franchisees. If current or prospective franchisees face difficulty obtaining financing, the number of our franchised studios may decrease, franchise fee revenues and royalty revenues could decline and our planned growth may slow, which would negatively impact our business, results of operations, cash flows and financial condition. The majority of new franchisees' studio development is funded by franchisee investment and, therefore, our growth strategy is dependent on the ability of franchisees or prospective franchisees to access funds to finance such development. If franchisees (or prospective franchisees) are unable to obtain financing at commercially reasonable rates, or at all, they may be unwilling or unable to invest in the development of new studios, and our future growth could be adversely affected. In addition, if we offer financing and franchisees are unable to repay the amounts borrowed, our business, results of operations, cash flows and financial condition could be adversely affected. The number of new studios that actually open in the future may differ materially from the number of U. S. licenses sold and international licenses to be sold via master franchise agreements. As of December 31, ~~2022~~ **2023** , we had 1, ~~939~~ **963** studios in North America contractually obligated to be opened under existing franchise agreements and 1, ~~094~~ **055** licenses to be sold internationally via master franchise agreements in respect of studios that had not yet opened, on an adjusted basis to reflect historical information of brands we have acquired. Historically, a portion of our licenses sold have not ultimately resulted in new studios. From inception to December 31, ~~2022~~ **2023** , ~~600~~ **797** licenses had been terminated in North America and ~~34~~ **104** had been terminated internationally. We expect that terminations may increase over time, however, **the** timing and number of such terminations is unknown. Of the franchisees that **entered into the system in 2021 or later and** opened their first studio in ~~2019~~ **2023** on average it took approximately ~~12~~ **15** . **0** ~~2 months from signing the franchise agreement to open a studio. The length of time increased during 2020 and 2021 due to COVID- related opening restrictions. Of the franchisees that entered into the system in 2021 or later and opened their first studio in 2022, on average it took approximately 10. 5~~ months from signing the franchise agreement to open a studio. However, the historic conversion rate of signed studio commitments to new studio locations may not be indicative of the conversion rate we will experience in the future, and the total number of new studios that actually open in the future may differ materially from the number of licenses sold that we have at any point in time. In addition, the timing of new studio openings is sometimes delayed for a variety of reasons, and delayed openings would adversely affect our business, results of operations, cash flows and financial condition. Our success is dependent in large part upon our ability to maintain and enhance the value of our brands and the connection of franchisees' customers to our brands. Maintaining, protecting and enhancing our brands depends largely on the success of our marketing efforts, ability to provide consistent, high- quality services and our ability to successfully secure, maintain and defend our rights to use trademarks important to our brands. We believe that the importance of our brands will increase as competition within our markets further intensifies and brand promotion activities may require substantial expenditures. Our brands could be harmed if we fail to achieve these objectives or if our public image were to be tarnished by negative publicity. In particular, studios offer services that involve physical interaction, and any claims of inappropriate touching or behavior by franchisees' employees or independent contractors, even if unsubstantiated, could harm our and our brands' reputations. Unfavorable publicity about us, including our brands, services, products, customer service, personnel, technology and suppliers, could diminish confidence in, and the use of, our services and products. Such negative publicity also could have an adverse effect on the size, engagement and loyalty of franchisees' customers and result in decreased revenue, which could have an adverse effect on our business, results of operations, cash flows and financial condition. Certain new franchised studios and studios franchised through master franchisees are planned for markets where there may be limited or no market recognition of our brands. Those new markets may have competitive conditions, consumer preferences and discretionary spending patterns that are different from those in our existing markets. As a result, studios in these new markets may be less successful than studios in existing markets. Franchisees may need to build brand awareness in those new markets through greater investments in advertising and promotional activity than franchisees originally planned. Franchisees may find it more difficult in new markets to hire, motivate and retain qualified employees who can project our vision, passion and culture. Studios opened in new markets may also have lower average sales than studios opened in existing markets. Sales at studios opened in new markets may take longer to ramp up and reach expected sales and profit levels, and may never do so, thereby adversely affecting our business, results of operations, cash flows and financial condition. Our expansion into international markets exposes us to a number of risks that may differ in each country where we have licensed franchisees. We currently have franchised studios in Canada, ~~signed~~ **and under** master franchise agreements ~~governing the development of franchised studios~~ in Australia, New Zealand, **Japan,** Singapore ~~, Saudi Arabia, Kuwait, Japan, Spain, Portugal~~ , South Korea, ~~Mexico~~ **Spain** , ~~and the~~ United Kingdom **, Dominican Republic, Germany, Mexico, Portugal, Kuwait,** and **Hong Kong and have** entered into international expansion agreements in ~~Dominican Republic,~~ Austria **, Saudi Arabia, Switzerland, Ireland, France, Qatar, Malaysia** and ~~Germany~~ **The Netherlands,** and **we** plan to continue to grow internationally. However, our international operations are in early stages. Expansion into international markets will be affected by local economic and market conditions. Therefore, as we expand internationally, franchisees may not experience the operating margins we expect, and our results of operations and growth may be materially and adversely affected. **Growing our** ~~With the recent acquisition of BFT, we have achieved a greater~~ international presence ~~, which~~ may also increase our risks related to international operations. Our financial condition and results of operations may also be adversely affected if the global markets in which our franchised studios compete are affected by changes in political, economic or other factors. These factors, over which neither we nor franchisees have control, may include: • changes in inflation rates; • recessionary or expansive trends in international markets; • increases in the taxes we or franchisees pay and other changes in applicable tax laws; • legal and regulatory changes, and the burdens and costs of our and franchisees' compliance with a variety of foreign laws; • changes in exchange rates and the imposition of restrictions on currency conversion or the transfer of funds; • difficulty in protecting our brands, reputation and intellectual property; • difficulty in collecting royalties; • difficulties and interruptions in communications and coordination with international franchisees; • global supply chain disruption and constraints; • political and economic instability; and • other external factors, including actual or perceived threats to public health. We have incurred operating losses in the past, may incur operating losses in the future and may not achieve or maintain profitability in the future. **We have experienced** ~~Prior to 2022, we incurred~~ operating losses ~~each year since our formation~~ in ~~2017~~ **the past and may experience operating losses in the future. For example** , ~~including~~ **we had** a net loss of $ ~~51~~ **1** . **7** ~~4 million and $ 13. 6~~ million for the ~~years~~ -- **year** ended December 31, ~~2021~~ **2023** and **a** ~~2020, respectively, and may continue to incur~~ net ~~losses~~ -- **loss** ~~in the future. As a result, we had a total accumulated deficit~~ of $ ~~641~~ **51** . ~~9~~ **4** million **for the year ended** ~~and $ 643. 8 million, including adjustments related to non- controlling interests, as of~~ December 31, ~~2022 and~~ 2021, ~~respectively~~ **and we cannot be certain that we will achieve or maintain profitability and may incur operating losses in the future** . We expect our operating expenses to increase in the future as we increase our sales and marketing efforts, expand our operating infrastructure and expand into new geographies. Our revenue growth may slow or our revenue may decline for a number of other reasons, including reduced demand for new franchises, reduced demand for the services and products offered by franchisees, increased competition, reduction in openings of new studios, a decrease in the growth or reduction in the size of our overall market or if we cannot capitalize on growth opportunities. If our revenue does not grow at a greater rate than our operating expenses, we ~~will~~ **may** not be able to ~~achieve~~ **maintain** profitability. Franchisees may incur rising costs related to the construction of new studios and maintenance of existing studios, which could adversely affect the attractiveness of our franchise model. Franchisees' studios require significant upfront and ongoing investment, including periodic remodeling and equipment replacement ~~. Further, studio operating costs have increased in connection with franchisees' responses to the COVID- 19 pandemic, including implementing required and recommended measures designed to mitigate the spread of COVID- 19, supply chain disruptions and rising inflation rates~~ . If franchisees' costs are greater than expected, franchisees may need to outperform their operational plans to achieve their targeted returns. In addition, increased costs may result in lower profits to franchisees, which may cause them to cease operations or make it harder for us to attract new franchisees, which in turn could materially and adversely affect our business, results of operations, cash flows and financial condition. In addition, if a franchisee is unwilling or unable to acquire the necessary financing to invest in the maintenance and upkeep of its studios, including periodic remodeling and equipment replacement, the quality of its studios could deteriorate, which may have a negative impact on the image of our brands and franchisees' ability to attract and retain customers, which in turn may have a negative impact on our business, results of operations, cash flows and financial condition. If franchisees are unable to identify and secure suitable sites for new studios, our ability to open new studios and increase our revenue could be materially adversely affected. To successfully expand our business, franchisees must identify and secure sites for new studios that meet our established criteria. Franchisees face significant competition for such sites and, as a result, franchisees may lose or be forced to pay significantly higher prices for such sites. If franchisees are unable to identify and secure sites for new studios that meet our established criteria, our revenue growth rate and results of operations may be negatively impacted. Additionally, if our or franchisees' analysis of the suitability of a new studio site is incorrect, franchisees may not be able to recover their capital investment in developing and building the new studio. As we increase our number of franchised studios, franchisees may also open studios in higher- cost markets, which could entail, among other expenses, greater lease payments and construction costs. The higher level of invested capital at these studios may require higher operating margins and higher net income per studio to produce the level of return we, franchisees and our potential franchisees expect. Failure to provide this level of return could adversely affect our business, results of operations, cash flows and financial condition. **Opening new** ~~Franchisees currently operate~~ studios in ~~48~~ **close proximity to existing studios may negatively impact existing studios' revenue and profitability. We have studio locations throughout the** U. S. **and internationally, with franchise, master franchise and international expansion agreements in 49 U. S.** states and the District of Columbia, Canada, **and under master franchise agreements in** Australia, New Zealand, **Japan,** Singapore **, South Korea, Spain, United Kingdom, Dominican Republic, Germany, Mexico, Portugal, Kuwait, and Hong Kong and have entered into international expansion agreements in Austria** , Saudi Arabia, ~~Japan~~ **Switzerland** , ~~Spain~~ **Ireland** , **France** ~~the Dominican Republic~~ , ~~South Korea~~ **Qatar, Malaysia** and **The Netherlands** ~~the United Kingdom~~ , and we plan to continue to seek franchisees to open new studios in the future, some of which will be in existing markets. We intend to continue opening new franchised studios in existing markets as part of our growth strategy, some of which may be located in close proximity to studios already in those markets. Opening new studios in close proximity to existing studios may attract some customers away from those existing studios, which may lead to diminished revenue and profitability for us and franchisees rather than increased market share. In addition, as a result of opening new studios in existing markets, and because older studios will represent an increasing proportion of our studio base over time, same store sales may be lower in future periods than they have been historically. New brands or services that we launch in the future may not be as successful as we anticipate, which could have a material adverse effect on our business, results of operations, cash flows and financial condition. We acquired StretchLab in November 2017, Row House in December 2017, AKT in March 2018, YogaSix in July 2018, Stride in December 2018, Rumble in March 2021 ~~and~~ **,** BFT in October 2021 **, and Lindora in January 2024** . We launched our digital platform offerings in 2019 and XPASS in 2021. We may launch additional brands, services or products in the future. We cannot assure you that any new brands, services or products we launch will be accepted by consumers, that we will be able to recover the costs incurred in developing new brands, services or products, or that new brands, services or products will be successful. If new brands, services or products are not as successful as we anticipate, it could have a material adverse effect on our business, results of operations, cash flows and financial condition. Franchisees are contractually obligated to operate their studios in accordance with the operational, safety and health standards set forth in our agreements with them. Franchisees are independent third parties and their actions are outside of our control. In addition, we cannot be certain that franchisees will have the business acumen or financial resources necessary to operate successful franchises, and certain state franchise laws may limit our ability to terminate or modify our franchise agreements with them. Franchisees own, operate and oversee the daily operations of their studios, and their employees and independent contractors are not our employees or independent contractors. As a result, the ultimate success and quality of any studio rests with the franchisee. If franchisees do not operate their studios in a manner consistent with required standards and comply with local laws and regulations, franchise fees and royalties paid to us ~~may~~ **have and could** be **in the future** adversely affected and the image of our brands and our reputation **has been and** could be **in the future** harmed, which in turn could adversely affect our business, results of operations, cash flows and financial condition. Furthermore, we ~~may~~ **have and could in the future** have disputes with franchisees that **have and** could **in the future** damage the image of our brands, our reputation and our relationships with franchisees. Franchisees may not successfully execute our suggested best practices, which include our recommended plan for operating and managing a studio. We believe our suggested best practices provide key principles designed to help franchisees manage and operate a studio efficiently. If a franchisee is unable to manage or operate their studio efficiently, the performance and quality of service of the studio could be adversely affected, which could reduce customer engagement and negatively affect our royalty revenues and brand image. Further, we expect franchisees to follow our suggested best practices, and if a franchisee does not adopt the principles outlined by us, franchisees may not generate the revenue we expect and our forecasts and projections may be inaccurate, which in turn could adversely affect our business, results of operations, cash flows and financial condition. We are subject to a variety of additional risks associated with franchisees. Our franchise model subjects us to a number of risks, any one of which may impact our royalty revenues collected from franchisees, harm the goodwill associated with our brands, and materially and adversely impact our business, results of operations, cash flows and financial condition. Franchisee bankruptcies. A franchisee bankruptcy could have a substantial negative impact on our ability to collect payments due under our agreements with such franchisee. In the event of a franchisee bankruptcy, the bankruptcy trustee may reject its franchise agreement or agreements, area development agreement or any other agreements pursuant to Section 365 of the U. S. Bankruptcy Code, in which case there would be no further royalty payments or any other payments from such franchisee, and we may not ultimately recover those payments in a bankruptcy proceeding of such franchisee in connection with a damage claim resulting from such rejection. Franchisee changes in control. Franchisees are independent business owners. Although we have the right to approve franchisees, including any transferee franchisees, it can be difficult to predict in advance whether a particular franchisee will be successful. If an individual franchisee is unable to successfully establish, manage and operate its studio, the performance and quality of service of the studio could be adversely affected, which could reduce sales and negatively affect our royalty revenues, the image of our brands and our reputation. In the event of the death or disability of a franchisee (if a natural person) or a principal of a franchisee entity, the executors and representatives of the franchisee are required to transfer the relevant franchise agreements with us to the franchisee' s heirs, trust, personal representative or conservator, as applicable. In any transfer situation, the transferee may not be able to perform the former franchisee' s obligations under such franchise agreements and successfully operate the studio. In such a case, the performance and quality of service of the studio could be adversely affected, which could also reduce sales and negatively affect our royalty revenues, the image of our brands and our reputation. Franchisee insurance. Franchise agreements require each franchisee to maintain certain insurance types at specified levels. Losses arising from certain extraordinary hazards, however, may not be covered, and insurance may not be available (or may be available only at prohibitively expensive rates) with respect to many other risks. Moreover, any loss incurred could exceed policy limits and policy payments made to franchisees may not be made on a timely basis. Any such loss or delay in payment could have a material adverse effect on a franchisee' s ability to satisfy its obligations under its franchise agreement with us or other contractual obligations, which could negatively affect our operating and financial results. Franchisees that are operating entities. Franchisees may be natural persons or legal entities. Franchisees that are operating companies (as opposed to limited purpose entities) are subject to business, credit, financial and other risks, which may be unrelated to the operation of their studios. These unrelated risks could materially and adversely affect a franchisee that is an operating company and its ability to service its customers and maintain studio operations while making royalty payments, which in turn may materially and adversely affect our business, results of operations, cash flows and financial condition. Franchise agreement termination and nonrenewal. Each of our franchise agreements is subject to termination by us as the franchisor in the event of a default. The default provisions under our franchise agreements are drafted broadly and include, among other things, any failure to meet performance standards. In addition, each of our franchise agreements has an expiration date. Upon the expiration of a franchise agreement, we or the franchisee may, or may not, elect to renew the franchise agreement. The franchise agreement renewal is contingent on, among other requirements, the franchisee' s execution of the then- current form of franchise agreement (which may include increased royalty rates, advertising fees and other fees and costs), the satisfaction of certain conditions (including studio renovation and modernization and other requirements) and the payment of a renewal fee. If a franchisee is unable or unwilling to satisfy any of these requirements, the expiring franchise agreement will terminate upon the expiration of its term. Franchisee litigation and effects of regulatory efforts. We and franchisees are subject to a variety of litigation risks, including, but not limited to, customer claims, personal injury claims, harassment claims, vicarious liability claims, litigation with or involving our relationship with franchisees, litigation alleging that the franchisees are our employees or that we are the co- employer of franchisees' employees, landlord / tenant disputes, intellectual property claims, gift card claims, employee allegations of improper termination and discrimination, claims related to violations of the Americans with Disabilities Act of 1990, the Fair Labor Standards Act, the Occupational Safety and Health Act and other employment- related laws. Each of these claims may increase costs, reduce the execution of new franchise agreements and affect the scope and terms of insurance or indemnifications we and franchisees may have. Litigation against a franchisee or its affiliates by third parties or regulatory agencies, whether in the ordinary course of business or otherwise, may also include claims against us by virtue of our relationship with the defendant- franchisee, whether under vicarious liability, joint employer or other theories. In addition to such claims decreasing the ability of a defendant- franchisee to make royalty payments and diverting our management and financial resources, adverse publicity resulting from such allegations may materially and adversely affect us, the image of our brands and our reputation, regardless of whether the allegations are valid or we are liable.

Our international operations may be subject to additional risks related to litigation, including difficulties in enforcement of contractual obligations governed by foreign law due to differing interpretations of rights and obligations, compliance with multiple and potentially conflicting laws, new and potentially untested laws and judicial systems, and reduced or diminished protection of intellectual property. A substantial judgment against us or one of our subsidiaries could materially and adversely affect our business, results of operations, cash flows and financial condition. In addition, we, master franchisees, and franchisees are subject to various regulatory efforts, such as efforts to enforce employment laws, which include efforts to categorize franchisors as the co- employers of their franchisees' employees, legislation to categorize independent contractors as employees, legislation to categorize individual franchised businesses as large employers for the purposes of various employment benefits, and other legislation or regulations that may have a disproportionate impact on franchisors and / or franchised businesses. These efforts may impose greater costs and regulatory burdens on us and franchisees, and negatively affect our ability to attract and retain franchisees. We could also become subject to class action or other lawsuits related to the above- described or different matters in the future. In the ordinary course of business, we are also the subject of regulatory actions regarding the enforceability of the non- compete clauses included in our franchise agreements. In particular, certain states have public policies that may call into question the enforceability of non- compete clauses. Regardless, however, of whether any claim brought against us in the future is valid or we are liable, such a claim would be expensive to defend and may divert time, money and other valuable resources away from our operations and, thereby, hurt our business. Insurance may not be available at all or in sufficient amounts to cover any liabilities with respect to these or other matters. A judgment or other liability in excess of our insurance coverage for any claims, or any adverse publicity resulting from such claims, could adversely affect our business, results of operations, cash flows and financial condition. Franchise agreements and franchisee relationships. Franchisees develop and operate their studios under terms set forth in our area development and franchise agreements, respectively. These agreements give rise to long- term relationships that involve a complex set of obligations and cooperation. We have a standard set of agreements that we typically use with franchisees. However, we reserve the right to negotiate terms of our franchise agreements with individual franchisees or groups of franchisees (e. g., a franchisee association). We and franchisees may not always maintain a positive relationship or interpret our agreements in the same way. Our failure to have positive relationships with franchisees could individually or in the aggregate cause us to change or modify our business practices, which may make our franchise model less attractive to franchisees or their customers. While our franchisee revenues are not concentrated among one or a small number of parties, the success of our business does depend in large part on our ability to maintain contractual relationships with franchisees in profitable studios. A typical franchise agreement has a ten- year term. No franchisee accounted for more than 5 % of our total revenue. If we fail to maintain or renew our contractual relationships with these significant franchisees on acceptable terms, or if one or more of these significant franchisees were to become unable or otherwise unwilling to pay amounts due to us, our business, results of operations, cash flows and financial condition could be materially adversely affected. Macroeconomic conditions or an economic downturn or uncertainty in our key markets could adversely affect discretionary spending and reduce demand for our and franchisees' services and products, which could adversely affect our and franchisees' ability to increase sales at existing studios or to open new studios. Recessionary economic cycles, low consumer confidence, inflation, higher interest rates, higher levels of unemployment, higher consumer debt levels, higher tax rates and other changes in tax laws or other economic factors that may negatively affect our ability to attract franchisees and a decrease in discretionary consumer spending could reduce demand for health, fitness and wellness services and products, which could adversely affect our revenue and operating margins and make opening new studios more difficult. In recent years, the United States and other significant economic markets have experienced cyclical downturns and worldwide economic conditions remain uncertain. As global economic conditions continue to be volatile or economic uncertainty remains, trends in consumer discretionary spending also remain unpredictable and subject to reductions. Unfavorable economic conditions may decrease demand for our franchises. In addition, unfavorable economic conditions, such as persistent inflation and rising cost of living, may lead consumers to have lower disposable income and reduce the frequency with which they purchase our and franchisees' services and products. In addition, disasters or outbreaks, such as a pandemic, as well as any resulting recession, depression or other long- term economic impact, could negatively impact consumer spending in the impacted regions or depending upon the severity, globally, which could adversely impact our or franchisees' operating results. This could result in fewer transactions or limitations on the prices we and franchisees can charge for services and products, either of which could reduce our sales and operating margins. All of these factors could have a material adverse impact on our results of operations and growth strategy. Our future success depends on the continuing efforts of our key employees and our ability to attract and retain highly skilled personnel. Our future success depends, in part, on the services of our senior management team and other key employees at our corporate headquarters, as well as on our ability to recruit, retain and motivate key employees. Competition for such employees can be intense, and the inability to identify, attract, develop, integrate and retain the additional qualified employees required to expand our activities, or the loss of current key employees, could adversely affect our operating efficiency and financial condition. In particular, we are highly dependent on the services of Anthony Geisler, our Chief Executive Officer and founder, who is critical to the development of our business, vision and strategic direction. We also heavily rely on the continued service and performance of our senior management team, including each of our brand presidents, who provide leadership, contribute to the core areas of our business and help us to efficiently execute our business. If our senior management team, including any new hires that we make in the future, fails to work together effectively and to execute our plans and strategies on a timely basis, our business and future growth prospects could be harmed. Additionally, the loss of any key personnel could make it more difficult to manage our operations, reduce our employee retention and revenue and impair our ability to compete. Although we have entered into employment offer letters with certain of our key personnel, including Mr. Geisler, these letters have no specific duration and constitute at- will employment. We do not maintain key person life insurance policies on any of our employees. Competition for highly skilled personnel is often intense. We may not be successful in attracting, integrating or retaining qualified personnel to fulfill our or their needs. We have from time to time experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. Our investments in underperforming studios **have been and** may be unsuccessful, which could adversely affect our business, results of operations, cash flows and financial condition. From time to time, we **have** ~~take~~ **taken** ownership of underperforming studios with a view to improving the operating results of the studio and ultimately re- licensing it to a different franchisee. **In the third quarter of 2023, we announced a restructuring plan that involves exiting company- owned transition studios.** As a result ~~of~~ **,** the ~~COVID~~ **number of company** - **owned transition** ~~19 pandemic, we took ownership of a larger number of~~ studios **has decreased from the prior** ~~beginning in 2020 than we have taken in previous years~~ - **year** . As of December 31, ~~2022~~ **2023** , we had ownership of ~~55~~ **22** such studios, compared to **55** ~~25 studios and 40~~ studios as of December 31, ~~2021~~ **2022** ~~and 2020, respectively~~ . There is no guarantee that we will be successful in improving the operating results of ~~such a~~ **the remaining company- owned transition** ~~studio~~ **studios** or ~~refranchising it~~ **exiting them in a timely manner** . If the costs of operating the studio are greater than expected, the studio is otherwise unattractive due to its location or otherwise or we are required to operate the studio for an extended period of time, our business, results of operations, cash flows and financial condition may be adversely affected ~~. As operating company- owned studios is not a component of our business model, we are actively seeking to refranchise our company- owned studios~~ . There can be no assurance that our refranchising efforts **or efforts to exit the studios** will be successful, and failure to do so may increase our cost of operation. In addition, our operation of studios may also have the effect of heightening many of the other risks for us described in this " Risk Factors " section that are related to the franchisee' s operation of its studios, such as those relating to our ability to attract and retain members, health and safety risks to our members, loss of key employees and changes in consumer preferences. From time to time, we also make cash support payments to franchisees of underperforming studios. The support payments are intended to help franchisees improve their studios. The support payments may not be sufficient to help franchisees improve their results, and we may never realize a return on the support payments, which could materially and adversely affect our business, results of operations, cash flows and financial condition. We operate in a highly competitive market and we may be unable to compete successfully against existing and future competitors. Our services are offered in a highly competitive market. We face significant competition in every aspect of our business, including other fitness studios, personal trainers, health and fitness clubs, at- home fitness equipment, online fitness services and health and wellness apps. We also compete to sell franchises to potential franchisees who may choose to purchase franchises in boutique fitness from other operators, or franchises in other industries. Moreover, we expect the competition in our market to intensify in the future as new and existing competitors introduce new or enhanced services and products that compete with ours and as the industry continues to shift towards more online offerings. Franchisees compete with other fitness industry participants, including: • other national and regional boutique fitness offerings, some of which are franchised and others of which are owned centrally at a corporate level; • other fitness centers, including gyms and other recreational facilities; • individually owned and operated boutique fitness studios; • personal trainers; • racquet, tennis and other athletic clubs; • online fitness services and health and wellness apps; • the home- use fitness equipment industry; and • businesses offering similar services. Our competitors may develop, or have already developed, services, products, features or technologies that are similar to ours or that achieve greater consumer acceptance, may undertake more successful service and product development efforts, create more compelling employment opportunities, franchise opportunities or marketing campaigns, or may adopt more aggressive pricing policies. Our competitors may develop or acquire, or have already developed or acquired, intellectual property rights that significantly limit or prevent our ability to compete effectively in the public marketplace. In addition, our competitors may have significantly greater resources than us, allowing them to identify and capitalize more efficiently upon opportunities in new markets and consumer preferences and trends, more quickly transition and adapt their services and products, devote greater resources to marketing and advertising, or be better positioned to withstand substantial price competition. If we are unable to compete effectively against our competitors, they may acquire and engage customers or generate revenue at the expense of our efforts, which could have an adverse effect on our business, results of operations, cash flows and financial condition. Franchisees may be unable to attract and retain customers, which would materially and adversely affect our business, results of operations, cash flows and financial condition. The success of our business depends on our and franchisees' ability to attract and retain customers. Our and franchisees' marketing efforts may not be successful in attracting customers to studios, and customer engagement may materially decline over time, especially at studios in operation for an extended period of time. Customers may cancel their memberships at any time after giving proper advance notice, subject to an initial minimum term applicable to certain memberships. Franchisees may also cancel or suspend memberships if a customer fails to provide payment. In addition, franchised studios experience attrition and must continually engage existing customers and attract new customers in order to maintain membership levels. In order to increase membership levels, we may from time to time allow franchisees to offer promotions or lower monthly dues or annual fees. If we and franchisees are not successful in optimizing price or in increasing membership levels in new and existing studios, growth in monthly membership dues or annual fees may suffer. Any decrease in our average dues or fees or higher membership costs may adversely impact our business, results of operations, cash flows and financial condition. If we are unable to anticipate and satisfy consumer preferences and shifting views of health, fitness and wellness, our business may be adversely affected. Our success depends on our ability to identify and originate trends, as well as to anticipate and react to changing consumer preferences and demands relating to health, fitness and wellness, in a timely manner. Our business is subject to changing consumer preferences and trends that cannot be predicted with certainty. Developments or shifts in research or public opinion on the types of health, fitness and wellness services our brands provide could negatively impact consumers' preferences for such services and negatively impact our business. If we are unable to introduce new or enhanced offerings in a timely manner, or if our new or enhanced offerings are not accepted by consumers, our competitors may introduce similar offerings faster than us, which could negatively affect our rate of growth. Moreover, our new offerings may not receive consumer acceptance as preferences could shift rapidly to different types of health, fitness and wellness offerings or away from these types of offerings altogether, and our future success depends in part on our ability to anticipate and respond to these shifts. Failure to anticipate and respond in a timely manner to changing consumer preferences and demands could lead to, among other things, lower revenue at our franchised studios and, therefore, lower revenue from royalties. Even if we are successful in anticipating consumer preferences and demands, our ability to adequately react to and address them will partially depend upon our continued ability to develop and introduce innovative, high- quality offerings. Development of new or enhanced offerings may require significant time and financial investment, which could result in increased costs and a reduction in our operating margins. For example, we have historically incurred higher levels of sales and marketing expenses accompanying the introduction of each brand and service. Since our founding in 2017, we have experienced significant growth in our business activities and operations. This expansion has placed, and our planned future expansion may place, significant demands on our administrative, operational, financial and other resources. Any failure to manage growth effectively could seriously harm our business. To be successful, we will need to continue to implement management information systems and improve our operating, administrative, financial and accounting systems and controls. We will also need to train new employees and maintain close coordination among our executive, accounting, finance, legal, human resources, risk management, marketing, technology, sales and operations functions. These processes are time- consuming and expensive, increase management responsibilities and divert management attention, and we may not realize a return on our investment in these processes. In addition, we believe the culture we and franchisees foster at studios is an important contributor to our success. However, as we expand, we may have difficulty maintaining our culture or adapting it sufficiently to meet the needs of our operations. These risks may be heightened as our growth accelerates. Our failure to successfully execute on our planned expansion of studios could materially and adversely affect our business, results of operations, cash flows and financial condition. Our business is subject to various laws and regulations and changes in such laws and regulations, our or franchisees' failure to comply with existing or future laws and regulations, could adversely affect our business, results of operations, cash flows and financial condition. We are subject to a trade regulation rule on franchising, known as the FTC Franchise Rule, promulgated by the FTC, which regulates the offer and sale of franchises in the United States and its territories and requires us to provide to all prospective franchisees certain mandatory disclosure in a franchise disclosure document (" FDD "). In addition, we are subject to state franchise sales laws in approximately ~~19~~ **20** U. S. states that regulate the offer and sale of franchises by requiring us to make a business opportunity exemption or franchise filing or obtain franchise registration prior to making any offer or sale of a franchise in those states and to provide a FDD to prospective franchisees. We are subject to franchise sales laws in six provinces in Canada that regulate the offer and sale of franchises by requiring us to provide a FDD in a prescribed format to prospective franchisees and that further regulate certain aspects of the franchise relationship. Our failure to comply with such franchise sales laws may result in a franchisee' s right to rescind its franchise agreement and damages and may result in investigations or actions from federal or state franchise authorities, civil fines or penalties, and stop orders, among other remedies. We are also subject to franchise relationship laws in at least ~~22~~ **21** U. S. states **and territories** that regulate many aspects of the franchise relationship, including renewals and terminations of franchise agreements, franchise transfers, the applicable law and venue in which franchise disputes must be resolved, discrimination and franchisees' right to associate, among others. Our failure to comply with such franchise relationship laws may result in fines, damages and our inability to enforce franchise agreements where we have violated such laws. In addition, in certain states under certain circumstances, such as allegations of fraud, we may be temporarily prevented from offering or selling franchises until either our annual FDD filing, or any amendment to our FDD filing, is accepted by the relevant regulatory agency. Our non- compliance with franchise sales laws or franchise relationship laws could result in our liability to franchisees and regulatory authorities as described above, our inability to enforce our franchise agreements, inability to sell licenses and a reduction in our anticipated royalty or franchise revenue, which in turn may materially and adversely affect our business, results of operations, cash flows and financial condition. We and franchisees are also subject to the Fair Labor Standards Act of 1938, as amended, and various other laws in the United States and Canada governing such matters as minimum- wage requirements, overtime and other working conditions. A significant number of our and franchisees' employees are paid at rates related to the U. S. federal minimum wage. Increases in the U. S. federal minimum wage would increase our and franchisees' labor costs, which might result in our and franchisees' inadequately staffing studios. Such increases in labor costs and other changes in labor laws could affect studio performance and quality of service, decrease royalty revenues and adversely affect our brands. Our and franchisees' operations and properties are subject to extensive U. S. and Canadian federal, state, provincial and local laws and regulations, as well laws and regulations in other countries in which we and franchisees have begun operating, or in the future may operate, including those relating to environmental, building and zoning requirements. Our and franchisees' development of properties depends to a significant extent on the selection and acquisition of suitable sites, which are subject to zoning, land use, environmental, traffic and other regulations and requirements. Failure to comply with these legal requirements could result in, among other things, revocation of required licenses, administrative enforcement actions, fines and civil and criminal liability, which could adversely affect our business, results of operations, cash flows and financial condition. We and franchisees are responsible at the studios we operate for compliance with state and provincial laws that regulate the relationship between studios and their customers. Many states and provinces have consumer protection regulations that may limit the collection of dues or fees prior to a studio opening, require disclosure of certain pricing information, mandate the maximum length of membership contracts and " cooling off " periods for customers after the purchase of a membership, set escrow and bond requirements for studios, govern customer rights in the event of a customer relocation or disability, provide for specific customer rights when a studio closes or relocates or preclude automatic membership renewals. Our or franchisees' failure to comply fully with these rules or requirements may subject us or franchisees to fines, penalties, damages and civil liability, or result in membership contracts being void or voidable. In addition, states may modify these laws and regulations in the future. Any additional costs which may arise in the future as a result of changes to the legislation and regulations or in their interpretation could individually or in the aggregate cause us to change or limit our business practices, which may make our business model less attractive to franchisees or their customers **. In January 2024 we have acquired a weight loss and wellness brand which is subject to healthcare and related laws. On December 1, 2023, we entered into an agreement to acquire Lindora Franchise, LLC, a Delaware limited liability company, the franchisor of the " Lindora " wellness brand (the " Lindora Franchisor "), which grants franchises for wellness clinics that offer a variety of medical and non- medical products and services currently including weight loss and wellness plans and medications, snack and nutritional supplements, hormone replacement therapy, IV therapies, laser treatments and related products and services (" Lindora Clinics "). We completed the acquisition of the Lindora Franchisor in January 2024. Prior to the acquisition, the Lindora Franchisor was a subsidiary of Lindora Wellness, Inc. which owned and operated each of the Lindora Clinics in California for at least 25 years and will continue to do so as a franchisee of the Lindora Franchisor. After the acquisition, each franchisee of a Lindora Clinic is required to enter into a management services agreement pursuant to which it provides non- medical management services to an affiliated medical practice that provides or arranges for the provision of the medical services provided by licensed physicians and other non- physician clinicians in the Lindora Clinic. The services provided in each Lindora Clinic, including the provision of weight loss products and services and other medical services, are regulated by federal, state and local laws, rules and regulations including, without limitation, (i) state corporate practice of medicine laws; (ii) laws pertaining to the practice of medicine and / or nursing; (iii) laws governing medical weight management practice; (iv) laws governing the privacy and security of personally identifiable information, protected health information, or other information generated in the course of providing or paying for healthcare services, including HIPAA; (v) applicable state anti- kickback, patient inducement, self- referral, and fee splitting laws; (vi) telemedicine laws and regulations; (vii) laws and regulations pertaining to medical devices and related healthcare equipment; (viii) laws and regulations pertaining to health and wellness centers, including requirements applicable to membership programs; (ix) laws and regulations pertaining to cosmetology / esthetic services; (x) laws regulating the prescribing, compounding, marketing, administering, packaging, and sale of peptides, medications, and other controlled substances; (xi) laws relating to the licensure of music played in the Lindora Clinic; (xii) state and federal employment laws; and (xiii) laws relating to advertising or marketing of healthcare products or services. Franchisees of the Lindora Franchisor will be responsible for complying with these laws in connection with the operation of their Lindora Clinics, and their failure to do so could disrupt their operations which would, in turn, disrupt the Lindora Franchisor' s royalty and other revenue streams and its future sale of franchises for Lindora Clinics, and could result in claims asserted against the Lindora Franchisor and its related parties from clients receiving those services, state and federal regulators, and franchisees of the Lindora Clinics** . We currently are, and may in the future be, subject to legal proceedings, regulatory disputes and governmental inquiries that could cause us to incur significant expenses, divert our management' s attention, and materially harm our business, results of operations, cash flows and financial condition. From time to time, we may be subject to claims, lawsuits, government investigations and other proceedings involving competition and antitrust, intellectual property, privacy, consumer protection, securities, tax, labor and employment, gift cards, commercial disputes and other matters that could adversely affect our business, results of operations, cash flows and financial condition. In the ordinary course of business, we are the subject of complaints or litigation, including litigation related to acquisitions, classification of independent contractors, trademark disputes, claims related to misrepresentations in our franchise disclosure documents and claims related to our franchise agreements or employment agreements. For example, in the past we have engaged in legal disputes with brand founders and while resolved, there is no guarantee that we will not have future disputes with them. If any of these lawsuits are decided adversely against us, it may adversely affect our business, results of operations, cash flows and financial condition. Litigation related to laws or regulations, or changes in laws or regulations, governing instructor certifications may also adversely affect our or franchisees' businesses. If any of these lawsuits are decided adversely against franchisees, or laws or regulations regarding instructor certifications change, franchisees may face increased labor costs, which could adversely affect the franchisee' s business and results of operations, which may adversely affect our business, results of operations, cash flows and financial condition. Litigation and regulatory proceedings may be protracted and expensive, and the results are difficult to predict. Additionally, our litigation costs could be significant. Adverse outcomes with respect to litigation or any of these legal proceedings may result in significant settlement costs or judgments, penalties and fines, or require us to modify, make temporarily unavailable or stop offering or selling certain services or products, all of which could negatively affect our sales and revenue growth. In particular, any allegations of fraud could temporarily prevent us from offering or selling franchises in certain states for a period of time. The results of litigation, investigations, claims and regulatory proceedings cannot be predicted with certainty, and determining reserves for pending litigation and other legal and regulatory matters requires significant judgment. There can be no assurance that our expectations will prove correct, and even if these matters are resolved in our favor or without significant cash settlements, these matters, and the time and resources necessary to litigate or resolve them, could harm our business, results of operations, cash flows and financial condition. **On December 11, 2023, we filed a Form 8- K stating that on December 5, 2023 we were contacted by the SEC, requesting that we provide it with certain documents. We intend to cooperate fully with the SEC in this matter. We cannot predict or provide any assurance as to the timing, outcome or consequences of the SEC investigation. If the SEC were to conclude that enforcement action is appropriate, we could be required to pay civil penalties and fines, and the SEC could impose other sanctions against us or against our current and former officers and directors. We have incurred, and may continue to incur, significant expenses related to legal and other professional services in connection with matters relating to or arising from the SEC investigation. In addition, our board of directors, management and employees may expend a substantial amount of time on the SEC investigation, diverting resources and attention that would otherwise be directed toward our operations and implementation of our business strategy, all of which could materially adversely affect our business, financial condition and results of**

operations. The use of our and franchisees’ studios poses some potential health and safety risks to customers through, among other things, physical exertion and the physical nature of the services offered. Claims might be asserted against us and franchisees for a customer’ s death or injury sustained while exercising and using the facilities at a studio, for harassment in connection with services offered at a studio, or product liability claims arising from use of equipment in the studio, and we may be named in such a suit even if the products claim relates to the operations or facilities of a franchisee. We may not be able to successfully defend such claims. We also may not be able to maintain our general liability insurance on acceptable terms in the future or maintain a level of insurance that would provide adequate coverage against potential claims. In addition, adverse publicity resulting from such allegations may materially and adversely affect us, the image of our brands and our reputation, regardless of whether such allegations are valid or we are liable. Depending upon the outcome, these matters may have a material adverse effect on our business, results of operations, cash flows and financial condition. We, master franchisees and franchisees rely heavily on information systems provided by a single provider, and any material failure, interruption, weakness or termination with such supplier may prevent us from effectively operating our business and damage our reputation. We and franchisees in North America ~~increasingly~~ rely **heavily** on information systems provided by ClubReady, LLC (“ ClubReady ”), including the point- of- sale processing systems in our franchised studios and other information systems managed by ClubReady, to interact with franchisees and customers and to collect and maintain customer information or other personally identifiable information, including for the operation of studios, collection of cash, management of our equipment supply chain, accounting, staffing, payment of obligations, ACH transactions, credit and debit card transactions and other processes and procedures. Our and franchisees’ ability to efficiently and effectively manage studios depends significantly on the reliability and capacity of these systems, and any potential failure of ClubReady to provide quality uninterrupted service is beyond our and ~~their~~ **franchisees'** control. We **have** previously **experienced** ~~notified ClubReady of~~ a **dispute** ~~breach of contract related to our position that ClubReady had failed to meet its contractual performance obligations and initiated mediation proceedings. The initial mediation proceedings were unsuccessful and on December 2, 2021 we filed a breach of contract and related claims in California Superior Court, Orange County. On December 9, 2021, ClubReady filed a demand for arbitration with the American Arbitration Associations alleging breach of contract for unpaid application programming interface fees. If we ultimately terminate our relationship~~ with ClubReady ~~, we may incur substantial delays and expense in finding and integrating an~~ **and while that dispute has been resolved amicably,** ~~alternative studio management and payment service provider into our operating systems. We believe~~ there **is no guarantee a dispute will** ~~are alternate studio management and payment service providers that are capable of supporting our platform and franchisees, however the integration of the new system could temporarily disrupt our and franchisees’ business and the quality and reliability of such alternative service provider may~~ not **arise in the future** ~~be comparable to that of ClubReady~~ . Franchisees outside of North America also rely on information systems **provided by third parties** , and any disruption in such information systems could negatively impact such franchisees ~~’~~ **'** operations, **including sales at franchised studios** ~~which could adversely affect our business, results of operations or financial condition~~ . Our and franchisees’ operations depend upon our and their ability, as well as the ability of third- party service providers ~~such as ClubReady,~~ to protect our and their computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses, denial- of- service attacks and other disruptive problems. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new platforms, expanding our systems as we grow, a breach in security of these systems or other unanticipated problems could result in interruptions to or delays in our business and customer service and reduce efficiency in our operations. In addition, the implementation of technology changes and upgrades to maintain current and integrate new systems, as well as transitions from one service provider to another, may cause service interruptions, operational delays due to the learning curve associated with using a new system, transaction processing errors and system conversion delays and may cause us to fail to comply with applicable laws. If our, franchisees’ or our third- party service providers’ information systems fail and the back- up or disaster recovery plans are not adequate to address such failures, our revenue could be reduced and the image of our brands and our reputation could be materially adversely affected. If we need to move to a different third- party system, our operations could be interrupted. In addition, remediation of such problems could result in significant, unplanned operating or capital expenditures. If we, master franchisees, franchisees or ~~ClubReady~~ **our third- party service providers** fail to properly maintain the confidentiality and integrity of our data, including customer credit, debit card and bank account information and other personally identifiable information, we could incur significant liability or become subject to costly litigation and our reputation and business could be materially and adversely affected. In the ordinary course of business, we, master franchisees, and franchisees collect, use, transmit, store and otherwise process customer and employee data, including credit and debit card numbers, bank account information, driver’ s license numbers, dates of birth and other highly sensitive personally identifiable information, in information systems that we, master franchisees, franchisees or our third- party service providers, including ClubReady, maintain. Some of this data is sensitive and could be an attractive target of criminal attack by malicious third parties with a wide range of motives and expertise, including organized criminal groups, hackers, “ hactivists, ” disgruntled current or former employees, and others. The integrity and protection of that customer and employee data is critical to us. Despite the security measures we have in place to comply with applicable laws and rules, our, master franchisees’, franchisees’ and our third- party service providers’ facilities and systems may be vulnerable to both external and internal threats, including security breaches, acts of cyber terrorism or sabotage, vandalism or theft, misuse, unauthorized access, computer viruses, ransomware, denial- of- service attacks, misplaced, corrupted or lost data, programming or human errors or other similar events ~~. Certain of our third- party service providers lack sufficient design and implementation of general information technology controls and we lack sufficient controls over information provided by certain third- party service providers, which could expose us to any of the foregoing risks~~ . A number of retailers and other companies have recently experienced serious cyber security breaches of their information technology systems. Furthermore, the size and complexity of our, master franchisees', franchisees' and our third- party service providers' information systems make such systems potentially vulnerable to security breaches from inadvertent or intentional actions by our employees, franchisees or vendors, or from attacks by malicious third parties. Because such attacks are increasing in sophistication and change frequently in nature, we, franchisees, master franchisees and our third- party service providers may be unable to anticipate these attacks or implement adequate preventative measures, and any compromise of our or their systems may not be discovered promptly. Under certain laws, regulations and contractual obligations, a cybersecurity breach could also require us to notify customers, employees or other groups of the incident. For example, laws in all 50 U. S. states require businesses to provide notice to clients whose personal information has been disclosed as a result of a data breach. These laws are not consistent, and compliance in the event of a widespread data breach is difficult and may be costly. Moreover, states have been frequently amending existing laws, requiring attention to changing regulatory requirements. The forgoing could result in adverse publicity, loss of sales and revenue, or an increase in fees payable to third parties. It could also result in significant fines, penalties orders, sanctions and proceedings or actions against us by governmental bodies and other regulatory authorities, clients or third parties or remediation and other costs that could adversely affect our business, results of operations, cash flows and financial condition. Any such proceeding or action could damage our reputation, force us to incur significant expenses in defense of these proceedings, distract our management, increase our costs of doing business or result in the imposition of financial liability. Furthermore, we may be required to disclose personal data pursuant to demands from individuals, privacy advocates, regulators, and government and law enforcement agencies in various jurisdictions with conflicting privacy and security laws. This disclosure or the refusal to disclose personal data may result in a breach of privacy and data protection policies, notices, laws, rules, court orders and regulations and could result in proceedings or actions against us in the same or other jurisdictions, damage to the image of our brands and our reputation, and our inability to provide our services and products to consumers in certain jurisdictions. A security breach involving the misappropriation, loss or other unauthorized disclosure of personal, sensitive or confidential information, whether by us, franchisees or our third- party service providers, could have material adverse effects on our and franchisees' business, operations, brands, reputation and financial condition, including decreased revenue, material fines and penalties, litigation, increased financial processing fees, compensatory, statutory, punitive or other damages, adverse actions against our licenses to do business and injunctive relief by court or consent order. We maintain cyber risk insurance, but do not require franchisees to do so. In the event of a significant data security breach, our insurance may not cover all our losses that we would be likely to suffer and in addition, franchisees may not have any or adequate coverage. The collection, maintenance, use, disclosure and disposal of personally identifiable information by us, master franchisees and franchisees is regulated by federal, state and provincial governments and by certain industry groups, including the Payment Card Industry organization and the National Automated Clearing House Association. Federal, state, provincial governments and industry groups may also consider and implement from time to time new privacy and security requirements that apply to us and franchisees. Compliance with evolving privacy and security laws, requirements and regulations may result in cost increases due to necessary systems changes, new limitations or constraints on our business models and the development of new administrative processes. They also may impose further restrictions on our collection, disclosure and use of personally identifiable information that is stored in one or more of our, master franchisees', franchisees' or our third- party service providers' databases. The U. S. federal government and various state and governmental agencies have adopted or are considering adopting various laws, regulations and standards regarding the collection, use, retention, security, disclosure, transfer and other processing of sensitive and personal information. Certain state laws may be more stringent or broader in scope, or offer greater individual rights, with respect to sensitive and personal information than federal, international or other state laws, and such laws may differ from each other, which may complicate compliance efforts. For example, the California Consumer Privacy Act (the " CCPA "), which increases privacy rights for California residents and imposes obligations on companies that process their personal information, ~~came~~ **went** into effect on January 1, 2020. Among other things, the CCPA requires covered companies to provide new disclosures to California consumers and provide such consumers new data protection and privacy rights, including the ability to opt- out of certain sales of personal information. The CCPA provides for civil penalties for violations, as well as a private right of action for certain data breaches that result in the loss of personal information. This private right of action may increase the likelihood of, and risks associated with, data breach litigation. The CCPA was amended in September 2018 ~~and~~ **,** November 2019 **, and October 2023** , and it is possible that further amendments will be enacted, but even in its current format, it remains unclear how various provisions of the CCPA will be interpreted and enforced. Additionally, California voters approved **another** ~~a new~~ privacy law, the California Privacy Rights Act (the " CPRA "), in the November 2020 election. Effective starting on January 1, 2023, the CPRA ~~will~~ significantly ~~modify~~ **modified** the CCPA, including by expanding consumers' rights with respect to certain sensitive personal information. The CPRA also ~~creates~~ **created** a new state agency that will be vested with authority to implement and enforce the CCPA and the CPRA. There are many other state- based data privacy and security laws and regulations that may impact our business, including two laws that ~~will become~~ **became** effective in 2023; the Colorado Privacy Act and the Virginia Consumer Data Protection Act. All of these evolving compliance and operational requirements impose significant costs that are likely to increase over time, may require us to modify our data processing practices and policies, divert resources from other initiatives and projects and could restrict the way services involving data are offered, all of which may adversely affect our business, results of operations, cash flows and financial condition. State laws are changing rapidly and there is discussion in Congress of a new federal data protection and privacy law to which we may be subject. As we expand internationally, we may become subject to additional data privacy laws and regulations, including the European Union' s General Data Protection Regulation (the " **EU** GDPR "), which went into effect in May 2018 **, the UK General Data Protection Regulation** and ~~which imposes additional obligations on companies~~ **the United Kingdom' s Data Protection Act 2018 (the " UK GDPR " and, together** with ~~respect to~~ the **EU GDPR,** ~~processing of personal data and~~ the ~~cross- border transfer of such data~~ **" GDPR "). The UK GDPR is likely to be subject to divergence from the EU GDPR over time** . The GDPR imposes onerous ~~accountability~~

disclosure and compliance obligations ~~requiring~~ **relating to the collection, processing, retention and sharing of personal** data ~~controllers~~ **,** and ~~processors~~ **requirements** to **demonstrate compliance with such obligations** ~~maintain a record of their data processing and policies~~ . If our, master franchisees', franchisees' or service providers' privacy or data security measures fail to comply with the GDPR requirements, we may be subject to litigation, regulatory investigations, enforcement notices requiring us to change the way we use personal data and / or fines of up to 20 million Euros **/ 17. 5 million Pounds** or up to 4 % of the total worldwide annual turnover of the preceding financial year, whichever is higher, as well as compensation claims by affected individuals, negative publicity, reputational harm and a potential loss of business and goodwill. **In addition, we may be subject to evolving European laws on cookies and e- marketing, under which consent is required for the placement of cookies and similar technologies on a customer' s device and for direct electronic marketing. Recent European court decisions and regulators' recent guidance are driving increased attention to cookies and tracking technologies and the online behavioral advertising ecosystem. This may lead to costs, require system changes and limit the effectiveness of our marketing activities. Given the EU GDPR and UK GDPR are separate regimes, fines could arise under each in respect of a single incident, to the extent it affects EEA and UK personal data.** While we continue to address the implications of the recent changes to European ~~Union~~ data privacy regulations, data privacy remains an evolving landscape at both the domestic and international level, with new regulations coming into effect and continued legal challenges, and our efforts to comply with the evolving data protection rules may be unsuccessful. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our practices. Accordingly, we may be required to devote significant resources to understanding and complying with this changing landscape. Noncompliance with privacy laws, industry group requirements or a security breach involving the misappropriation, loss or other unauthorized disclosure of personal, sensitive or confidential information, whether by us, franchisees or our third- party service providers, could have material adverse effects on our and franchisees' business, operations, brands, reputation and financial condition, including decreased revenue, material fines and penalties, litigation, increased financial processing fees, compensatory, statutory, punitive or other damages, adverse actions against our licenses to do business and injunctive relief by court or consent order. Changes in legislation or requirements related to electronic funds transfer, or our or franchisees' failure to comply with existing or future regulations, may adversely impact our business, results of operations, cash flows and financial condition. We and franchisees accept payments for our services through electronic funds transfers (" EFTs ") from customers' bank accounts and, therefore, we are subject to federal, state and provincial legislation and certification requirements governing EFTs, including the Electronic Funds Transfer Act. Some states, such as New York and Tennessee, have passed or considered legislation requiring health and fitness clubs to offer a prepaid membership option at all times and / or limit the duration for which memberships can auto- renew through EFTs, if at all. Our business relies heavily on the fact that franchisees' customers continue on a month- to- month basis after the completion of any initial term requirements, and compliance with these laws and regulations and similar requirements may be onerous and expensive. In addition, variances and inconsistencies from jurisdiction to jurisdiction may further increase the cost of compliance and doing business. States that have such health and fitness club statutes provide harsh penalties for violations, including membership contracts being void or voidable. Our failure to comply fully with these rules or requirements may subject us to fines, higher transaction fees, penalties, damages and civil liability and may result in the loss of our and franchisees' ability to accept EFTs, which would have a material adverse effect on our and franchisees' businesses, results of operations, cash flows and financial condition. In addition, any such costs that may arise in the future as a result of changes to such legislation and regulations or in their interpretation, could individually or in the aggregate cause us to change or limit our business practice, which may make our business model less attractive to franchisees and our and their members. We and franchisees are subject to a number of risks related to ACH, credit card, debit card and gift card payments we accept. We and franchisees accept payments through ACH, credit card, debit card and gift card transactions. Acceptance of these payment options subjects us and franchisees to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. For ACH, credit card and debit card payments, we and franchisees pay interchange and other fees, which may increase over time. An increase in those fees would require us to either increase the prices we or franchisees charge for our services and products, which could cause us to lose franchisees or franchisees to lose customers or suffer an increase in operating expenses, either of which could harm our business, results of operations and financial condition. If we or any of our processing vendors have problems with our billing software, or the billing software malfunctions, it could have an adverse effect on customer satisfaction and could cause one or more of the major credit card companies to disallow continued use of their payment products. In addition, if our billing software fails to work properly and, as a result, customers' credit cards, debit cards or bank accounts are not properly charged on a timely basis or at all, we could lose revenue, which would harm our results of operations. In addition, if we or any of our processing vendors experience a cybersecurity breach affecting data related to services provided to us, we could experience reputational damage or incur liability. Further, we and any of our processing vendors must comply with the standards set by the payment card industry (" PCI "). If we or any of our vendors fail to comply with PCI protocols, we could be subject to fines. If we fail to adequately control fraudulent ACH, credit card and debit card transactions, we may face civil liability, diminished public perception of our security measures and significantly higher ACH, credit card and debit card related costs, each of which could adversely affect our business, results of operations, cash flows and financial condition. The termination of our ability to accept payments through ACH, credit or debit card transactions would significantly impair our and franchisees' ability to operate our businesses. In addition, we and franchisees offer gift cards for classes at our and franchisees' studios. Certain states include gift cards under their abandoned and unclaimed property laws and require companies to remit to the state cash in an amount equal to all or a designated portion of the unredeemed balance on the gift cards based on certain card attributes and the length of time that the cards are inactive. To date we have not remitted any amounts relating to unredeemed gift cards to states based upon our assessment of applicable laws. The analysis of the potential application of the abandoned and unclaimed property laws to our gift cards is complex, involving an analysis of constitutional, statutory provisions and factual issues. In the event that one or more states change their existing abandoned and unclaimed property laws or successfully challenge our or franchisees' positions on the application of its abandoned and unclaimed property laws to gift cards, our or franchisees' liabilities with respect to unredeemed gift cards may be material and may negatively affect our and franchisees' business, results of operations, cash flows and financial condition. Our dependence on a limited number of suppliers for certain equipment, services and products could result in disruptions to our business and could adversely affect our revenue and results of operation. Certain equipment, services and products used in franchisees' studios, including exercise equipment and point- of- sale software and hardware, are sourced from third- party suppliers. The ability of these third- party suppliers to successfully provide reliable and high- quality equipment, services and products is subject to technical and operational uncertainties that are beyond our or franchisees' control. Any disruption to our third- party suppliers' operations could impact our supply chain and our ability to service existing studios and open new studios on time or at all and thereby generate revenue. If we lose these third- party suppliers or such suppliers encounter financial hardships unrelated to our or franchisees' demand for their equipment, services or products, we may be unable to identify or enter into agreements with alternative suppliers on a timely basis on acceptable terms, if at all. Transitioning to new suppliers would be time consuming and expensive and may result in interruptions in our and franchisees' operations. If we should encounter delays or difficulties in securing the quantity of equipment, services and products that we or franchisees require to service existing studios and open new studios, our third- party suppliers encounter difficulties meeting our and franchisees' demands for equipment, services or products, our or franchisees' websites experience delays or become impaired due to errors in the third- party technology or there is a deficiency, lack or poor quality of equipment, services or products provided, our ability to serve franchisees and their customers, as well as to grow our brands, would be interrupted. If any of these events occur, it could have a material adverse effect on our business, results of operations, cash flows and financial condition. Our brands and related intellectual property are important to our continued success. If we were to fail to successfully protect our intellectual property rights for any reason, or if any third party misappropriates, dilutes or infringes our intellectual property, the value of our brands may be harmed, which could have an adverse effect on our business, results of operations, cash flows and financial condition. Any damage to the image of our brands or our reputation could cause sales to decline or make it more difficult to attract new franchisees and customers. We have been and may in the future be required to initiate litigation to enforce our trademarks, service marks and other intellectual property. Third parties have and may in the future assert that we have infringed, misappropriated or otherwise violated their intellectual property rights, which could lead to litigation against us. Litigation is inherently uncertain and could divert the attention of management, result in substantial costs and diversion of resources and could negatively affect our sales and results of operations regardless of whether we are able to successfully enforce or defend our rights. We and franchisees are dependent on certain music licenses to permit franchisees to use music in their studios and to supplement workouts. Any failure to secure such licenses or to comply with the terms and conditions of such licenses may lead to third- party claims or lawsuits against us and / or franchisees and could have an adverse effect on our business. We obtain, and require franchisees to obtain, certain music licenses in connection with our digital platform, for use during classes and for ambiance in our and our franchisees' studios. In some cases, we require franchisees to license rights to music included on specific playlists that we provide. If we or franchisees fail to comply with any of the obligations under such license agreements, we or franchisees may be required to pay damages and the licensor may have the right to terminate the license. Termination by the licensor would cause us and franchisees to lose valuable rights ~~,~~ and could negatively affect our operations. Our business would suffer if any current or future licenses expire or if we or franchisees are unable to enter into necessary licenses on acceptable terms. In addition, the royalties and other fees payable by us and franchisees under these agreements could increase in the future, which could negatively affect our business. Our quarterly results of operations and other operating metrics may fluctuate from quarter to quarter, which makes these results and metrics difficult to predict. Our quarterly results of operations and other operating metrics have fluctuated in the past and may continue to fluctuate from quarter to quarter. Additionally, our limited operating history makes it difficult to forecast our future results. As a result, you should not rely on our past quarterly results of operations as indicators of future performance. You should take into account the risks and uncertainties frequently encountered by companies in rapidly evolving markets. Our financial condition and results of operations in any given quarter can be influenced by numerous factors, many of which we are unable to predict or are outside of our control, including: • franchisees' ability to maintain and attract new customers and increase their usage of their studios; • delays in opening new studios; • the continued market acceptance of, and the growth of the boutique fitness market; • our ability to maintain and attract new franchisees; • our development and improvement of the quality of the studio experience, including enhancing existing and creating new services and products; • announcement of major corporate transaction, strategic actions or mergers and acquisitions by us or competitors; • additions or departures of our senior management or other key personnel; • sales, or anticipated sales, of large blocks of our stock; • guidance, if any, that we provide to the public, as well as any changes in this guidance or our failure to meet this guidance; • results of operations that vary from expectations of securities analysis and investors; • issuance of new or changed securities analysts' reports or recommendations; • system failures or breaches of security or privacy; • seasonality; • constraints on the availability of franchisee financing; • our ability to maintain operating margins; • the diversification and growth of our revenue sources; • our successful expansion into international markets; • increases in marketing, sales and other operating expenses that we may incur to grow and expand our operations and to remain competitive; • pricing pressure as a result of competition or otherwise; • the timing and success of new product, service, feature and content introductions by us or our competitors or any other change in the competitive landscape of our market; • the expansion of our digital platform; • announcement by us, our competitors or vendors of significant contracts or acquisitions; • public response to press releases or other public announcements by us or third parties, including our filings with the SEC; • adverse litigation judgments, settlements or other litigation- related costs, including content costs for past use; • delays by regulators in accepting our annual FDD filing or amendments to our FDD filing; • changes in the legislative or regulatory environment, including with respect to privacy and advertising, or enforcement by government regulators, including fines, orders or consent decrees; • fluctuations in currency exchange rates and changes in the proportion of our revenue and expenses denominated in foreign currencies; • changes in our effective tax rate; • changes in accounting standards, policies, guidance, interpretations or principles, including changes in fair value measurements or impairment charges; • global pandemics; and • changes in business or macroeconomic conditions, including lower consumer confidence, recessionary conditions, increased unemployment rates, or stagnant or declining wages. Any one of the factors above or the cumulative effect of some of the factors above may result in significant fluctuations in our results of operations. The variability and unpredictability of our quarterly results of operations or other operating metrics could result in our failure to meet our expectations or those of analysts that cover us or investors with respect to revenue or other results of operations for a particular period. You should not rely on past increases in same store sales as an indication of our future results of operations because they may fluctuate significantly. The level of same store sales is a significant factor affecting our ability to generate revenue. Same store sales reflect the change in period- over- period sales for North America same store base. We define the same store **sales** base to include ~~only sales from~~ studios in North America that **are in traditional studio locations and that** have ~~been open~~ **generated sales** for ~~at~~ **the** ~~least~~ - **last** 13 **consecutive** calendar months **as of the measurement date** . A number of factors have historically affected, and will continue to affect, our same store sales, including, among other factors: • competition; • overall economic trends, particularly those related to consumer spending; • franchisees' ability to operate studios effectively and efficiently to meet consumer expectations; • changes in the prices franchisees charge for memberships or classes; • studio closures due to macro- economic conditions and industry- wide trends; and • marketing and promotional efforts. Therefore, the increases in historical same store sales growth should not be considered indicative of our future performance. In particular, a number of our brands have a limited number of studios operating, and the limited operating data makes it difficult to forecast results, and as a result, same store sales may differ materially from our projections. There has been a substantial increase in the use of social media platforms, including blogs, social media websites and other forms of internet- based communication, which allow individuals access to a broad audience of consumers and other interested persons. Negative commentary about us and our brands may be posted on social media platforms or similar media at any time and may harm the image of our brands and our or franchisees' reputations or businesses. Consumers value readily available information about fitness studios and often act on such information without further investigation or regard to its accuracy. The harm may be immediate without affording us an opportunity for redress or correction. We also use social media platforms as marketing tools. For example, we maintain Facebook **, Instagram** and Twitter accounts for us and each of our brands. As laws and regulations rapidly evolve to govern the use of these platforms and media, the failure by us, our employees, franchisees or third parties acting at our direction to abide by applicable laws and regulations in media could adversely impact our and franchisees' business, results of operations, cash flows and financial condition or subject us to fines or other penalties. We may require additional capital to support business growth and objectives, and this capital might not be available to us on attractive terms, if at all, and may result in stockholder dilution. We expect that our existing cash and cash equivalents will be sufficient to meet our anticipated cash needs for at least the next twelve months. In addition, we intend to continue to make investments to support our business growth and may require additional capital to fund our business and to respond to competitive challenges, including the need to promote our services and products, develop new services and products, enhance our existing services, products and operating infrastructure and, potentially, to acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. There can be no assurance that such additional funding will be available on terms attractive to us, or at all. Our inability to obtain additional funding when needed could have an adverse effect on our business, results of operations, cash flows and financial condition. If additional funds are raised through the issuance of equity or convertible debt securities, holders of our Class A common stock could suffer significant dilution, and any new shares we issue could have rights, preferences and privileges superior to those of our Class A common stock. Our outstanding credit facility includes a number of covenants that limit our and our subsidiaries' ability to, among other things, incur additional indebtedness or create liens, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. Any debt financing secured by us in the future could include similar or more restrictive covenants, which may likewise limit our ability to obtain additional capital and pursue business opportunities. As part of our business strategy, we have made and may in the future make investments in other companies. We may be unable to find suitable acquisition candidates and to complete acquisitions on favorable terms, if at all, in the future. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals and any acquisitions we complete could be viewed negatively by customers or investors. Moreover, an acquisition, investment or business relationship may result in unforeseen operating difficulties and expenditures, including disrupting our ongoing operations, diverting management from their primary responsibilities, subjecting us to additional liabilities, increasing our expenses and adversely impacting our business, results of operations, cash flows and financial condition. In addition, we may be exposed to additional known or unknown liabilities, including legal disputes and litigation that we assumed in connection with an acquisition, and the anticipated benefits of any acquisition, investment or business relationship may not be realized, if, for example, we fail to successfully integrate such acquisitions, or the technologies associated with such acquisitions, into our company. To pay for any such acquisitions, we would have to use cash, incur debt or issue equity securities, each of which may affect our financial condition or the value of our capital stock, as well as result in dilution to holders of our Class A common stock. If we incur more debt, it would result in increased fixed obligations and could subject us to covenants or other restrictions that would impede our ability to manage our operations. We may also create future obligations in connection with any such acquisition. We may not be able to predict or control the timing or size of a change of control payment, which could adversely impact our results of operations, cash flows and financial condition. If any of our retail products are unacceptable to us or franchisees' customers, our business could be harmed. We have occasionally received, and may in the future continue to receive, shipments of retail products that fail to comply with our technical specifications or that fail to conform to our quality control standards. We have also received, and may in the future continue to receive, products that either meet our technical specifications but that are nonetheless unacceptable to us, or products that are otherwise unacceptable to franchisees' customers. Under these circumstances, unless we are able to obtain replacement products in a timely manner, we risk the loss of revenue resulting from the inability to sell those products and related increased administrative and shipping costs. Additionally, if the unacceptability of our products is not discovered until after such products are purchased by franchisees' customers, these customers could lose confidence in the quality of our retail products, which could have an adverse effect on the image of our brands, our reputation and our results of operations. ~~The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as described in " Management' s Discussion and Analysis of Financial Condition and Results of Operations. " The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, merchandise and equipment revenue, other service revenue, contract costs, business combinations, acquisition- related contingent consideration, impairment of long- lived assets, including goodwill and intangible assets and equity- based compensation. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors.~~ We have recorded a significant amount of goodwill and indefinite- lived intangible assets, representing our trademarks, on our balance sheet. We test the carrying values of goodwill and indefinite- lived intangible assets for impairment at least annually and whenever events or circumstances indicate the carrying value may not be recoverable. The estimates and assumptions about future results of operations and cash flows made in connection with impairment testing could differ from future actual results of operations and cash flows. We recorded ~~a~~ goodwill ~~impairment~~ **impairments** of **$ 4. 2 million related to our Stride and Row House brands as well as $ 2. 6 million related to Rumble for held for sale studios in 2023 and** $ 3. 4 million related to our AKT brand in 2022. In addition, future events could cause us to conclude that the goodwill associated with a given ~~segment~~ **reporting unit** , or one of our indefinite- lived intangible assets, may have become impaired. Any resulting impairment charge, although non- cash, could have a material adverse effect on our business, results of operations, cash flows and financial condition. We have incurred substantial indebtedness which could adversely affect our financial condition and limit our ability to pursue our growth strategy. We have a substantial amount of debt, which requires significant interest payments. As of December 31, ~~2022~~ **2023** , we had total indebtedness of $ ~~137~~ **328** . ~~7~~ **5** million. Our substantial level of indebtedness could adversely affect our financial condition and increase the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness. Our substantial indebtedness, combined with our other existing and any future financial obligations and contractual commitments, could have important consequences. For example, it could: • make it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations under our outstanding credit facility, including restrictive covenants, could result in an event of default under such facility if such obligations are not waived or amended; • require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing funds available for working capital, capital expenditures, acquisitions, selling and marketing efforts, research and development and other purposes; • increase our vulnerability to adverse economic and industry conditions, which could place us at a competitive disadvantage compared to our competitors that have proportionately less indebtedness; • increase our cost of borrowing and cause us to incur substantial fees from time to time in connection with debt amendments or refinancings; • increase our exposure to rising interest rates because a portion of our borrowings is at variable interest rates; • limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate; and • limit our ability to borrow additional funds, or to dispose of assets to raise funds, if needed, for working capital, capital expenditures, acquisitions, selling and marketing efforts, research and development and other corporate purposes. By the nature of their relationship to our enterprise, debt holders may have different points of view on the use of company resources as compared to our management. The financial and contractual obligations related to our debt also represent a natural constraint on any intended use of company resources. In the event that we breach one or more covenants in our credit agreement, or any future credit agreement and such breach is not waived or amended, our lenders may choose to declare an event of default and require that we immediately repay all amounts borrowed, together with accrued interest and other fees, and could also foreclose on the collateral granted to them to secure our indebtedness. In such an event, we could lose access to working capital and be unable to operate our business, which would have a material adverse effect on our business, financial condition and results of operations. In mid- March 2020, franchisees temporarily closed almost all studios system- wide as a result of the COVID- 19 pandemic, and many studios remained closed throughout 2020. Due to the decreased revenue resulting from the studio closures, we exceeded the maximum total leverage ratio covenant in our prior credit agreement. In order to avoid breaching the maximum total leverage ratio covenant, we entered into an amendment to that credit agreement to increase the maximum total leverage ratio. We cannot predict future business interruptions that may occur, the nature or scope of any such interruptions or the degree to which, or the period over which, franchisees may need to close or re- close studios in the future, and there can be no assurance that in the future we will be able to satisfy the covenants under our credit agreement as a result of a business interruption or otherwise, or obtain any required waiver or amendment. Restrictions imposed by our outstanding indebtedness and any future indebtedness may limit our ability to operate our business and to finance our future operations or capital needs or to engage in other business activities. The terms of our outstanding indebtedness restrict us from engaging in specified types of transactions. These covenants restrict our ability, among other things, to: • create, incur or assume additional indebtedness; • encumber or permit additional liens on our assets; • change the nature of the business conducted by XPO Holdings and certain of its subsidiaries; • make payments or distributions to our affiliates or equity holders; and • enter into certain transactions with our affiliates. The covenants in our credit facility impose requirements and restrictions on our ability to take certain actions and, in the event that we breach one or more covenants and such breach is not waived, the lenders may choose to declare an event of default and require that we immediately repay all of our borrowings under the credit facility, plus certain prepayment fees, penalties and interest, and foreclose on the collateral granted to them to secure such indebtedness. Such repayment would have a material adverse effect on our business, financial condition and results of operations. We will require a significant amount of cash to service our indebtedness. The ability to generate cash or refinance our indebtedness as it becomes due depends on many factors, some of which are beyond our control. We are a holding company and, as such, have no independent operations or material assets other than our ownership of equity interests in our subsidiaries and our subsidiaries' contractual arrangements with franchisees, and we will depend on our subsidiaries to distribute funds to us so that we may pay our obligations and expenses. Our ability to make scheduled payments on, or to refinance our respective obligations under, our indebtedness and to fund planned capital expenditures and other corporate expenses will depend on the ability of our subsidiaries to make distributions, dividends or advances to us, which in turn will depend on their future operating performance and on economic, financial, competitive, legislative, regulatory and other factors and any legal and regulatory restrictions on the payment of distributions and dividends to which they may be subject. Many of these factors are beyond our control. We can provide no assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to satisfy our respective obligations under our indebtedness or to fund our other needs. In order for us to satisfy our obligations under our indebtedness and fund planned capital expenditures, we must continue to execute our business strategy. If we are unable to do so, we may need to reduce or delay our planned capital expenditures or refinance all or a portion of our indebtedness on or before maturity. Significant delays in our planned capital expenditures may materially and adversely affect our future revenue prospects. In addition, we can provide no assurance that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all. ~~Changes in the method for determining, and the potential replacement of, the London Interbank Offer Rate may affect our cost of borrowing. As a result of concerns about the accuracy of the calculation of the London Interbank Offer Rate (" LIBOR "), a number of British Bankers' Association (" BBA ") member banks entered into settlements with certain regulators and law enforcement agencies with respect to the alleged manipulation of LIBOR. Actions by the BBA, regulators or law enforcement agencies as a result of these or future events may result in changes to the manner in which LIBOR is determined or its discontinuation. On July 27, 2017, the Financial Conduct Authority (" FCA "), the authority that regulates LIBOR, announced that it would phase out LIBOR by the end of 2021. In March 2021, the FCA announced an extension of certain panels of LIBOR to continue until the end of June 2023. However, in November 2021, the FCA confirmed that it will prohibit the use of LIBOR in new contracts written after December 31, 2021. In the United States, the Alternative Reference Rates Committee has proposed the Secured Overnight Financing Rate (" SOFR ") as an alternative to LIBOR. It is not presently known whether SOFR or any other alternative reference rates that have been proposed will attain market acceptance as replacements of LIBOR. The interest rate payable on our borrowings under our outstanding credit facility is determined by reference to LIBOR. Potential changes or uncertainty related to such potential changes or discontinuation may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have a significant impact on the interest we are required to pay. Furthermore, although the terms of our credit facility contemplate the replacement of LIBOR with another reference rate in the event LIBOR comes into disuse, uncertainty related to such discontinuation and potential substitutes could make it difficult for us and our lenders to reach agreement on a reference rate, and any substitute reference rate could increase our cost of borrowing, any of which results could have an adverse impact on our business, financial condition, cash flows and results of operations.~~ Failure to obtain and maintain required licenses and permits or to comply with health and fitness regulations could lead to delays in opening studios, interruptions in services or the closure of studios, thereby harming our business. The health and fitness market is subject to various federal, state and local government regulations, including those relating to required domestic or foreign governmental permits and approvals. Such regulations are subject to change from time to time. Our or franchisees' failure to obtain and maintain any required licenses permits or approvals could adversely affect our or franchisees' operating results. Difficulties or failure to maintain or obtain the required licenses, permits and approvals could adversely affect existing franchisees and delay or cancel the opening of new studios, which would adversely affect our results of operations. **As** ~~We have~~ a ~~limited operating history and our past financial results~~ - **result** ~~may not be indicative~~ of **pandemics such** ~~our future performance. Anthony Geisler, our Chief Executive Officer and founder, acquired Club Pilates in March 2015. We were founded in August 2017 and acquired Club Pilates, our first brand, in September 2017. Our historical revenue growth should not be considered indicative of our future performance. Estimates of future revenue growth are subject to many risks and uncertainties and our future revenue may differ materially from our projections. We have encountered, and will continue to encounter, risks and difficulties frequently experienced by growing companies in rapidly changing industries, including market acceptance of our and franchisees' services and products, the need to increase sales at existing studios, opening new studios, increasing competition and increasing expenses~~ as ~~we expand our business. We cannot be sure that we will be successful in addressing these and other challenges we may face in the future, and our business may be adversely affected if we do not manage these risks. As a result of the~~ COVID- 19 ~~pandemic~~ and change in inflation rates, consumers may be reluctant to participate in in- person fitness classes even after governmental orders and advisories are lifted and may be particularly reluctant to participate in our brands' offerings given the small indoor spaces in which our studios operate. Moreover, consumers have been adopting in- home fitness solutions, a trend which accelerated during the COVID- 19 pandemic. This trend may reduce the number of times consumers participate in in- person fitness classes in studios. Decreased consumer demand due to a general shift in consumer behavior would have an adverse impact on our and franchisees' business, financial condition and results of operations, and if future variants continue to emerge and governments ~~continue to~~ impose restrictions on economic activities, we may not be able to maintain our current active membership and demand levels. Risks Related to our Convertible Preferred The terms of our convertible preferred stock have provisions that could result in a change of control of our Board in the case of an event of default by us, including our failure to pay amounts due upon redemption of the convertible preferred stock. The terms of our Series A Convertible preferred stock and our 6. 5 % Series A- 1 Convertible Preferred Stock (the " Series A- 1 Convertible preferred stock " and, together with our Series A Convertible preferred stock, the " Convertible Preferred ") include certain negative covenants related to our ability to incur indebtedness and engage in sales of assets under circumstances, as well as requirements to pay quarterly dividends in cash or in kind and to redeem the Convertible Preferred at the option of the holder thereof beginning eight years following their issuance or upon a person or group acquiring more than 50 % of our voting power. Failure by us to satisfy any of the foregoing will result in an event of default with respect to the Convertible Preferred that would entitle the holders of the Convertible Preferred to require us to mandatorily redeem the Convertible Preferred at the mandatory redemption price, plus an applicable premium. If the Company fails to complete a required mandatory redemption within 30 days of the underlying requirement or demand for such redemption and so long as such event of default with respect to such mandatory redemption is continuing, the holders of the Convertible Preferred shall have the right: (i) to immediately appoint one additional individual to our board of directors, (ii) to, after such event of default has continued for six months, appoint an additional number of individuals to our board of directors such that the holders of the Convertible Preferred have the right to appoint not less than 25 % of the directors to our board of directors and (iii) after such event of default has been continuing for a year, appoint an additional number of individuals to our board of directors such that the holders of the Convertible preferred have the right to appoint not less than a majority of the directors to our board of directors. This right exists so long as the Preferred Investors continue to hold at least 50 % of the Convertible Preferred. " This right exists only in respect of shares of our Convertible Preferred and so long as any of the Preferred Investors hold any shares of our Convertible Preferred but generally does not travel to transferees of the Convertible Preferred. In the event that Preferred Investors had this right they could exercise it in a manner that is not consistent with the interests of holders of our Class A common stock and may have us engage in transactions which may not necessarily be consistent with the views of our other directors or our Class A stockholders. If they assumed control of our board of directors, it would also likely result in the acceleration of other indebtedness of ours, and we may not have the ability to repay that indebtedness at that time. The Convertible Preferred impacts our ability to pay dividends on our Class A common stock and imposes certain negative covenants on us. The terms of the Convertible Preferred require that we pay a quarterly cash dividend of 6. 5 % on the outstanding Convertible Preferred or increase the liquidation preference (the " PIK Coupon ") thereof at a rate of 7. 5 % in lieu of cash dividends. We may not pay dividends to holders of our Class A common stock unless we have made all of the requisite dividend payments in cash to holders of our Convertible Preferred or adjust the liquidation preference through the PIK Coupon. Even if we have made such dividend payments or adjustments, dividend payments to holders of our common stock will result in anti- dilution adjustments to the conversion price of the Convertible Preferred, and should we make cash dividend payments in excess of 6. 5 % in any twelve- month period to holders of our common stock, the holders of the Convertible Preferred would participate ratably in that dividend. Our Credit Agreement provides that we may not pay cash dividends. However, we received a waiver from our lenders to make cash dividend payments on the Convertible Preferred, which became effective at the closing of the IPO. If we elect or are otherwise required by a subsequent lender to pay dividends on the Convertible Preferred in the form of additional shares of Convertible Preferred, the liquidation preference of the Convertible Preferred would increase over time and the holders of the Convertible Preferred would have an increasing voting and economic interest in us, thereby diluting holders of our Class A common stock. The Convertible Preferred also contains provisions that limit our ability to sell assets, incur debt and repurchase our common stock. The Convertible Preferred ranks senior to the Class A common stock. The Convertible Preferred ranks senior to the Class A common Stock. Accordingly, in the event of our liquidation or dissolution in bankruptcy or otherwise, the holders of the Convertible Preferred would receive their liquidation preference (initially $ 200 million and increasing over time with respect to accrued and unpaid dividends, if any **, less repurchases**) prior to any distribution being available to holders of our Class A common stock. Risks Related to Our Organizational Structure We are a holding company and our principal asset is our ~~56~~ **65** % ownership interest in XPO Holdings, and we are accordingly dependent upon distributions from XPO Holdings to pay dividends, if any, and taxes, make payments under the TRA and pay other expenses. We are a holding company and our principal asset is our direct and indirect ownership of ~~56~~ **65** % of the outstanding LLC Units. We have no independent means of generating revenue. XPO Holdings is treated as a partnership for U. S. federal income tax purposes and, as such, generally will not be subject to U. S. federal income tax. Instead, the taxable income of XPO Holdings will be allocated to holders of Preferred Units and LLC Units, including us. Accordingly, we will incur income taxes on our allocable share of any net taxable income of XPO Holdings. We will also incur expenses related to our operations and will have obligations to make payments under the TRA. As the managing member of XPO Holdings, we intend to cause XPO Holdings to make distributions to the holders of LLC Units and us, or, in the case of certain expenses and distributions in respect of the Preferred Units, payments to us, in amounts sufficient to (i) permit us to pay all applicable taxes payable by us and the holders of LLC Units, (ii) allow us to make any payments required under the TRA we entered into as part of a series of transactions to implement an internal reorganization, (the " Reorganization Transactions ") in connection with the IPO, (iii) fund dividends to our stockholders, including in respect of the Convertible Preferred, in accordance with our dividend policy, to the extent that our board of directors declares such dividends and (iv) pay our expenses. Deterioration in the financial conditions, earnings or cash flow of XPO Holdings and its subsidiaries for any reason could limit or impair their ability to pay such distributions. Additionally, to the extent that we need funds and XPO Holdings is restricted from making such distributions to us under applicable law or regulation, as a result of covenants in its debt agreements or otherwise, we may not be able to obtain such funds on terms acceptable to us, or at all, and, as a result, could suffer a material adverse effect on our liquidity and financial condition. In certain circumstances, XPO Holdings will be required to make distributions to us and the other holders of LLC Units, and the distributions that XPO Holdings will be required to make may be substantial. Under the Limited Liability Company Agreement of XPO Holdings, XPO Holdings will generally be required from time to time to make pro rata distributions in cash to us and the other holders of LLC Units at certain assumed tax rates in amounts that are intended to be sufficient to cover the taxes on our and the other LLC Unit holders' respective allocable shares of the taxable income of XPO Holdings. We will also receive tax distributions equal to our anticipated tax liability in respect of distributions on our Preferred Units. As a result of (i) potential differences in the amount of net taxable income allocable to us and the other LLC Unit holders, (ii) the lower tax rate applicable to corporations than individuals and (iii) the use of an assumed tax rate, based on the tax rate applicable to individuals, in calculating XPO Holdings' distribution obligations, we may receive distributions significantly in excess of our tax liabilities and obligations to make payments under the TRA. Our board of directors will determine the appropriate uses for any excess cash so accumulated, which may include, among other uses, dividends, repurchases of our Class A common stock, the payment of obligations under the TRA and the payment of other expenses. We will have no obligation to distribute such cash (or other available cash other than any declared dividend) to our stockholders. No adjustments to the redemption or exchange ratio of LLC Units for shares of Class A common stock will be made as a result of either (i) any cash distribution by us or (ii) any cash that we retain and do not distribute to our stockholders. To the extent that we do not distribute such excess cash as dividends on our Class A common stock and instead, for example, hold such cash balances or lend them to XPO Holdings, holders of LLC Units would benefit from any value attributable to such cash balances as a result of their ownership of Class A common stock following a redemption or exchange of their LLC Units. ~~Our~~ Continuing Pre- IPO LLC Members **hold a significant** ~~control approximately 42 % of the combined~~ voting power ~~of~~ **and their interests in our business may be different than** ~~our~~ **yours** ~~Class A and Class B common stock as of February 24, 2023~~ . Because the Continuing Pre- IPO LLC Members hold a significant voting and economic interest in our business through XPO Holdings rather than through XPO Inc., they may have conflicting interests with holders of shares of our Class A common stock. For example, the Continuing Pre- IPO LLC Members may have a different tax position from us, which could influence their decisions regarding whether and when we should dispose of assets or incur new or refinance existing indebtedness, especially in light of the existence of the TRA that we entered into in connection with the IPO, and whether and when we should undergo certain changes of control for purposes of the TRA or terminate the TRA. In addition, the structuring of future transactions may take into consideration these tax or other considerations even where no similar benefit would accrue to us. Pursuant to the Bipartisan Budget Act of 2015, for tax years beginning after December 31, 2017, if the Internal Revenue Service, or IRS, makes audit adjustments to XPO Holdings' federal income tax returns, it may assess and collect any taxes (including any applicable penalties and interest) resulting from such audit adjustment directly from XPO Holdings. If, as a result of any such audit adjustment, XPO Holdings is required to make payments of taxes, penalties and interest, XPO Holdings' cash available for distributions to us may be substantially reduced. These rules are not applicable to XPO Holdings for tax years beginning on or prior to December 31, 2017. In addition, the Continuing Pre- IPO LLC Members' significant ownership in us may discourage someone from making a significant equity investment in us, or could discourage transactions involving a change in control, including transactions in which you as a holder of shares of our Class A common stock might otherwise receive a premium for your shares over the then-current market price. In connection with the Reorganization Transactions and IPO, we acquired certain favorable tax attributes from Rumble Holdings LLC and H & W Investco Blocker II, LP (the " Blocker Companies ") in the mergers of the Blocker Companies with and into XPO Inc. (the " Mergers "), and in connection with the contribution of LLC Units by certain equity holders of XPO Holdings to XPO Inc. in exchange for shares of Class A common stock (the " IPO Contribution "), the redemption of Class A- 5 Units of XPO Holdings in connection with the IPO (the " Class A- 5 Unit Redemption "), and acquisitions by XPO Fitness, Inc. of LLC Units from certain Continuing Pre- IPO LLC Members in connection with the IPO. In addition, future taxable redemptions or exchanges by Continuing Pre- IPO LLC Members of LLC Units for shares of our Class A common stock or cash, and other transactions described herein are expected to result in favorable tax attributes for us. These tax attributes would not be available to us in the absence of those transactions and are expected to reduce the amount of tax that we would otherwise be required to pay in the future. Upon the completion of the IPO, we entered into a ~~tax receivable agreement (the "~~ TRA ~~")~~ , pursuant to which we are generally required to pay to the Continuing Pre- IPO LLC Members, the owners of the Blocker Companies and any future party to the TRA (the " TRA parties ") in the aggregate 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) certain favorable tax attributes we acquired from the Blocker Companies in the Mergers (including net operating losses and the Blocker Companies' allocable share of existing tax basis), (ii) increases in our allocable share of existing tax basis and tax basis adjustments that resulted or may result from (x) the IPO Contribution, the Class A- 5 Unit Redemption, and the purchase of LLC Units from Continuing Pre- IPO LLC Members in the IPO, (y) future taxable redemptions and exchanges of LLC Units by Continuing Pre- IPO LLC Members, and (z) certain payments made under the TRA, and (iii) deductions in respect of interest under the TRA. These payment obligations are obligations of XPO Fitness, Inc. and not of XPO Holdings. The payments we will be required to make in respect of the past and possible future transactions described above under the TRA may be substantial. The actual tax basis adjustments that may result from future taxable redemptions or exchanges of LLC Units, as well as the amount and timing of the payments we are required to make under the TRA will depend on a number of factors, including the market value of our Class A common stock at the time of any such future redemptions or exchanges, the prevailing federal tax rates applicable to us over the life of the TRA (plus the assumed combined state and local tax rate) and the amount and timing of the taxable income that we generate in the future. Payments under the TRA will be based on the tax reporting positions we determine, and the IRS or another tax authority may challenge all or a part of the existing tax basis, tax basis increases, NOLs or other tax attributes subject to the TRA, and a court could sustain such challenge. The TRA parties will not reimburse us for any payments previously made if such tax basis, NOLs or other tax benefits are subsequently challenged by a tax authority and are ultimately disallowed, except that any excess payments made to a TRA party will be netted against future payments otherwise to be made to such TRA party under the TRA, if any, after our determination of such excess. In addition, the actual state or local tax savings we may realize may be different than the amount of such tax savings we are deemed to realize under the TRA, which will be based on an assumed combined state and local tax rate applied to our reduction in taxable income as determined for U. S. federal income tax purposes as a result of the tax attributes subject to the TRA. In both such circumstances, we could make payments under the TRA that are greater than our actual cash tax savings and we may not be able to recoup those payments, which could negatively impact our liquidity. The TRA provides that (1) in the event that we breach any of our material obligations under the TRA or (2) if, at any time, we elect an early termination of the TRA, our obligations under the TRA (with respect to all LLC Units, whether or not LLC Units have been exchanged or acquired before or after such transaction) would accelerate and become payable in a lump sum amount equal to the present value of the anticipated future tax benefits calculated based on certain assumptions, including that we would have sufficient taxable income to fully utilize the deductions arising from the tax deductions, tax basis and other tax attributes subject to the TRA. The TRA also provides that, upon certain mergers, asset sales or other forms of business combination, or certain other changes of control, our or our successor' s obligations with respect to tax benefits would be based on certain assumptions, including that we or our successor would have sufficient taxable income to fully utilize the increased tax deductions and tax basis and other benefits covered by the TRA. As a result, upon a change of control, we could be required to make payments under the TRA that are greater than the specified percentage of our actual cash tax savings, which could negatively impact our liquidity. The change of control provisions in the TRA may result in situations where the Pre- IPO LLC Members have interests that differ from or are in addition to those of our other stockholders. Finally, because we are a holding company with no operations of our own, our ability to make payments under the TRA depends on the ability of XPO Holdings to make distributions to us. To the extent that we are unable to make payments under the TRA for any reason, such payments will be deferred and will accrue interest until paid, which could negatively impact our results of operations and could also affect our liquidity in periods in which such payments are made. Risks Related to Our Class A Common Stock Some provisions of Delaware law and our amended and restated certificate of incorporation and amended and restated bylaws may deter third parties from acquiring us and diminish the value of our Class A common stock. Our amended and restated certificate of incorporation and our amended and restated bylaws provide for, among other things: • a classified board of directors with staggered three- year terms; • the ability of our board of directors to issue one or more series of preferred stock with voting or other rights or preferences that could have the effect of impeding the success of an attempt to acquire us or otherwise effect a change in control; • advance notice for nominations of directors by stockholders and for stockholders to include matters to be considered at stockholder meetings; • certain limitations on convening special stockholder meetings; and • certain provisions of our amended and restated certificate of incorporation and our amended and restated bylaws that may be amended only by the affirmative vote of the holders of at least two- thirds in voting power of all outstanding shares of our stock entitled to vote thereon, voting together as a single class. In addition, while we have opted out of Section 203 of the Delaware General Corporation Law (the " DGCL "), our amended and restated certificate of incorporation contains similar provisions providing that we may not engage in certain " business combinations " with any " interested stockholder " for a three- year period following the time that the stockholder became an interested stockholder, unless: • prior to such time, our board of directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; • upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85 % of the votes of our voting stock outstanding at the time the transaction commenced, excluding certain shares; or • at or subsequent to that time, the business combination is approved by our board of directors and by the affirmative vote of holders of at least two- thirds of the votes of our outstanding voting stock that is not owned by the interested stockholder. Generally, a " business combination " includes a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an " interested stockholder " is a person who, together with that person' s affiliates and associates, owns, or within the previous three years owned, 15 % or more of the votes of our outstanding voting stock. For purposes of this provision, " voting stock " means any class or series of stock entitled to vote generally in the election of directors. Our amended and restated certificate of incorporation provides that H & W Franchise Holdings, LLC, their respective affiliates and any of their respective direct or indirect designated transferees (other than in certain market transfers and gifts) and any group of which such persons are a party do not constitute " interested stockholders " for purposes of this provision. Under certain circumstances, this provision will make it more difficult for a person who would be an " interested stockholder " to effect various business combinations with our company for a three- year period. This provision may encourage companies interested in acquiring us to negotiate in advance with our board of directors because the stockholder approval requirement would be avoided if our board of directors approves either the business combination or the transaction that results in the stockholder becoming an interested stockholder. These provisions also may have the effect of preventing changes in our board of directors and may make it more difficult to accomplish transactions that stockholders may otherwise deem to be in their best interests. These provisions in our amended and restated certificate of incorporation and our amended and restated bylaws may discourage, delay or prevent a transaction involving a change in control of our company that is in the best interest of our ~~minority~~ stockholders. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our Class A common stock if they are viewed as discouraging future takeover attempts. These provisions could also make it more difficult for stockholders to nominate directors for election to our board of directors and take other corporate actions. Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware and, to the extent enforceable, the federal district courts of the United States as the sole and exclusive forums for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or agents. Our amended and restated certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware is, to the fullest extent permitted by applicable law, the sole and exclusive forum for the following types of actions or proceedings under Delaware statutory or common law: (i) any derivative action or proceeding brought on our behalf; (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, employees, agents or trustees to us or our stockholders; (iii) any action asserting a claim against us or any director or officer or other employee of ours arising pursuant to any provision of the DGCL, our amended and restated certificate of incorporation or our amended and restated bylaws; or (iv) any action asserting a claim against us or any director or officer or other employee of ours that is governed by the internal affairs doctrine, in each such case subject to such Court of Chancery having personal jurisdiction over the indispensable parties named as defendants therein. The foregoing provision will not apply to claims arising under the Securities Act of 1933, as amended, the Exchange Act or other federal securities laws for which there is exclusive federal or concurrent federal and state jurisdiction. These exclusive- forum provisions may limit a stockholder' s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, employees or agents, which may discourage such lawsuits against us and such persons. If any court of competent jurisdiction were to find either exclusive- forum provision in our amended and restated certificate of incorporation to be inapplicable or unenforceable, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, results of operations, cash flows and financial condition. Directors, officers, stockholders and affiliates of the Preferred Investors and Snapdragon Capital Partners may pursue corporate opportunities independent of us that could present conflicts with our and our **other** stockholders' interests. Directors, officers, stockholders and affiliates of the Preferred Investors and Snapdragon Capital Partners, an affiliate of Mr. Grabowski, a member of our board of directors, may hold (and may from time to time in the future acquire) interests in or provide advice to businesses that may directly or indirectly compete with our business. They may also pursue acquisitions that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us. Our amended and restated certificate of incorporation provides that, to the fullest extent permitted by law, the doctrine of " corporate opportunity " will not apply to directors, officers, stockholders and affiliates of the Preferred Investors and Snapdragon Capital Partners. We are an " emerging growth company " as defined in the JOBS Act, and we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes- Oxley Act and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. We cannot predict whether our reliance on these exemptions will result in investors finding our Class A common stock less attractive. If some investors find our Class A common stock less attractive as a result, there may be a less active trading market for our Class A common stock and our Class A common stock price may be more volatile. The requirements of being a public company may strain our resources and distract our management, which could make it difficult to manage our business, particularly after we are no longer an " emerging growth company. " As a publicly- traded company, we are required to comply with various regulatory and reporting requirements, including those required by the SEC. Complying with these reporting and other regulatory requirements is time- consuming and causes us to incur increased costs and could have a negative effect on our results of operations, financial condition or business. As a public company, we are subject to the reporting requirements of the Exchange Act, the requirements of the Sarbanes- Oxley Act and the rules of the NYSE. Compliance with these requirements places a strain on our systems and resources. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes- Oxley Act requires that we implement and maintain effective disclosure controls and procedures and internal controls over financial reporting. To implement, maintain and improve the effectiveness of our disclosure controls and procedures, we have committed significant resources, hired additional staff and provided additional management oversight. We have implemented additional procedures and processes for the purpose of addressing the standards and requirements applicable to public companies. Sustaining our growth also requires us to commit additional management, operational and financial resources to identify new professionals to join our firm and to maintain appropriate operational and financial systems to adequately support expansion. These activities may divert management' s attention from other business concerns, which could have a material adverse effect on our results of operations, financial condition or business. As an " emerging growth company " as defined in the JOBS Act, we take advantage of certain temporary exemptions from various reporting requirements including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes- Oxley Act and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. We may also delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies, as permitted by the JOBS Act. Our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting until the later of our second annual report or the first annual report required to be filed with the Commission following the date we are no longer an " emerging growth company " as defined in the JOBS Act. When these exemptions cease to apply, we expect to incur additional expenses and devote increased management effort toward ensuring compliance with them. We cannot predict or estimate the amount of additional costs we may incur as a result of becoming a public company or the timing of such costs. Our failure to establish and maintain effective internal controls over financial reporting could have a material adverse effect on our business and stock price. As a public company, we are subject to the rules and regulations established from time to time by the SEC and the NYSE. These rules and regulations require, among other things, that we establish and periodically evaluate procedures with respect to our internal controls over financial reporting. In addition, as a public company, we will be required to document and test our internal controls over financial reporting pursuant to Section 404 of the Sarbanes- Oxley Act so that our management can certify as to the effectiveness of our internal controls over financial reporting. Section 404 (a) of the Sarbanes- Oxley Act (" Section 404 (a) ") requires, management to assess and report annually on the effectiveness of our internal controls over financial reporting and identify any material weaknesses in our internal controls over financial reporting. Although Section 404 (b) of the Sarbanes- Oxley Act (" Section 404 (b) ") requires our independent registered public accounting firm to issue an annual report that addresses the effectiveness of our internal controls over financial reporting, we have opted to rely on the exemptions provided in the JOBS Act, and consequently will not be required to comply with SEC rules that implement Section 404 (b) until such time as we are no longer an " emerging growth company. " In order to comply with these rules, we expect to incur additional expenses and devote increased management effort. There is no assurance that material weaknesses or significant deficiencies will not occur in the future and that we will be able to remediate such weaknesses or deficiencies in a timely manner. If we fail to remediate any future material weaknesses in our internal controls over financial reporting, if we are unable to comply with the requirements of Section 404 of the Sarbanes- Oxley Act in a timely manner, if we are unable to conclude that our internal controls over financial reporting are effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal controls over financial reporting when we are no longer an emerging growth company, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected. As a result of such failures, we could also become subject to investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, and become subject to litigation from investors and stockholders, which could harm our reputation and financial condition or divert financial and management resources from our regular business activities. **Your percentage ownership in us may be diluted by future issuances of capital stock, which could reduce your influence over matters on which stockholders vote.** Pursuant to our amended and restated certificate of incorporation and amended and restated bylaws, our board of directors has the authority, without action or vote of our stockholders, to issue all or any part of our authorized but unissued shares of common stock, including shares issuable upon the ~~exercise~~ **vesting** of ~~options~~ **restricted stock units** , or shares of our authorized but unissued preferred stock. Issuances of Class A common stock, Class B common stock or voting preferred stock would reduce your influence over matters on which our stockholders vote and, in the case of issuances of preferred stock, would likely result in your interest in us being subject to the prior rights of holders of that preferred stock. **We have in the past and** ~~A significant portion of our total outstanding shares are restricted from immediate resale but~~ may **in the future** be **subject to short selling strategies that may drive down** ~~sold into the market in the near future. This could cause~~ the market price of our Class A common stock ~~to drop significantly, even if our business is doing well~~ . ~~Sales of a substantial number of shares~~ **Short sellers have in the past and may attempt in the future to drive down the market price** of our Class A common stock **. Short selling is the practice of selling securities that the seller does not own but may have borrowed with the intention of buying identical securities back at a later date. The short seller hopes to profit from a decline** in **the value of the securities between the time the securities are borrowed and the time** ~~the~~ **they are replaced. As it is in the short seller' s best interests for the price of the stock to decline, many short sellers (sometimes known as " disclosed shorts ")** ~~public~~ **publish , or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects to create negative** market ~~could occur at~~ **momentum. Although traditionally these disclosed shorts were limited in their ability to access mainstream business media or to otherwise create negative market rumors, the rise of the Internet and technological advancements regarding document creation, videotaping and publication by weblog (" blogging ") have allowed** ~~any~~ **many** ~~time~~ **disclosed shorts to publicly attack a company' s credibility, strategy and veracity by means of so- called " research reports " that mimic the type of investment analysis performed by large Wall Street firms and independent research analysts** . These ~~sales~~ **short seller attacks have** , **in the past, led to selling of** ~~or~~ **our shares** ~~the perception~~ in the market **. For example** ~~that the holders of a large number of shares intend to sell shares~~ , **in** ~~could reduce~~ the ~~market~~ **second quarter of 2023, the trading** price of our Class A common stock **declined following the release of a short- seller " research report. " Further, these short seller publications are not reviewed by any governmental, self- regulatory organization or other official authority in the U. S. Companies that are subject to unfavorable allegations, even if untrue, may have to expend a significant amount of resources to investigate such allegations and / or defend themselves, including shareholder suits against the company that may be prompted by such allegations** . In addition, **we may be constrained** ~~the Continuing Pre- IPO LLC Members will have certain demand registration rights that could require us~~ in the **manner** ~~future to file registration statements~~ in ~~connection with sales of our stock~~ **which we can proceed against the relevant short sellers** by ~~them~~ **principles of freedom of speech, applicable state law or issues of commercial confidentiality** . Such ~~sales~~ **a situation** could be ~~significant~~ **costly and time- consuming and could divert management' s attention from our day- to- day operations** . ~~Once we register these shares, they can~~ **Even if such allegations are ultimately proven to** be ~~freely sold in~~ **groundless, allegations against us could negatively impact** the ~~public~~ market **price** ~~upon issuance, subject to the lock- up agreements described above. For example, we have recently filed a registration statement on Form S- 3 to register the resale of an aggregate of 20, 065, 479 shares~~ of our Class A common stock **and our business operations** ~~by certain major stockholders of the Company~~ . **The trading** ~~As restrictions on resale end, the market~~ price of our Class A common stock **has historically been and is likely to continue to be volatile and** could ~~decline if the holders~~ **be subject to wide fluctuations in response to various factors, some** of **which** ~~currently restricted shares sell them or~~ are **beyond** ~~perceived by the market as intending to sell them. If securities or~~ **our** ~~industry analysts do not publish research~~ **control. These fluctuations could cause you to lose all** or ~~reports about~~ **part of** ~~our~~ **your investment in** ~~business, or if they change their recommendations regarding~~ our Class A common stock ~~adversely, our stock~~ **. Factors that could cause fluctuations in the market** price **of** ~~and trading volume could decline. The trading market for~~ our Class A common stock ~~is and will be influenced~~ **include, but are not limited to, forward- looking statements related to future revenue, adjusted EBITDA, earnings per share, changes or decreases in our growth rate, studio openings, same stores sales, ratings changes** by ~~the research and reports that industry or~~ securities analysts ~~publish about us or~~ **, litigation, actual** ~~our~~ **or anticipated changes or fluctuations in** ~~business. We do not have any control over these analysts. If one or~~ **our** ~~more~~ **results** of ~~the analysts who cover us downgrade~~ **operations, regulatory developments, repurchases of** our Class A common stock ~~or describe us or our business in a negative manner~~ , **departures of key executives, major catastrophic events, macroeconomic factors including inflation and interest rate fluctuations and** ~~the~~ **other broad market and industry fluctuations. The market** price of our Class A common stock ~~would likely~~ **might also** decline ~~. If one~~ **in reaction to events that affect other**

companies in ~~or~~ **our** ~~more of~~ **industry even if** these **events do not directly affect us, or where actual financial results do not meet the expectations set by industry** analysts ~~cease coverage of our~~ - **or other market participants. In the past, following periods of volatility in the market price of a** company **' s securities, securities class action litigation has often been brought against that company. On February 9, 2024, a federal securities class action lawsuit was filed against us and certain of** ~~or~~ **our** ~~fails~~ **officers in the United States District Court for the Central District of California. The complaint alleges, among other things, violations of Sections 10 (b) and 20 (a) of the Exchange Act, and Rule 10b- 5 promulgated thereunder, alleging misstatements and / or omissions in certain of our financial statements, press releases, and SEC filings made during the putative class period of July 26, 2021 through December 7, 2023. It is possible that additional lawsuits will be filed, or allegations received from stockholders, with respect** to **these same or other matters and also naming us and / or our officers and directors as defendants. We intend to vigorously defend against these lawsuits, but there can be no assurance that we will be successful in any defense. Any existing or future lawsuits and / or any future** ~~regularly~~ - **regulatory** ~~publish reports~~ **investigations or proceedings could be time- consuming, result in significant expense and divert the attention and resources of our management and other key employees, as well as harm our business, financial condition, results of operation, cash flows and reputation. Any unfavorable outcome could have a material adverse impact** on ~~us~~ **our business, financial condition, results of operation, cash flows and reputation. Further** , we could ~~lose visibility in~~ **be required to pay damages or additional penalties or have** ~~the~~ **other remedies imposed against us, or our current or former directors or officers, which could harm our reputation, business,** financial ~~markets~~ **condition** , **results** ~~which in turn could cause the price or trading volume~~ of **operations** ~~our~~ - **or cash flows** ~~Class A common stock to decline. In addition, if we fail to meet the expectations and forecasts for our business provided by securities analysts, the price of our Class A common stock could decline~~ . General Risks We may face exposure to foreign currency exchange rate fluctuations. While we have historically transacted in U. S. dollars, we have transacted in some foreign currencies, such as the Canadian and Australian Dollar, and may transact in more foreign currencies in the future. Accordingly, changes in the value of foreign currencies relative to the U. S. dollar can affect our revenue and results of operations. As a result of such foreign currency exchange rate fluctuations, it could be more difficult to detect underlying trends in our business and results of operations. In addition, to the extent that fluctuations in currency exchange rates cause our results of operations to differ from our expectations or the expectations of our investors, the trading price of our Class A common stock could be lowered. We do not currently maintain a program to hedge transactional exposures in foreign currencies. However, in the future, we may use derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place and may introduce additional risks if we are unable to structure effective hedges with such instruments. Failure to comply with anti- corruption and anti- money laundering laws, including the U. S. Foreign Corrupt Practices Act and similar laws associated with our activities outside of the United States, could subject us to penalties and other adverse consequences. We currently have franchised studios in Canada, ~~signed~~ **and under** master franchise agreements ~~governing the development of franchised studios~~ in Australia, New Zealand, **Japan,** Singapore ~~, Saudi Arabia, Kuwait, Japan, Spain, Portugal~~ , South Korea, ~~Mexico~~ **Spain** , ~~and the~~ United Kingdom **, Dominican Republic, Germany, Mexico, Portugal, Kuwait, and Hong Kong and have** entered into international expansion agreements in ~~Dominican Republic,~~ Austria **, Saudi Arabia, Switzerland, Ireland, France, Qatar, Malaysia** and ~~Germany~~ **The Netherlands,** and **we** plan to continue to grow internationally. As we operate and expand globally, we may have direct or indirect interactions with officials and employees of government agencies or state- owned or affiliated entities. We are subject to the U. S. Foreign Corrupt Practices Act (the " FCPA "), the U. S. domestic bribery statute contained in 18 U. S. C. § 201, the U. S. Travel Act, the USA PATRIOT Act, and other applicable anti- bribery and anti- money laundering laws in countries in which we conduct activities. These laws prohibit companies and their employees and third- party intermediaries from corruptly promising, authorizing, offering, or providing, directly or indirectly, improper payments or anything of value to foreign government officials, political parties and private- sector recipients for the purpose of obtaining or retaining business, directing business to any person, or securing any advantage. In addition, U. S. public companies are required to maintain records that accurately and fairly represent their transactions and have an adequate system of internal accounting controls. In many foreign countries, including countries in which we may conduct business, it may be a local custom that businesses engage in practices that are prohibited by the FCPA or other applicable laws and regulations. We face significant risks if we or any of our directors, officers, employees, franchisees, agents or other partners or representatives fail to comply with these laws and governmental authorities in the United States and elsewhere could seek to impose substantial civil and / or criminal fines and penalties which could have a material adverse effect on our business, reputation, results of operations, cash flows and financial condition. Our employees, contractors, franchisees and agents may take actions in violation of our policies or applicable law. Any such violation could have an adverse effect on our reputation, business, results of operations and prospects. Any violation of the FCPA, other applicable anti- corruption laws, or anti- money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions and, in the case of the FCPA, suspension or debarment from U. S. government contracts, any of which could have a materially adverse effect on our reputation, business, results of operations, cash flows and financial condition. In addition, responding to any enforcement action may result in a significant diversion of management' s attention and resources and significant defense costs and other professional fees. Our and franchisees' businesses are subject to the risk of earthquakes, fire, power outages, floods and other catastrophic events, and to interruption by manmade problems such as terrorism. Our and franchisees' businesses are vulnerable to damage or interruption from earthquakes, fires, floods, power losses, terrorist attacks, acts of war, break- ins and similar events. The third- party systems and operations and suppliers we rely on are subject to similar risks. For example, a significant natural disaster, such as an earthquake, fire or flood, could have an adverse effect on our and franchisees' business, results of operations, cash flows and financial condition, and our and franchisees' insurance coverage may be insufficient to compensate us and franchisees for losses that may occur. Acts of terrorism, which may be targeted at metropolitan areas that have higher population density than rural areas, could also cause disruptions in our, franchisees' or our suppliers' businesses or the economy as a whole. Unanticipated changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our business, results of operations, cash flows and financial condition. We are subject to income taxes in the United States and Canada, and our domestic and foreign tax liabilities will be subject to the allocation of expenses in differing jurisdictions. Our future effective tax rates could be subject to volatility or adversely affected by a number of factors, including: • changes in the valuation of our deferred tax assets and liabilities; • expected timing and amount of the release of any tax valuation allowances; • tax effects of stock- based compensation; • costs related to intercompany restructurings; • changes in tax laws, regulations or interpretations thereof; • lower than anticipated future earnings in jurisdictions where we have lower statutory tax rates; or • higher than anticipated future earnings in jurisdictions where we have higher statutory tax rates. In addition, we may be subject to audits of our income, sales and other transaction taxes by U. S. federal and state and foreign authorities. Outcomes from these audits could have an adverse effect on our financial condition and results of operations. ~~59~~ **In the third quarter of 2023, we announced a restructuring plan that involves exiting company-owned transition studios and other measures designed to reduce costs to achieve our long- term margin goals and focus on pure franchise operations. Such restructuring activities may divert management' s attention from our core business, increase expenses on a short- term basis and lead to potential disputes with the employees, customers or suppliers of the affected studios. Additionally, we may not be able to fully realize the cost savings and benefits initially anticipated from the restructuring plan, the expected charges may be greater than expected, including payments for lease terminations, and we may not be able to reach agreement with contractual counterparties, any of which could negatively impact our business. 58**