

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

FORM 10-K

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

For the fiscal year ended December 31, 2020

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

For the transition period from _____ to _____

Commission file number 001-38466

GOOSEHEAD INSURANCE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

82-3886022
(I.R.S. Employer
Identification Number)

1500 Solana Blvd, Building 4, Suite 4500
Westlake
Texas
(Address of principal executive offices)

76262
(Zip Code)

(214) 838-5500
Registrant's telephone number, including area code

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

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|---|----------------|--|
| Class A Common Stock, par value \$.01 per share | GSHD | NASDAQ |

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No .

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant, computed by reference to the last reported price at which the registrant's common equity was sold on June 30, 2020 (the last day of the registrant's most recently completed second quarter) was \$1,000,385,087, computed using a closing price on that day of \$75.16.

As of February 26, 2021, there were 18,374,682 shares of Class A common stock outstanding and 18,384,689 shares of Class B common stock outstanding

Documents incorporated by reference:

Portions of the registrant's definitive Proxy Statement for its 2021 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days of December 31, 2020, are incorporated by reference into Part III, Items 10-14 of this Annual Report on Form 10-K.

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In this annual report on Form 10-K ("Annual Report"), "Goosehead," the "Company," "GSHD," "we," "us" and "our" refer to Goosehead Insurance, Inc. and its consolidated subsidiaries, including Goosehead Financial, LLC, together.

Commonly used defined terms

As used in this Annual Report, unless the context indicates or otherwise requires, the following terms have the following meanings:

- Ancillary Revenue: Revenue that is supplemental to our Core Revenue and Cost Recovery Revenue, Ancillary Revenue is unpredictable and often outside of the Company's control. Included in Ancillary Revenue are Contingent Commissions and other income.
- Agency Fees: Fees separate from commissions charged directly to clients for efforts performed in the issuance of new insurance policies.
- ASC 605: Legacy revenue recognition standard ASC 605, *Revenue Recognition*. This legacy revenue recognition was used for periods prior to 2019.
- ASC 606 ("Topic 606"): ASU 2014-09 - *Revenue from Contracts with Customers*.
- ASC 842 ("Topic 842"): ASU 2016-02 - *Leases*.

- Book of Business: Insurance policies bound by us with our Carriers on behalf of our clients.
- Best Practices Study: The industry group metrics are based on the latest date for which complete financial data are publicly available such as a 2020 Best Practices Study containing 2019 industry data conducted by Reagan Consulting and the Independent Insurance Agents & Brokers of America, Inc.
- Captive Agent: An insurance agent who only sells insurance policies for one Carrier.
- Carrier: An insurance company.
- Carrier Appointment: A contractual relationship with a Carrier.
- Client Retention: Calculated by comparing the number of all clients that had at least one policy in force twelve months prior to the date of measurement and still have at least one policy in force at the date of measurement.
- Contingent Commission: Revenue in the form of contractual payments from Carriers contingent upon several factors, including growth and profitability of the business placed with the Carrier.
- Core Revenue: The most predictable revenue stream for the Company, these revenues consist of New Business Revenue and Renewal Revenue. New Business Revenue is lower-margin, but fairly predictable. Renewal Revenue is higher-margin and very predictable.
- Corporate Channel: The Corporate Channel distributes insurance through a network of company-owned and financed operations with employees that are hired, trained and managed by Goosehead.
- Cost Recovery Revenue: Revenue received by the Company associated with cost recovery efforts associated with selling and financing franchises. Included in Cost Recovery Revenue are Initial Franchise Fees and Interest Income.
- Franchise Agreement: Agreements governing our relationships with Franchisees.
- Franchise Channel: The Franchise Channel network consists of Franchisee operations that are owned and managed by Franchisees. These business owners have a contractual relationship with Goosehead to use our processes, training, implementation, systems and back-office support team to place insurance. In exchange, Goosehead is entitled to an Initial Franchise Fee and Royalty Fees.
- Franchisee: An individual or entity who has entered into a Franchise Agreement with us.
- GF: Goosehead Financial, LLC.
- GM: Goosehead Management, LLC.
- Initial Franchise Fee: Contracted fees paid by Franchisees to compensate Goosehead for the training, onboarding and ongoing support of new franchise locations.
- LLC Unit: a limited liability company unit of Goosehead Financial, LLC.
- New Business Commission: Commissions received from Carriers relating to policies in their first term.
- New Business Production per Agent (Corporate): The New Business Revenue collected in the Corporate Channel, divided by the average number of full-time Corporate Channel sales agents for the same period. This calculation excludes interns, part-time sales agents and partial full-time equivalent sales managers.
- New Business Production per Agent (Franchise): The gross commissions paid by Carriers and Agency Fees received related to policies in their first term sold in the Franchise Channel divided by the average number of sales agents in the Franchise Channel for the same period prior to paying Royalty Fees to the Company. This calculation excludes part-time agents and production related to the Book of Business that was sold in 2017 related to a Franchisee termination.
- New Business Production per Agency: The gross commissions paid by Carriers and Agency Fees received related to policies in their first term sold in the Franchise Channel divided by the average number of franchises in the Franchise Channel for the same period prior to paying Royalty Fees to the Company.
- New Business Revenue: New Business Commissions, Agency Fees, and New Business Royalty Fees.
- New Business Royalty Fees: Royalty Fees received from Franchisees relating to policies in their first term

- NPS: Net Promoter Score is calculated based on a single question: "How likely are you to refer Goosehead Insurance to a friend, family member or colleague?" Customers that respond with a 6 or below are Detractors, a score of 7 or 8 are called Passives, and a 9 or 10 are Promoters. NPS is calculated by subtracting the percentage of Detractors from the percentage of Promoters.
- P&C: Property and casualty insurance.
- Policies in Force: As of any reported date, the total count of current (non-cancelled) policies placed by us with our Carriers.
- Pre-IPO LLC Members: owners of LLC Units of GF prior to the Offering.
- Referral Partner: An individual or entity with whom a sales agent establishes a referral relationship.
- Renewal Revenue: Renewal Commissions and Renewal Royalty Fees.
- Royalty Fees: Fees paid by Franchisees to the Company that are tied to the gross commissions paid by the Carriers related to policies sold or renewed in the Franchise Channel.
- Segment: One of the two Goosehead sales distribution channels, the Corporate Channel or the Franchise Channel.
- The Offering: The initial public offering completed by Goosehead Insurance, Inc. on May 1st, 2018.
- Total Written Premium: As of any reported date, the total amount of current (non-cancelled) gross premium that is placed with Goosehead's portfolio of Carriers.
- TWIHG: Texas Wasatch Insurance Holdings Group, LLC.
- Unvalidated Producers: A metric used by Reagan Consulting describing agents whose production does not yet cover their wages under their agency's commission formula.

Disclaimer regarding forward-looking statements

We have made statements under the captions “Item 1. Business,” “Item 1A. Risk factors,” “Item 7. Management’s discussion and analysis of financial condition and results of operations” and in other sections of this Annual Report that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as “may,” “might,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential” or “continue,” the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include projections of our future financial performance, our anticipated growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements, including those factors discussed under “Item 1A. Risk factors.” You should specifically consider the numerous risks outlined under “Item 1A. Risk factors.”

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

PART I

Item 1. Business

Company overview

We are a rapidly growing independent insurance agency, reinventing the traditional approach to distributing personal lines policies throughout the United States. Our differentiated business model and innovative technology platform, have enabled us to deliver insurance customers a superior experience, as evidenced by our 92 Net Promoter Score which is 2.3x the 2019 P&C Industry Average. To fully appreciate the value of our model, there are three lenses with which you can view us – from the perspective of 1) the insurance buyer; 2) the agent; and 3) the carrier.

Insurance buyer perspective

Insurance buyers desire to have the right coverage, based on their risk tolerance, at the lowest possible price, written with a reputable company who will respond quickly and fairly when they need to file a claim – desires that we believe only an independent insurance agent can fulfill. Clients want to accomplish this in a simple, fast, and convenient way that leverages technology to make the client experience effortless. We have built a model that combines a choice product portfolio, knowledgeable sales and service agents, and proprietary technology to deliver on these expectations.

Choice product platform

Today's insurance buyer expects choice; we believe that tomorrow's insurance buyer will demand it. We believe that most clients currently buying through single-product platforms are either over-paying or not properly covered because 1) their current insurance company does not offer the appropriate coverage or 2) valuable coverages were removed to make the pricing competitive. We are able to solve that by partnering with over 140 carriers and using technology to shop for our clients and quickly identify the Carrier who is targeting their segment of the market. This allows us to provide value by finding the right coverage at the lowest price, and to do so in one phone-call so that the client does not have to spend hours shopping for themselves.

Knowledgeable sales and service agents

Our clients benefit from the value of having a knowledgeable agent explain and evaluate coverages to help the client make smart insurance buying decisions. Clients will have vastly different insurance needs throughout their lifetime, and our model allows us to serve them at every stage of life. While there are other independent agents who also provide choice, we believe that they lack the scale, talent, and technology of Goosehead, leading to a poorer client experience. Additionally, in contrast to the traditional insurance agency model, we separate the sales function from the service function, thus enabling agents to focus on selling, and service personnel to focus on delivering superior client service. This model has helped drive best-in-class net promoter scores for client service, nearly 2.3x the 2019 P&C industry average according to Satmetrix.

Proprietary technology

Independent agents typically are working on outdated technology platforms, leading to delays in insurance quotes and very limited ability to interact with their agent. We have leveraged our scale to empower our agents with technology that allows them to run quotes and place business in one simple phone-call. After signing their documents electronically through our online portal, clients can engage with Goosehead's industry leading service team via self-service, phone, text, online chat, or email.

Our choice model, superior sales and service agents, and proprietary technology has led to 88% client retention during 2020, which we believe is among the best in our industry.

Agent perspective

Among the three largest captive insurance companies, State Farm, Farmers, and Allstate, there are over 100,000 captive agents in the United States, and these agents are facing some acute pain points in their businesses. First, only having one carrier to sell leads to lower close rates and client retention as these companies lack options to move the business to another Carrier. In addition, many agents will lose their ability to write certain lines of business in some areas due to underwriting rules from the carrier – this is especially true after a catastrophic loss in the agent's city or county. Low close rates are also due to the agents' outdated and ineffective marketing playbook. They typically pay for expensive retail store-front locations and spend significant amount of money on paper mailers and internet leads. This broken marketing model leads to high overhead costs and limited success. Additionally,

these captive agents are working on outdated technology platforms and many have no economic interest in their book of business. Finally, and most importantly, these agents are responsible for processing all of their client's service needs in house; the more successful they are at sales, the quicker their growth stalls because of the time necessary to manage customer service work.

When agents join Goosehead, they immediately get access to sell a wide array of carriers so that they have product to accommodate most clients, which drastically improves close rates. Instead of expensive retail space and spending money on ineffective marketing strategies, they follow our proven go-to-market strategy by developing Referral Partner relationships. This strategy allows them to spend much less on marketing and can yield dozens of high-quality clients referred directly to them, driving higher levels of productivity. All policy fulfillment and servicing is handled by our centralized service team, which retains our clients at 88%, unlocking the agent's time to focus on new sales. Our proprietary technology platform allows our agents to identify Referral Partners, run quotes in less than five minutes, and gives them all the analytics they need to make smart decisions around building a successful agency. Our nine corporate-owned offices and 364 corporate sales agents serve as the blueprint for what is possible in the Goosehead model, and our corporate agents provide critical training and support to help the franchise agents reach their full potential. We have proven that this system delivers superior results as demonstrated by agents, who with a few years tenure, are 2.3x more productive than industry best practice according to Reagan Consulting's *2020 Best Practices Study*.

In addition to recruiting current insurance agents with a superior value proposition, we are also bringing in sales and marketing savvy professionals who are attracted to the recession-resistant and residual economics offered by a career in insurance. The value and opportunity we provide to agents has led to our rapid growth to 1,468 franchise locations (inclusive of 577 franchises that are under contract but yet to be opened as of December 31, 2020).

Carrier perspective

Insurance carriers are seeking profitable growth, and their focus is on maximizing the ratio of client lifetime value to acquisition costs. Carriers who distribute through independent agents have lots of complexity and costs dealing with thousands of independent representatives with no standard training, different levels of expertise, and no quality control functions. Working with Goosehead allows them to have scale distribution with a single point of contact. Goosehead handles all training and enforces standards through a centralized quality control team. Because Goosehead can provide profitable growth without complexity, it has earned special product access in geographies where Carriers have heavily restricted capacity, and higher commissions than what agents normally earn. Our 2020 average commission rate on new business premium was 14% and on renewal business premium was 14%. Commission rates can vary across Carriers, states and lines of business, and typically range from 10% to 20%. Many "insuretech" carriers saw the complexity of working with traditional agents and have sought to build models that eliminate the role of the agent. As they have grown, many have realized that 80% of the market still prefers to work with an agent (according to the Independent Insurance Agents & Brokers of America, Inc.), and that Goosehead allows them to reach that segment of the market without all the traditional complexity. We now distribute for many of the insuretechs, increasing the breadth of our product portfolio. Distributing through Goosehead allows carriers to see higher retention rates and more underwriting profitability when compared with other distribution channels, increasing the client lifetime value for the carrier. This value enables Goosehead to have a very competitive carrier portfolio, ensuring that clients find the best solution, and increasing agents' close rates.

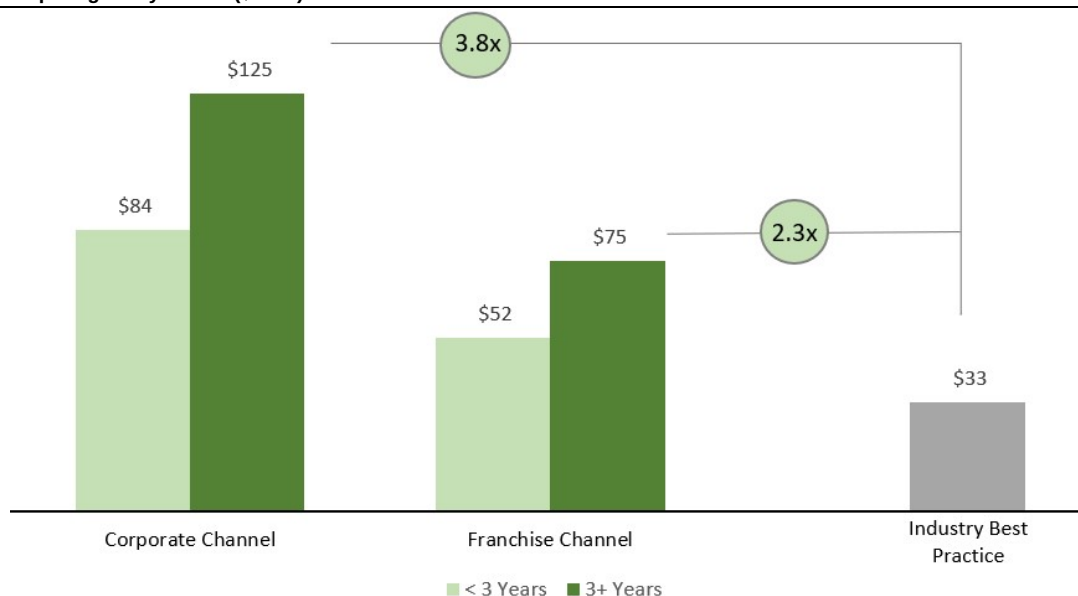
By delivering a better client experience, offering a more compelling business opportunity to agents, and driving more value to carrier partners, we have seen growth as reflected in our financial performance. Beginning as of 2019, the Company adopted the new accounting guidance, ASC Topic 606, related to revenue from contracts with customers. Under this new accounting standard, revenue grew period over period by 51% for the year ended December 31, 2020. Total Written Premium, which we believe is the best leading indicator of future revenue growth because it drives our future Core Revenue and gives us potential opportunities to earn Ancillary Revenue in the form of Contingent Commissions, grew 45% to \$1.07 billion from \$739 million in 2019. This growth has been driven by several factors including (1) our team's ability to recruit talented agents to our platform; (2) our agents' leveraging of Goosehead's sales blueprint and proprietary technology leading to higher levels of productivity in winning new business; and (3) our service centers' ability to retain renewal business. All our growth has been organic; we have not relied on mergers or acquisitions. Furthermore, we are profitable. For the year ended December 31, 2020 the Company had \$18.8 million of net income, a \$8.4 million increase over 2019. See "Item 7. Management's discussions and analysis of financial condition and results of operations - Key performance indicators" for additional information and a reconciliation to the most directly comparable GAAP financial measure.

Our Go-to-Market Strategy

Our business model allows our sales agents in both Segments to concentrate on sales and marketing activities related to acquiring new clients and issuing new policies, thus growing New Business Revenue and Renewal Revenue more rapidly than in other systems. Their primary marketing efforts are focused on establishing referral relationships with other financial services providers in their communities using our proprietary marketing strategy. We do not compensate Referral Partners for leads, but rather rely on our servicing capabilities to generate repeat business.

Our model, which allows agents to focus on New Business Revenue, is highly differentiated from the traditional insurance agency model. In the traditional agency model, agents are responsible for both new business and ongoing service. The burden of providing ongoing service distracts from the ability to acquire new clients, and ultimately limits an agent's opportunity for growth. Our agents are freed from the burden of ongoing service, and as a result, agents in both Segments are substantially more productive than top performers in our industry as it relates to new sales. Compared to the 2020 Best Practices Study, which uses 2019 industry data, Corporate Channel agents with more than three years of tenure averaged 3.8x as much New Business Production per Agent as the industry best practice during 2019. Franchise Channel agents with more than three years of tenure averaged 2.3x as much New Business Production per Agent (Franchise) as the industry best practice during 2019.

New Business Revenue per agent by tenure (\$000s)



Source: Internal data for 2019; Carrier provided information; Reagan Consulting 2020 Best Practices Study (using 2019 data)

(1) Represents industry best practice per Reagan Consulting; does not include Unvalidated Producers; most industry agents have tenures significantly longer than 2 to 3 years.

We believe our agent productivity compares even more favorably to the industry than the Best Practices Study would imply because the Best Practices Study excludes Unvalidated Producers. If the Best Practices Study included Unvalidated Producers, our New Business Production per Agent outperformance would be even larger.

In 2020, New Business Production per Agent in the Corporate Channel was \$55 thousand for agents with less than 1 year of tenure and \$125 thousand for agents with more than one year of tenure. Including all producers in the Franchise Channel in 2020, New Business Production per Agency was \$55 thousand for agencies with less than 1 year of tenure and \$121 thousand for agencies with more than one year of tenure in Texas. Outside of Texas during 2020, New Business Production per Agency was \$43 thousand for agencies with less than 1 year of tenure and \$73 thousand for agencies with more than one year of tenure.

Our Service Centers

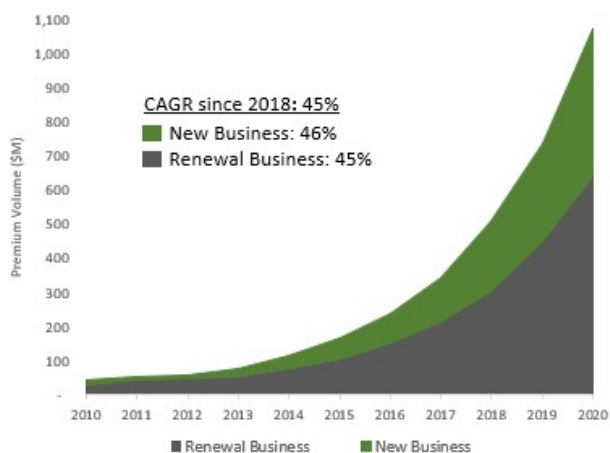
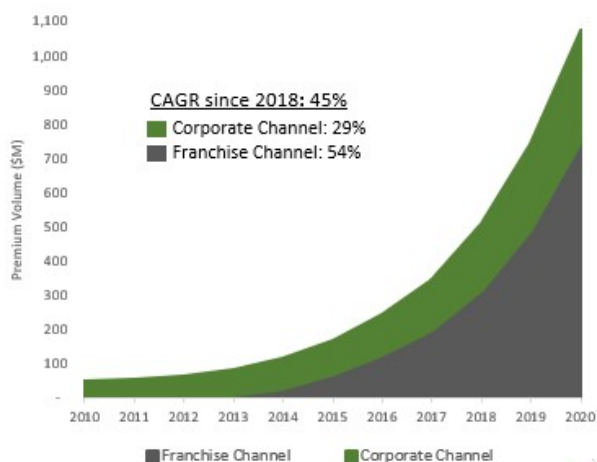
Both the Corporate Channel and the Franchise Channel are supported by our client service centers. Our service centers are staffed by fully licensed property and casualty service agents, who provide fulfillment and quality control services for newly issued insurance policies, accounting services and ongoing support services for clients. Ongoing support services for clients include: handling client inquiries, facilitating the claims process with Carriers, accepting premium payments and processing policy changes, and renewals. Our service agents are also focused on selling additional insurance coverages to clients which account for additional New Business Revenue.

Our two separate service centers provide us with the ability to cover the U.S. time zones more broadly, and the ability to better manage business continuity risks. We manage our service centers with the goal to maximize NPS, which we believe maximizes retention. This differentiated level of service has enabled us to earn an NPS of 92 in 2020, up from 89 in 2019, greater than highly regarded brands like Ritz Carlton and Nordstrom and 2.3x the 2019 industry average, according to Satmetrix. Our high degree of client satisfaction drove our 88% Client Retention rate during 2020, which we believe to be among the highest in the industry. Our retention rate is even stronger on a premium basis. In 2020, we retained 89% of the premiums we distributed in 2019. Our premium retention rate is higher than our Client Retention rate as a result of both premiums increasing year over year and additional coverages sold by our service team. By maintaining this strong level of Client Retention, we are able to generate revenue that is highly predictable and recurring in nature.

The combination of expanding headcount in the Corporate and Franchise Channels, leveraging technology and maintaining our commitment to service led to revenue growth of 51% and Total Written Premium growth of 45% in 2020. As of December 31, 2020, our 10-year Total Written Premium CAGR was 37% and our 5-year premium CAGR was 45%.

Total Written Premium by Channel

Total Written Premium by Term



Source: Carrier provided information

Industry trends

We primarily compete in the United States personal lines insurance distribution industry. Personal lines products typically include home, auto, umbrella, motorcycle, flood and recreational insurance. We compete for business on the basis of reputation, client service, product offerings and the ability to tailor our products to the specific needs of a client. There are principally three types of businesses that sell personal lines products:

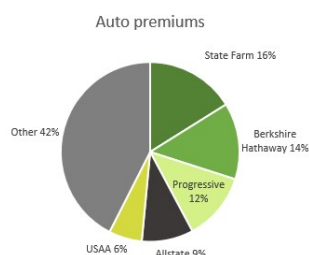
- *Independent agencies (36% personal lines market share in 2019 according to the Independent Insurance Agents & Brokers of America, Inc.).* Independent agencies are “independent” of any one Carrier and can offer insurance products from multiple Carriers to their clients. There are approximately 36,500 independent insurance agencies in the United States, according to the 2018 Future One Agency Universe Case Study. Many of the largest insurance agencies, such as Aon plc, Arthur J. Gallagher & Co., Brown & Brown Inc., Marsh & McLennan Companies, Inc. and Willis Towers Watson plc, focus primarily on commercial lines. We believe that we are one of the largest independent insurance agencies focused primarily on personal lines.

- **Captive Agencies (44% personal lines market share in 2019 according to the Independent Insurance Agents & Brokers of America, Inc.).** Captive Agencies sell products for only one Carrier. The Carrier compensates the Captive Agency through sales commissions based on premiums placed on behalf of clients. The Carrier also provides the Captive Agency with operational support including advertising and certain back office functions. The largest Captive Agencies in the United States include Allstate Corporation, State Farm Mutual Automobile Insurance Company and Farmers Group, Inc.
- **Direct distribution (20% personal lines market share in 2019 according to the Independent Insurance Agents & Brokers of America, Inc.).** Certain Carriers market their products directly to clients. Historically, this strategy has been most effective for targeting clients who require auto insurance only, with clients seeking bundled solutions relying on advice from independent and Captive Agents. The largest Carriers that sell directly to clients include Berkshire Hathaway Inc. (via GEICO Corp.) and Progressive Corporation. Berkshire Hathaway and Progressive also distribute through independent agencies, including GSHD.

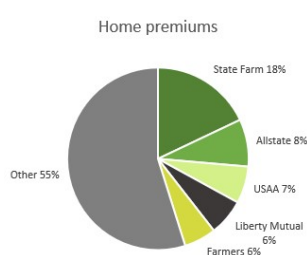
Personal lines insurance agents generate revenues through commissions, which are calculated as a percentage of the total insurance premium placed on behalf of clients, and through fees for other related services. Premiums in the personal lines insurance market have grown consistently with underlying insured values and the overall economy.

Personal lines products

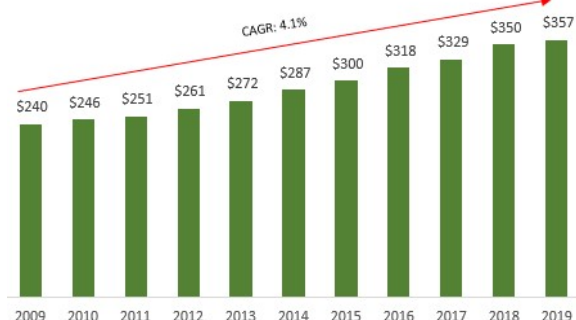
Auto premiums



Homeowners premiums



Personal lines premium trends (\$ billions)



Source: S&P Global Market Intelligence and National Association of Insurance Commissioners

Premium pricing within the P&C insurance industry has historically been cyclical, based on the underwriting capacity of the insurance industry and economic conditions. External events, such as terrorist attacks, and man-made and natural disasters, may have significant impacts on the insurance market. We use the terms “soft market” and “hard market” to describe the business cycles experienced by the industry. A soft market is an insurance market characterized by a period of declining premium rates, which can negatively affect commissions earned by insurance agents. A hard market is an insurance market characterized by a period of rising premium rates, which, absent other changes, can positively affect commissions earned by insurance agents.

Our Segments

We have two Segments that are managed by our headquarters and work together to drive our growth: the Corporate Channel and Franchise Channel. In addition to managing our two Segments, our headquarters is responsible for overseeing our client service centers, our network of Referral Partners, our recruiting team and our technology functions which integrate all aspects of our business. Our headquarters also provides various risk management, quality control, accounting, legal and finance functions in support of both the Corporate Channel and the Franchise Channel.

Our Segments are geared to leverage the strengths of two different talent pools to maximize productivity. Our recruiting team, which included 98 people at December 31, 2020, is responsible for recruiting both Corporate sales agents, potential Franchise owners, and various back office employees. The Corporate Channel recruits driven agents who are typically new to insurance distribution; the Franchise Channel recruits agents with business or

industry experience. The combination of our two Segments enables us to prudently expand our business model while providing differentiated service to our clients.

Corporate Channel (52% of 2020 total revenue)

The Corporate Channel consists of company-owned and financed operations with employees who are hired, trained and managed by us. The Corporate Channel also serves as a research and development department, where we develop best practices and beta test new technology before implementing system-wide. Additionally, the Corporate Channel serves as an invaluable support network for our Franchise Channel, providing sales coaching and mentoring for Franchisees. This channel primarily targets top college graduates or sales professionals who typically do not have experience in the insurance industry. The majority of candidates are sourced through a combination of on-campus recruiting, employee referrals and highly targeted internet recruiting campaigns. Our recruitment team seeks candidates with strong communication skills who display a high aptitude for learning new concepts, are motivated by professional and financial incentives and display the ability to succeed in a team-oriented environment. After the recruitment team has selected candidates, they are placed into a training class that lasts approximately two weeks. All agents are required to become fully licensed P&C agents prior to training.

The combination of hiring highly motivated and talented individuals, giving them proper tools and training and removing the burden of ongoing client service allows our Corporate Channel agents to become significantly more productive than average personal lines agents. Compared to the 2020 Best Practices Study, Corporate Channel agents with more than three years of tenure averaged 3.8x as much New Business Production per Agent (Corporate) as the industry best practice.

In the Corporate Channel, we generate Core Revenue in the form of Renewal Commissions, New Business Commissions and non-refundable Agency Fees charged directly to clients for efforts performed in the issuance of new insurance policies. We also generate Ancillary Revenue in the form of Contingent Commissions from Carriers related to the overall growth and loss performance of the Book of Business we have placed with them. The Corporate Channel is comprised of employed sales agents located in nine sales offices across Texas, Illinois, and North Carolina. We have experienced rapid growth in sales agents and revenue in this Segment. During 2020, our Corporate Channel sales agent headcount increased by 47% and our Corporate Channel premiums placed grew by 31%, in each case, versus the prior year. Corporate Channel premium growth trailed headcount growth due to the large renewal mix of our premiums placed and the ongoing ramp up of recently hired producers. As of December 31, 2020, we had corporate sales offices operating in the following locations: Westlake, Texas; Irving, Texas; Fort Worth, Texas; Houston, Texas (2 locations); The Woodlands, Texas; Austin, Texas; Rosemont, Illinois; and Charlotte, North Carolina. We expect to continue our expansion in 2021 with the addition of corporate sales offices in Denver, Colorado, San Antonio, Texas, Henderson, Nevada, and another office in the Midwest region.

Franchise Channel (48% of 2020 total revenue)

The Franchise Channel consists of operations that are owned and managed by Franchisees. This channel is composed of Franchisees and sales agents that they hire as employees in their franchised businesses. Our Franchise Agreement has a ten-year term and governs the terms under which we operate together, among other things, defining the Initial Franchise Fee, Royalty Fees and other costs a Franchisee pays. Franchisees have contractual rights to revenue related to the Book of Business during the term of their agreement, but we retain ultimate ownership over the policies written in each franchised business. These Franchisees have a contractual relationship with the Company to use our processes, Carrier Appointments, systems, and back-office support team to sell insurance and manage their business. In exchange, the Company is entitled to an Initial Franchise Fee and ongoing Royalty Fees. The Franchise Channel primarily recruits agents with prior business or industry experience. Our Franchise Channel has a unique value proposition to experienced agents who understand the limits and pain points of the traditional agency model:

- Franchise Channel agents gain access to products from multiple Carriers in their markets, allowing the agents to better serve their clients and Referral Partners by providing choice. Captive Agents typically can only sell products from one Carrier.
- Franchise Channel agents can leverage our service centers to handle service requests and process renewals. Most traditional agencies require their agents to handle client service and renewals which diminishes the time they can devote to winning additional new business and growing their agencies. Traditional agencies can become the victims of their own success as their increasing service burden crowds out time to sell new business.

- Franchise Channel agents use our well-established and proprietary sales processes to win new business. Franchise Channel agents are trained side by side with Corporate Channel agents to leverage our training program, to acquire product and Carrier knowledge and to utilize our technology and back office support. Our Corporate Channel continues its investment in the success of our Franchise Channel well past initial training in the form of ongoing sales coaching and mentoring, as well as serving as fertile recruiting ground for future regional territory managers within our franchise support team.
- Franchise Channel agents benefit from lean startup costs as they do not require additional employees or a retail location to launch their agencies. Captive Agents are often required to immediately hire two to three additional employees as support staff, lease a storefront location, and contribute a specific percentage of revenue toward an advertising budget. Further, most fixed costs in a traditional agency (e.g., administrative costs, technology fees, training expenses and service costs) are diminished or eliminated in our Franchise Channel due to Goosehead's scale, and we expect that fixed costs will continue to decrease as the Franchise Channel grows.
- Franchise Channel agents own an economic interest in their Books of Business.

The recruiting team seeks applicants who have demonstrated a strong capacity to win new business and a desire to own their own business. Our recruiting efforts have helped us create a franchise pool which is significantly more productive than most personal lines agents. Compared to the 2020 Best Practices Study, Franchise Channel agents with more than three years of tenure averaged 2.3x as much New Business Production per Agent (Franchise) as the industry best practice. Franchise Channel agents with less than two years of tenure produced as much New Business Production per Agent (Franchise) as the industry best practice.

In the Franchise Channel, we earn Core Revenue in the form of New Business Royalty Fees and Renewal Royalty Fees generated by the franchise location. New Business Royalty Fees are set in the Franchise Agreements at 20% of commissions and Agency Fees received during the first term of the policy, and 50% of commissions every year the policy is renewed. This economic relationship creates a mechanical step-up in revenue at the first renewal of each policy, creating strong revenue and margin expansion opportunities.

Cost Recovery Revenue consists of non-refundable Initial Franchise Fees, which compensate us for the training and onboarding efforts to launch a new franchise location, and Interest Income related to Franchisees which elect the payment plan option for their Initial Franchise Fee. Ancillary Revenue consists of Contingent Commissions and other income.

We started franchising in 2012 and have since expanded rapidly. Premiums in the Franchise Channel grew 52% during 2020. As of December 31, 2020, we have 1,468 total franchises, including 891 franchises operating and 577 in implementation, a 55% increase in total franchises and a 45% increase in operating agencies in 2020 compared to 2019. We have franchise locations either operating or signed in the following states, which cover over 97% of the US population:

| Geographic footprint | Operating or signed agencies | |
|----------------------------|------------------------------|-------------------|
| | State | December 31, 2020 |
| | TX | 282 |
| | CA | 148 |
| | FL | 82 |
| | NY | 77 |
| | IL | 76 |
| | MI | 69 |
| | PA | 67 |
| | GA | 58 |
| | CO | 58 |
| | NC | 46 |
| | LA | 44 |
| | VA | 42 |
| | SC | 42 |
| | NJ | 40 |
| Other | 337 | |
| Total⁽¹⁾ | 1,468 | |

(1) Number of franchise locations include 577 franchises which are under contract but yet to be opened as of December 31, 2020.

Our competitive strengths

We believe that our competitive strengths include the following:

- Highly motivated producers in the Corporate Channel.* The agents in the Corporate Channel are fundamentally different than the typical agents in the personal lines industry. Substantially all of our agents are recent college graduates, whereas 64% of personal lines agents in the industry are over 50 years old, according to the 2018 Future One Agency Universe Case Study. This gives us a significant advantage both in the short- and long-term. In the short-term, our agents have proven to be especially adept at learning new techniques and mastering new technologies. This has enabled our agents to generate approximately 3.8x as much new business as top performing personal lines agents after three years, according to the 2020 Best Practices Study. Over the long-term, we believe our youth will enable us to avoid the shrinking workforce challenges that many of our competitors face and win an even larger market share from other agencies. According to Independent Insurance Agents & Brokers of America, Inc., 42% of independent agencies anticipate a change of control within the next five years. We believe an aging industry workforce will create significant disruption in the personal lines distribution industry, and we will be in a position to win displaced clients. Additionally, our Corporate Channel agents view the success of the Franchise Channel as a potential catalyst to their career trajectories. The support structure provided by the Corporate Channel to the Franchise Channel creates unique career paths in sales management, territory management, and franchise ownership.
- Franchise Channel solves the inherent flaws in the traditional agency model.* We believe that the traditional agency model is flawed for several reasons, including: (1) Captive Agents can only offer clients products from one Carrier, limiting the agents' ability to best serve their clients, (2) agents are typically responsible for handling their own client service and renewals, diminishing the time they can devote to marketing, winning new business and growing their overall Book of Business, (3) agents are often using antiquated and decentralized technology platforms to sell and service their Book of Business, and (4) some Captive Agents do not own their Book of Business, giving them less incentive to win new business. Given the size of the traditional agency market and its inability to adapt to these challenges without introducing significant channel conflict, we believe there is a meaningful opportunity to disrupt the traditional agency marketplace. Agents in the Franchise Channel are able to focus on marketing, winning new business, providing clients with choice by offering products from multiple Carriers, and they own an economic interest in their Book of Business. Furthermore, by removing the service burden which takes a significant amount of time and energy, we believe our platform provides Franchise Channel agents with the ability to grow more quickly and manage larger Books of Business than agents working in a traditional agency model. As a result, the Goosehead model has proven to be attractive to high-performing agents who wish to achieve greater professional and financial success.

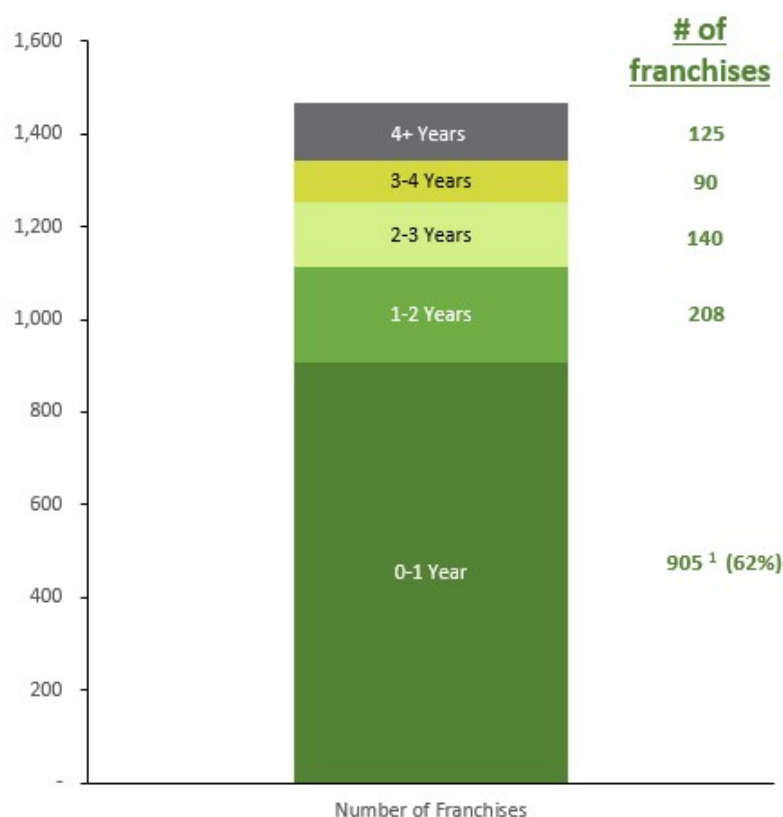
- *Single technology platform with end-to-end business process management.* Our operations utilize an innovative proprietary cloud-based technology solution customized to suit our needs. Our technology provides our agents with tools to better manage their sales and marketing activities, and our service center operations with real-time 360-degree visibility of client accounts. Additionally, our technology provides agents with data and analytics which allow them to make smarter business decisions. Importantly, our integrated solution allows us to pivot quickly and upgrade our technology offering without a large financial investment. We believe our single, sales-oriented technology platform is differentiated relative to most insurance agency IT environments that utilize disparate accounting-driven agency management vendors and legacy mainframe systems across their operations. Our technology platform has been a key enabler of our rapid growth while also driving efficiencies. One of these efficiencies is service expenses. Our 2019 service expenses as a percentage of gross commissions were 3.2x lower than the industry best practice according to the 2020 Best Practices Study, which uses 2019 data. Despite our reduced service expense load, we are able to maintain best in class NPS scores and retention.
- *Service centers drive both new and renewal business.* Our service centers handle all of our client service and renewals and have achieved a highly differentiated level of service as indicated by our NPS scores of 92 in 2020 and 89 in 2019—higher than many global service leaders such as Ritz Carlton and Nordstrom and 2.3x the P&C industry average, according to Satmetrix. Having such a skilled and fully licensed service team provides three tangible benefits to our business: (1) allowing our agents to focus virtually all of their time on cultivating new Referral Partner relationships and winning new business (instead of preserving existing business), (2) generating strong Client Retention which provides a stable source of highly visible and recurring revenue and (3) providing opportunities to earn additional revenue as our service agents are highly trained in cross-selling and generating referral business. Our service agents typically originate significant amounts of New Business Revenue through cross-sale and referral generation. We believe that our service centers will continue to drive a competitive advantage by supporting our industry-leading productivity and our recruiting efforts. We continue to make the necessary technology, staffing and real estate investments in our service centers to support our planned agent hiring which we believe will allow us to readily scale and increase market share. Each of our service agents can service, on average, a Book of Business that it would take a productive sales agent years to generate.
- *Proven and experienced senior management team.* Our senior management team has a long history of cohesively operating together and implementing our business model.
 - Our Chairman and Chief Executive Officer, Mark E. Jones, co-founded Goosehead in 2003. Prior to co-founding Goosehead, Mr. Jones was a Senior Partner and Director at Bain & Company, a global management consulting firm, where he also served for many years as Global Head of Recruiting. Many of our management, sales and recruiting practices were developed and refined by Mr. Jones during his time at Bain and instituted at Goosehead. Mr. Jones has received a wide variety of accolades for his leadership accomplishments, including being recognized as one of the Top Rated CEOs from among more than 7,000 companies with less than 1,000 employees on Glassdoor's "Employee's Choice Award" in 2017.
 - In 2006, Michael Colby was recruited to join Goosehead as Controller. Over the last 14 years, Mr. Colby has worked closely with Mr. Jones in all aspects of the business, taking on increasing responsibility; becoming Chief Financial Officer in 2010, Chief Operating Officer of our Franchise Channel in 2011, Chief Operating Officer of Goosehead in 2014, and President and Chief Operating Officer of Goosehead in 2016.
 - Mark Colby has served as Chief Financial Officer since 2016. Mr. Colby joined Goosehead in 2012 as Manager of Strategic Initiatives, where he worked on Information Systems platform development and migration, real estate planning, and business diversification initiatives. Mr. Colby oversees Goosehead's internal and external financial reporting, budgeting and forecasting, payroll/401(k) administration, treasury function, and investor relations.
 - Ryan Langston joined Goosehead Insurance in 2014 as Vice President and General Counsel. He is responsible for coordinating and leading legal activity and compliance. Prior to joining Goosehead, Mr. Langston was an attorney with Strasburger & Price, LLP where he represented businesses in commercial litigation and arbitration involving business dissolutions, theft of trade secrets, enforcement of noncompetition agreements, and breach of contracts.

Key elements of our growth strategy

Our goal is to achieve long-term returns for our stockholders by establishing ourselves as the premier national distributor of personal lines insurance products. To accomplish this goal, we intend to focus on the following key areas:

- Continue to expand recruiting in the Corporate Channel.* In order to grow both the Corporate Channel and Franchise Channel, we must expand our agent count in the Corporate Channel. We have a highly developed process for recruiting new agents which we have continually refined over the last decade and has resulted in higher success rates for our Corporate Channel agents. We plan to continue to expand our recruiting to additional college campuses and engage in highly targeted internet recruiting campaigns as we grow. Our compensation package for sales agents is very competitive in comparison to other professional services and offers attractive long-term compensation opportunities.
- National penetration of the Franchise Channel.* As of December 31, 2020, we have signed Franchise Agreements in 43 states covering over 97% of the total US population. We expect to continue growing our market share within these states as we sign and launch new franchises, and as those franchises ramp up their new business production over the course of 2-3 years. As of December 31, 2020, 62% of our Franchisees had less than one year of tenure. Given the anticipated New Business productivity uplift that comes with more years of experience, and the elevated Royalty Fees on renewal business, we believe our Franchise Channel is positioned for strong growth and margin expansion. This growth will be further enhanced by the approximately 121,000 potential franchise candidates in our current pipeline. The number of potential franchise candidates is updated daily to reflect new franchise candidates on our customized recruiting platform. Of our total current pipeline, we estimate approximately 10% of the candidates would qualify over time as Franchisees under our exacting standards. Although the candidates that meet our franchise standards are not guaranteed to enter into Franchise Agreements, we believe our pipeline will allow us to execute a robust national build-out of our model. The pace of our national build-out will be aided by the regulatory approvals, product offering approvals and Carrier relationships we have already established across the continental United States.

Franchise Channel tenure profile



(1) Number of franchise locations include 577 franchises which are under contract but yet to be opened as of December 31, 2020.

- *Continue to develop innovative ways to drive productivity.* We believe that our agents are already among the most efficient personal lines agents in the industry. Compared to the 2020 Best Practices Study, Corporate Channel agents with more than three years of tenure averaged 3.8x as much New Business Production per Agent (Corporate) as the industry best practice; Franchise Channel agents with more than three years of tenure averaged 2.3x as much New Business Production per Agent (Franchise) as the industry best practice. We believe there is an opportunity to further expand productivity, particularly in the Franchise Channel. We have historically deployed the intellectual capital accumulated in the Corporate Channel (including sales practices, client relationship management practices, recruiting practices and technology) into the Franchise Channel to optimize new business production. We will continue to innovate going forward in an effort to both better serve our clients and expand our platform.
- *Maximize our effectiveness in managing renewal business.* We earn significantly larger Royalty Fees from our Franchisees for renewal business than on new business. Additionally, many of our largest expenses are significantly lower for renewal business such as compensation costs, risk management costs and client development costs. Critical to converting new business into renewal business is strong Client Retention. Our Client Retention effort is led by our service centers which had a 2020 NPS score of 92, leading to an 88% Client Retention rate and 89% premium retention rate in 2020. Key to maintaining these NPS scores and Client Retention rates is the consistency of personnel in our service centers. Our consistency in service personnel is due to a combination of the opportunities for professional advancement within the Company and the competitive wages we offer; average compensation for service team employees was over \$47,000 in 2020.
- *Continue to invest in technology to drive efficiencies in all areas of our business.* We've made investments in technology to outrun our competitors, and we will continue to find opportunities to utilize technology to widen the gap between us and any nascent competition.

Markets & marketing

We primarily compete in the approximately \$360 billion (according S&P Global Market Intelligence) U.S. personal lines P&C industry. As a distributor, we compete for business on the basis of reputation, client service, product offerings and the ability to efficiently tailor our products to the specific needs of a client.

Agents in both the Corporate Channel and the Franchise Channel are primarily responsible for acquiring new clients. Agents are encouraged to procure new clients through both relationships with Referral Partners and traditional channels (friends, family, client referrals, inbound inquiries and outbound inquiries), and we give them proprietary tools and technology to leverage our years of experience in successfully executing this go-to-market strategy.

The Company represents over 140 Carriers, of which 45 provide national coverage. During 2020, three carriers represented more than 10% of total revenue at 20%, 13% and 12%

Franchise agreements

Our Franchise Channel operates under a franchising model and each franchise is governed by a Franchise Agreement. The Franchise Agreements for all existing franchises are nearly identical. We have taken the position that we do not negotiate the terms of our Franchise Agreements in order to maintain uniformity within the system.

Each Franchise Agreement contains one ten-year term with two optional five-year renewal terms. The Franchise Agreement may be terminated early if the Franchisee is violating a term of the contract, operating contrary to state law, or violating Goosehead procedures required by the operations manual.

Franchisees are required to pay an Initial Franchise Fee that varies depending on the state in which the franchise will be located. The Initial Franchise Fee, which is non-refundable after training, covers our costs to recruit, train, onboard, and support the Franchisee for the first year. Franchisees are also required to pay a monthly Royalty Fee, which entitles the Franchisee to continue to operate in our Franchise Channel. The Royalty Fee is derived from a percentage of gross revenues on insurance policies in their initial (20%) and renewal terms (50%). Franchise owners are not entitled to an exclusive territory and may solicit sales from any location within the state in which they operate, subject to certain internal restrictions.

Franchisees who sign a Franchise Agreement after January 1, 2018, are required to pay a minimum monthly Royalty Fee if the Royalty Fee derived from the gross revenues on insurance policies does not exceed a specific amount.

Total Franchises increased by 55% to 1,468 in 2020 from 948 in 2019. Total Franchises operating increased by 45% to 891 in 2020 from 614 in 2019.

Competition

The insurance brokerage business is highly competitive, and numerous firms actively compete with us for customers and insurance markets. Competition in the insurance business is largely based upon innovation, knowledge, terms and condition of coverage, quality of service and price. A number of firms and banks with substantially greater resources and market presence compete with us.

Our brokerage operations compete with firms, which operate globally or nationally or are strong in a particular region or locality and may have, in that region or locality, an office with revenues as large as or larger than those of our corresponding local office. We believe that the primary factors determining our competitive position with other organizations in our industry are the quality of the services we render, the technology we use, the diversity of products we offer, superior human capital, and the overall costs to our clients.

A number of Carriers directly sell insurance, primarily to individuals, and do not pay commissions to third-party agents and brokers. In addition, the Internet continues to be a source for direct placement of personal lines insurance business. While it is difficult to quantify the impact on our business from individuals purchasing insurance over the Internet, we believe this risk is generally isolated to personal lines customers with single-line auto insurance coverage, which represent a small portion of our overall business.

Intellectual property

We have registered "Goosehead," "Goosehead Insurance," and our logo as trademarks in the U.S., Mexico, the United Kingdom, the European Union, and is currently pending in Canada. We also have filed other trademark applications in the U.S. and will pursue additional trademark registrations and other intellectual property protection to the extent we believe it would be beneficial and cost effective. We also are the registered holder of a variety of domain names that include "Goosehead" and similar variations.

Regulatory matters

Franchise regulation. Offers and sales of franchises (so-called "pre-sale" franchise activities) are regulated in the United States by the FTC as well as certain states. The FTC (through its "Franchise Rule") requires franchisors to provide certain disclosures, in the form of a franchise disclosure document (an "FDD") to prospective Franchisees. One of the disclosure requirements is to include in the FDD audited financial statements of the franchisor (Goosehead Insurance Agency, LLC) or, if not the franchisor, an affiliate or parent of the franchisor who guarantees the franchisor's obligations to its Franchisees. In order to include our consolidated financial statements in the FDD, we are required to guarantee Goosehead Insurance Agency, LLC's current and future obligations to its Franchisees. The Franchise Rule does not require a franchisor to register or file an FDD with the FTC before offering franchises. Approximately twenty states also have pre-sale franchise or "business opportunity" laws and regulations that require franchisors to register with the state in some manner before that franchisor may offer or sell a franchise in that state, and in some cases to also provide prospective Franchisees with certain additional disclosures as part of the FDD. Approximately twenty-four states also have "franchise relationship laws" that address post-sale aspects of the franchisor-franchisee relationship, such as prohibiting enforcement of certain franchise agreement provisions, requiring a certain notice or cure period before termination of a franchise agreement, and also defining what constitutes "good cause" for terminating the franchise agreement or denying a transfer or renewal of the agreement. Although we believe that our Franchise Agreements and our relationships with Franchisees generally have complied with franchise relationship laws, a failure to comply with those laws could result in civil liability or the company's inability to enforce a Franchise Agreement, among other things. In addition, while historically our franchising operations have not been materially adversely affected by such laws or regulations, we cannot predict the effect of any future federal or state franchise laws or regulations.

Licensing. We and/or our designated employees must be licensed to act as brokers, intermediaries or third-party administrators by state regulatory authorities in the locations in which we conduct business. Regulations and licensing laws vary by individual state and are often complex.

The applicable licensing laws and regulations in all states are subject to amendment or reinterpretation by regulatory authorities, and such authorities are vested in most cases with relatively broad discretion as to the granting, revocation, suspension and renewal of licenses. It is our belief that we are in compliance with the applicable licensing laws and regulations of all states in which we currently operate. However, the possibility still exists that we and/or our employees could be excluded or temporarily suspended from carrying on some or all of our activities in, or could otherwise be subjected to penalties by, a particular jurisdiction.

Agent and broker compensation. Some states, such as Texas, permit insurance agents to charge Agency Fees, while other states prohibit this practice. In recent years, several states considered new legislation or regulations regarding the compensation of brokers by Carriers. The proposals ranged in nature from new disclosure requirements to new duties on insurance agents and brokers in dealing with customers.

Rate regulation. Nearly all states have insurance laws requiring personal property and casualty insurers to file rating plans, policy or coverage forms, and other information with the state's regulatory authority. In many cases, such rating plans, policy or coverage forms, or both must be approved prior to use.

The speed with which an insurer can change rates in response to competition or in response to increasing costs depends, in part, on whether the rating laws are (i) prior approval, (ii) file-and-use, or (iii) use-and-file laws. In states having prior approval laws, the regulator must approve a rate before the insurer may use it. In states having file-and-use laws, the insurer does not have to wait for the regulator's approval to use a rate, but the rate must be filed with the regulatory authority prior to being used. A use-and-file law requires an insurer to file rates within a certain period of time after the insurer begins using them. Eighteen states, including California and New York, have prior approval laws. Under all three types of rating laws, the regulator has the authority to disapprove a rate filing.

While we are not an insurer, and thus not required to comply with state laws and regulations regarding insurance rates, our commissions are derived from a percentage of the premium rates set by insurers in conjunction with state law.

Privacy regulation. Federal law and the laws of many states require financial institutions to protect the security and confidentiality of customer information and to notify customers about their policies and practices relating to collection and disclosure of customer information and their policies relating to protecting the security and confidentiality of that information. Federal law and the laws of many states also regulate disclosures and disposal of customer information. Congress, state legislatures, and regulatory authorities are expected to consider additional regulation relating to privacy and other aspects of customer information.

Human Capital

Our workforce is our most important asset and a key competitive advantage in our industry. Imperative to our continued success, and the primary reason for our decision to go public in 2018, is our ability to attract and retain the most talented individuals available. We will continue to strive for a one-of-a-kind company culture and offer a competitive compensation and benefits package, which includes health insurance, a 401(k) plan, an Employee Stock Purchase Program, and the potential for option awards. As of December 31, 2020, we had approximately 943 full-time and 6 part-time employees. Our Franchisees are independent businesses, and we do not control the essential terms and conditions of employment for their employees; therefore, neither our Franchisees nor their employees are included in our employee count. We believe that we have a positive relationship with our employees and we conduct regular engagement and outreach with our workforce. None of our employees are represented by a union.

Operating principles

Our company is grounded in a set of operating principles, which each member of the Company is expected to uphold. These values are at the very center of what makes our company unique, defines our dynamic culture, and enables us to build a truly world class business. It has resulted in a work force that is highly energized and motivated and a work environment that is meritorious, respectful, diverse and inclusive. Our operating principals and values are articulated below.

- Uncompromising integrity in all we do
- Deliver the WOW!
- Support the team
- Respect Company confidentiality – clients, third parties, staff
- Be at cause
- Pull more than your own weight
- Honest, open and direct communications

- Presume trust
- Work hard – we are building a great company; it will take great effort
- Meritocracy and pay for performance
- Our clients and our people are our assets – treat them as such
- Exceptional service always
- Respect and fairness
- Look for opportunities to create value for our company – your ideas are important
- Highest quality and service in the industry
- THINK BIG

COVID-19 response

In March 2020, we transitioned our entire workforce to work remotely. Due to our prior investments in talented employees and proprietary technology, this transition was virtually seamless. We remained focused on growth despite the change, and we saw no negative impact on our financial results or our key performance indicators.

To help limit any long-term negative culture impacts due to a remote-work environment, we began to bring back employees on a reduced and rotational basis during the third quarter of 2020. By the end of the third quarter, almost all employees were back in the office for at least 50% of the work week. We took these steps carefully and deliberately and have implemented a number of COVID-19 mitigation practices at our facilities including a screening process upon entering the office, requiring face coverings and social distancing. We will continue to strive to follow all local government and CDC guidelines in our approach to reopening fully while continuing to prioritize the health and safety of our team.

Initial Public Offering and Organizational Transactions

On May 1, 2018 Goosehead Insurance, Inc. completed an initial public offering (the "Offering") of 9.8 million shares of Class A common stock at a price of \$10.00 per share, which included 1.3 million shares issued pursuant to the underwriter's over-allotment option. Goosehead Insurance, Inc. ("GSHD") became the sole managing member of Goosehead Financial, LLC ("GF"). GF was organized on January 1, 2016 as a Delaware Limited Liability Company and is headquartered in Westlake, Texas. The operations of GF represent the predecessor to GSHD prior to the Offering, and the consolidated and combined entities of GF are described in more detail below. Information for any periods prior to May 1, 2018 relates to GF and its subsidiaries and affiliates.

In connection with the Offering, the company completed the following transactions (the "Reorganization Transactions"):

- The GF limited liability company agreement was amended to, among other things, i) appoint GSHD as the sole managing member of GF and ii) modify the capital structure of GF by reclassifying the interests previously held by Pre-IPO LLC Members into a single new class of non-voting LLC Units.
- GSHD was authorized to issue two classes of common stock. 10 million shares of Class A common stock were issued pursuant to the Offering, including the underwriters' over-allotment option. 23 million shares of Class B common stock were issued to the Pre-IPO LLC Members in an amount equal to the number of LLC Units held by each such Pre-IPO LLC Member in exchange for certain management rights of GF. Each share of Class A common stock and Class B common stock entitles its holder to one vote per share on all matters submitted to a vote of GSHD's stockholders. Each share of Class B common stock can be exchanged for one share of Class A common stock or, at GSHD's discretion, a cash payment equal to the volume weighted average market price of one share of Class A common stock, thus canceling the share of Class B common stock on a one-for-one basis.
- The Goosehead Management Holders and Texas Wasatch Holders indirectly transferred their ownership interests in GM and TWIHG, respectively, to GSHD in exchange for the Goosehead Management Note and Texas Wasatch Note. The aggregate principal amount of the Goosehead Management Note and the Texas Wasatch Note was approximately \$114 million. Because the net proceeds from the Offering were insufficient to repay the aggregate principal amount of the notes, 3.7 million shares of Class A common stock were issued to the Goosehead Management Holders and the Texas Wasatch Holders for the difference. GSHD contributed direct and indirect ownership interests in each of TWIHG and GM to GF.

Following completion of the Reorganization Transactions and the Offering, GSHD owned 37.3% of GF and the Pre-IPO LLC Members owned the remaining 62.7%. GSHD is the sole managing member of GF and, although GSHD holds a minority economic interest in GF, GSHD has the sole voting power and control of management of GF.

Accordingly, GSHD consolidates the financial results of GF and reports non-controlling interest in GSHD's consolidated financial statements.

As of December 31, 2020, Goosehead Insurance, Inc. owned 49.8% of Goosehead Financial, LLC and the non-controlling interest holders owned the remaining 50.2% of Goosehead Financial, LLC.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are filed with the Securities and Exchange Commission (the "SEC"). We are subject to the informational requirements of the Exchange Act and file or furnish reports, proxy statements and other information with the SEC. Such reports and other information filed by us with the SEC are available free of charge on our website at ir.gooseheadinsurance.com when such reports are made available on the SEC's website. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The contents of these websites are not incorporated into this filing. Further, our references to the URLs for these websites are intended to be inactive textual references only.

Item 1A. Risk factors

An investment in our Class A common stock involves a high degree of risk. You should carefully consider the following risks, as well as the other information contained in this Annual Report on Form 10-K, before making an investment in our Class A common stock. If any of the following risks actually occur, our business, financial condition and results of operations may be materially adversely affected. In such an event, the trading price of our Class A common stock could decline, and you could lose part or all of your investment.

Summary of principal risk factors

Risks relating to our business

- An overall decline in economic activity could have a material adverse effect on the financial condition and results of operations of our business.
- Volatility or declines in premiums or other adverse trends in the insurance industry may seriously undermine our profitability.
- Because the revenue we earn on the sale of certain insurance products is based on premiums and commission rates set by insurers, any decreases in these premiums or commission rates, or actions by Carriers seeking repayment of commissions, could result in revenue decreases or expenses to us.
- Contingent Commissions we receive from Carriers are less predictable than standard commissions, and any decrease in the amount of the commissions we receive could adversely affect our results of operations.
- Regulations affecting Carriers with which we place business affect how we conduct our operations.
- Competition in our industry is intense and, if we are unable to compete effectively, we may lose clients and our financial results may be negatively affected.
- Our business is dependent upon information processing systems. Security or data breaches may damage our reputation and negatively impact client retention and carrier, franchise, and Referral Partner relationships.
- We rely on the availability and performance of information technology services provided by third parties.
- Our inability to successfully recover should we experience a disaster or other business continuity problem could cause material financial loss, loss of human capital, regulatory actions, reputational harm or legal liability.
- Damage to our reputation could have a material adverse effect on our business.
- Our inability to retain or hire qualified employees, as well as the loss of any of our executive officers, could negatively impact our ability to retain existing business and generate new business.

- The global outbreak of the coronavirus disease ("COVID-19") has negatively impacted the global economy in a significant manner and may continue to do so for an extended period of time, and could also materially adversely affect our business and operating results.
- Non-compliance with or changes in laws, regulations or licensing requirements applicable to us could restrict our ability to conduct our business.
- Changes in our accounting estimates and assumptions could negatively affect our financial position and operating results.
- We derive a significant portion of our commission revenues from a limited number of Carriers, the loss of which would result in additional expense and loss of market share.
- Our business may be harmed if we lose our relationships with Carriers, fail to maintain good relationships with Carriers, become dependent upon a limited number of Carriers or fail to develop new Carrier relationships.
- The failure by Mark Jones and Robyn Jones to maintain either a minimum voting interest in us or the ability to elect or designate for election at least a majority of our board of directors could trigger a change of control default under our Credit Agreement.

Risks relating to our franchise business

- The failure to attract and retain highly qualified Franchisees could compromise our ability to expand the Goosehead network.
- Our financial results are affected directly by the operating results of Franchisees and agents, over whom we do not have direct control.
- Our Franchisees and agents could take actions that could harm our business.
- Failure to support our expanding franchise system could have a material adverse effect on our business, financial condition or results of operations.
- Our franchising activities are subject to a variety of state and federal laws and regulations regarding franchises, and any failure to comply with such existing or future laws and regulations could adversely affect our business.
- We are subject to certain risks related to litigation filed by or against us, and adverse results may harm our business and financial condition.

Risks relating to intellectual property and cybersecurity

- Improper disclosure of confidential, personal or proprietary data, whether due to human error, misuse of information by employees or vendors, or as a result of cyberattacks, could result in regulatory scrutiny, legal liability or reputational harm, and could have an adverse effect on our business or operations.

Risks relating to ownership of our Class A common stock

- Future sales, or the possibility of future sales, of a substantial number of our shares of Class A common stock could adversely affect the price of our shares of Class A common stock.
- We may not be able to successfully maintain effective internal controls over financial reporting.
- We expect that our stock price will be volatile, which could cause the value of your investment to decline, and you may not be able to resell your shares at or above your investment.

Risks relating to our business

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

On January 30, 2020, the World Health Organization ("WHO") declared the outbreak of COVID-19 a "Public Health Emergency of International Concern." On March 11, 2020 the WHO characterized the outbreak as a "pandemic". This outbreak of COVID-19 has resulted in a widespread health crisis that has and may continue to adversely affect the economies and financial markets worldwide.

During the first quarter of 2020, the Company reduced workforce density at all corporate offices by requiring employees to work from home. Additionally, the Company indefinitely suspended all corporate travel, field support visits, in-person marketing efforts and in-person team meetings. Leveraging the Company's cloud based technology, video conferencing technology and importantly the Company's mortgage activity database to continue marketing efforts allowed operations to be largely uninterrupted. Beginning during the third quarter of 2020 and continuing the remainder of the year, our employees were working in the office on a reduced and rotational basis. The Company will continue to follow all local government and CDC guidelines in reopening corporate offices. Changes in consumer behavior linked to the ongoing COVID-19 pandemic, may have resulted in reduced loss ratios throughout 2020, increasing the amount of revenue from Contingent Commissions the Company expects to receive.

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

In addition, if the ongoing pandemic continues to create disruptions or turmoil in the credit or financial markets, it could adversely affect our ability to access capital on favorable terms, or at all, and continue to meet our liquidity needs, all of which are highly uncertain and cannot be predicted.

These and other developments and disruptions related to COVID-19 could materially and adversely affect our business, financial condition and results of operations.

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

An overall decline in economic activity could have a material adverse effect on the financial condition and results of operations of our business.

Factors, such as business revenue, economic conditions, including adverse conditions resulting from public health emergencies such as the COVID-19 pandemic, the volatility and strength of the capital markets and inflation can affect the business and economic environment. The demand for property and casualty insurance generally rises as the overall level of household income increases and generally falls as household income decreases, affecting both the commissions and fees generated by our business. The majority of our new accounts are sourced by referral sources tied to home closing transactions, and major slowdowns in the various housing markets Goosehead serves could impact our ability to generate new business. The economic activity that impacts property and casualty insurance is most closely correlated with employment levels, corporate revenue and asset values. In addition, an increase in consumer preference for car- and ride-sharing services, as opposed to automobile ownership, may result in a long-term reduction in the number of vehicles per capita, and consequently the automobile insurance industry. Downward fluctuations in the year-over-year insurance premium charged by insurers to protect against the same risk, referred to in the industry as softening of the insurance market, could adversely affect our business as a significant portion of the earnings are determined as a percentage of premium charged to our clients. Insolvencies and consolidations associated with an economic downturn, especially insolvencies in the insurance industry, could adversely affect our brokerage business through the loss of clients by hampering our ability to place insurance business. Our clients may have less need for insurance coverage, cancel existing insurance policies, modify their coverage or not renew the policies they hold with us. Also, error and omission claims against us, which we refer to as E&O claims, may increase in economic downturns, also adversely affecting our brokerage business. A decline in economic activity could have a material adverse effect on our business, financial condition and results of operations.

Volatility or declines in premiums or other adverse trends in the insurance industry may seriously undermine our profitability.

We derive most of our revenue from commissions and fees for our brokerage services. We do not determine the insurance premiums on which our commissions are generally based. Moreover, insurance premiums are cyclical in nature and may vary widely based on market conditions. Because of market cycles for insurance product pricing, which we cannot predict or control, our brokerage revenues and profitability can be volatile or remain depressed for significant periods of time. In addition, there have been and may continue to be various trends in the insurance industry toward alternative insurance markets including, among other things, greater levels of self-insurance, captives, rent-a-captives, risk retention groups and non-insurance capital markets-based solutions to traditional insurance.

As traditional risk-bearing Carriers continue to outsource the production of premium revenue to non-affiliated brokers or agents such as us, those Carriers may seek to further minimize their expenses by reducing the commission rates payable to insurance agents or brokers. The reduction of these commission rates, along with general volatility and/or declines in premiums, may significantly affect our profitability. Because we do not determine the timing or extent of premium pricing changes, it is difficult to precisely forecast our commission revenues, including whether they will significantly decline. As a result, we may have to adjust our budgets for future acquisitions, capital expenditures, dividend payments, loan repayments and other expenditures to account for unexpected changes in revenues, and any decreases in premium rates may adversely affect our business, financial condition and results of operations.

Because the revenue we earn on the sale of certain insurance products is based on premiums and commission rates set by insurers, any decreases in these premiums or commission rates, or actions by Carriers seeking repayment of commissions, could result in revenue decreases or expenses to us.

We derive revenue from commissions on the sale of insurance products that are paid by the Carriers from whom our clients purchase insurance. Because payments for the sale of insurance products are processed internally by Carriers, we may not receive a payment that is otherwise expected in any particular period until after the end of that period, which can adversely affect our ability to budget for significant future expenditures. Additionally, Carriers or their affiliates may under certain circumstances seek the chargeback or repayment of commissions as a result of policy lapse, surrender, cancellation, rescission, default, or upon other specified circumstances. As a result of the chargeback or repayment of commissions, we may incur an expense in a particular period related to revenue previously recognized in a prior period and reflected in our consolidated financial statements. Such an expense could have a material adverse effect on our results of operations and financial condition, particularly if the expense is greater than the amount of related revenue retained by us.

The commission rates are set by Carriers and are based on the premiums that the Carriers charge. The potential for changes in premium rates is significant, due to pricing cyclicality in the insurance market. In addition, the insurance industry has been characterized by periods of intense price competition due to excessive underwriting capacity and periods of favorable premium levels due to shortages of capacity. Capacity could also be reduced by Carriers failing or withdrawing from writing certain coverages that we offer our customers. Commission rates and premiums can change based on prevailing legislative, economic and competitive factors that affect Carriers. These factors, which are not within our control, include the capacity of Carriers to place new business, underwriting and non-underwriting profits of Carriers, consumer demand for insurance products, the availability of comparable products from other Carriers at a lower cost and the availability of alternative insurance products, such as government benefits and self-insurance products, to consumers. We cannot predict the timing or extent of future changes in commission rates or premiums or the effect any of these changes will have on our business, financial condition and results of operations.

Contingent Commissions we receive from Carriers are less predictable than standard commissions, and any decrease in the amount of the commissions we receive could adversely affect our results of operations.

A portion of our revenues consists of Contingent Commissions we receive from Carriers. Contingent Commissions are paid by Carriers based upon the profitability, volume and/or growth of the business placed with such companies during the prior year. If, due to the current economic environment or for any other reason, we are unable to meet Carriers' profitability, volume or growth thresholds, or Carriers increase their estimate of loss reserves (over which we have no control), actual Contingent Commissions we receive could be less than anticipated, which could adversely affect our business, financial condition and results of operations.

Our business is subject to risks related to legal proceedings and governmental inquiries.

We are subject to litigation, regulatory investigations and claims arising in the normal course of our business operations. The risks associated with these matters often may be difficult to assess or quantify and the existence and magnitude of potential claims often remain unknown for substantial periods of time. While we have insurance coverage for some of these potential claims, others may not be covered by insurance, insurers may dispute coverage, or any ultimate liabilities may exceed our coverage.

We may be subject to actions and claims relating to the sale of insurance, including the suitability of such products and services. Actions and claims may result in the rescission of such sales; consequently, Carriers may seek to recoup commissions paid to us, which may lead to legal action against us. The outcome of such actions cannot be predicted, and such claims or actions could have a material adverse effect on our business, financial condition and results of operations.

We are subject to laws and regulations, as well as regulatory investigations. The insurance industry has been subject to a significant level of scrutiny by various regulatory bodies, including state attorneys general and insurance departments, concerning certain practices within the insurance industry. These practices include, without limitation, the receipt of Contingent Commissions by insurance brokers and agents from Carriers and the extent to which such compensation has been disclosed, the collection of Agency Fees, bid rigging and related matters. From time to time, our subsidiaries received informational requests from governmental authorities. We have cooperated and will continue to cooperate fully with all governmental agencies.

There have been a number of revisions to existing, or proposals to modify or enact new, laws and regulations regarding insurance agents and brokers. These actions have imposed or could impose additional obligations on us with respect to our products sold. Some Carriers have agreed with regulatory authorities to end the payment of Contingent Commissions on insurance products, which could impact our commissions that are based on the volume, consistency and profitability of business generated by us.

We cannot predict the impact that any new laws, rules or regulations may have on our business and financial results. Given the current regulatory environment and the number of our subsidiaries operating in local markets throughout the country, it is possible that we will become subject to further governmental inquiries and subpoenas and have lawsuits filed against us. Regulators may raise issues during investigations, examinations or audits that could, if determined adversely, have a material impact on us. The interpretations of regulations by regulators may change and statutes may be enacted with retroactive impact. We could also be materially adversely affected by any new industry-wide regulations or practices that may result from these proceedings.

Our involvement in any investigations and lawsuits would cause us to incur additional legal and other costs and, if we were found to have violated any laws, we could be required to pay fines, damages and other costs, perhaps in material amounts. Regardless of final costs, these matters could have a material adverse effect on us by exposing us to negative publicity, reputational damage, harm to client relationships, or diversion of personnel and management resources.

Conditions impacting Carriers or other parties that we do business with may impact us.

We have a significant amount of accounts receivable from Carriers with which we place insurance. If those Carriers were to experience liquidity problems or other financial difficulties, we could encounter delays or defaults in payments owed to us, which could have a significant adverse impact on our financial condition and results of operations. The potential for an insurer to cease writing insurance we offer our clients could negatively impact overall capacity in the industry, which in turn could have the effect of reduced placement of certain lines and types of insurance and reduced revenue and profitability for us. Questions about a Carrier's perceived stability or financial strength may contribute to such insurers' strategic decisions to focus on certain lines of insurance to the detriment of others.

Regulations affecting Carriers with which we place business affect how we conduct our operations.

Insurers are also regulated by state insurance departments for solvency issues and are subject to reserve requirements. We cannot guarantee that all Carriers with which we do business comply with regulations instituted by state insurance departments. We may need to expend resources to address questions or concerns regarding our relationships with these insurers, diverting management resources away from operating our business.

Competition in our industry is intense and, if we are unable to compete effectively, we may lose clients and our financial results may be negatively affected.

The business of providing insurance products and services is highly competitive and we expect competition to intensify. We compete for clients on the basis of reputation, client service, program and product offerings and our ability to tailor products and services to meet the specific needs of a client.

We actively compete with numerous integrated financial services organizations as well as Carriers and brokers, producer groups, individual insurance agents, investment management firms, independent financial planners and broker-dealers. Competition may reduce the fees that we can obtain for services provided, which would have an adverse effect on revenue and margins. Many of our competitors have greater financial and marketing resources than we do and may be able to offer products and services that we do not currently offer and may not offer in the

future. To the extent that banks, securities firms and Carrier affiliates, the financial services industry may experience further consolidation, and we therefore may experience increased competition from Carriers and the financial services industry, as a growing number of larger financial institutions increasingly, and aggressively, offer a wider variety of financial services, including insurance intermediary services. In addition, a number of Carriers are engaged in the direct sale of insurance, primarily to individuals, and do not pay commissions to brokers.

In addition, new competitors, alliances among competitors or mergers of competitors could emerge and gain significant market share, and some of our competitors may have or may develop a lower cost structure, adopt more aggressive pricing policies or provide services that gain greater market acceptance than the services that we offer or develop. Competitors may be able to respond to the need for technological changes and innovate faster, or price their services more aggressively. They may also compete for skilled professionals, finance acquisitions, fund internal growth and compete for market share more effectively than we do. To respond to increased competition and pricing pressure, we may have to lower the cost of our services or decrease the level of service provided to clients, which could have an adverse effect on our business, financial condition and results of operations.

Some of our competitors may be able to sustain the costs of litigation more effectively than we can because they have substantially greater resources. In the event any of such competitors initiate litigation against us, such litigation, even if without merit, could be time-consuming and costly to defend and may divert management's attention and resources away from our business and adversely affect our business, financial condition and results of operations.

Similarly, any increase in competition due to new legislative or industry developments could adversely affect us. These developments include:

- Increased capital-raising by Carriers, which could result in new capital in the industry, which in turn may lead to lower insurance premiums and commissions;
- Carriers selling insurance directly to insureds without the involvement of a broker or other intermediary;
- Changes in our business compensation model as a result of regulatory developments;
- Federal and state governments establishing programs to provide property insurance in catastrophe-prone areas or other alternative market types of coverage, that compete with, or completely replace, insurance products offered by Carriers; and
- Increased competition from new market participants such as banks, accounting firms, consulting firms and Internet or other technology firms offering risk management or insurance brokerage services, or new distribution channels for insurance such as payroll firms.

New competition as a result of these or other competitive or industry developments could cause the demand for our products and services to decrease, which could in turn adversely affect our business, financial condition and results of operations.

Our business, financial condition and results of operations may be negatively affected by E&O claims.

We have significant insurance agency and brokerage operations and are subject to claims and litigation in the ordinary course of business resulting from alleged and actual errors and omissions in placing insurance and rendering coverage advice. These activities involve substantial amounts of money. Since E&O claims against us may allege our liability for all or part of the amounts in question, claimants may seek large damage awards. These claims can involve significant defense costs. Errors and omissions could include failure, whether negligently or intentionally, to place coverage on behalf of clients, to provide Carriers with complete and accurate information relating to the risks being insured, or to appropriately apply funds that we hold on a fiduciary basis. It is not always possible to prevent or detect errors and omissions, and the precautions we take may not be effective in all cases.

We have errors and omissions insurance coverage to protect against the risk of liability resulting from our alleged and actual errors and omissions. Prices for this insurance and the scope and limits of the coverage terms available are dependent on our claims history as well as market conditions that are outside of our control. While we endeavor to purchase coverage that is appropriate to our assessment of our risk, we are unable to predict with certainty the frequency, nature or magnitude of claims for direct or consequential damages or whether our errors and omissions insurance will cover such claims.

In establishing liabilities for E&O claims, we utilize case level reviews by inside and outside counsel and an internal analysis to estimate potential losses. The liability is reviewed annually and adjusted as developments warrant. Given the unpredictability of E&O claims and of litigation that could flow from them, it is possible that an adverse

outcome in a particular matter could have a material adverse effect on our results of operations, financial condition or cash flow in a given quarterly or annual period.

Our business is dependent upon information processing systems. Security or data breaches may damage our reputation and negatively impact client retention and carrier, franchise, and Referral Partner relationships.

Our ability to provide insurance services to clients and to create and maintain comprehensive tracking and reporting of client accounts depends on our capacity to store, retrieve and process data, manage significant databases and expand and periodically upgrade our information processing capabilities. As our operations evolve, we will need to continue to make investments in new and enhanced information systems. As our information system providers revise and upgrade their hardware, software and equipment technology, we may encounter difficulties in integrating these new technologies into our business. Interruption or loss of our information processing capabilities or adverse consequences from implementing new or enhanced systems could have a material adverse effect on our business, financial condition and results of operations.

In the course of providing financial services, we may electronically store or transmit personally identifiable information, such as social security numbers or credit card or bank information, of clients or employees of clients. Breaches in data security or infiltration by unauthorized persons of our network security could cause interruptions in operations and damage to our reputation. While we maintain policies, procedures and technological safeguards designed to protect the security and privacy of this information, we cannot entirely eliminate the risk of improper access to or disclosure of personally identifiable information nor the related costs we incur to mitigate the consequences from such events. Privacy laws and regulations are matters of growing public concern and are continuously changing in the states in which we operate. The failure to adhere to or successfully implement procedures to respond to these regulations could result in legal liability or impairment to our reputation.

Further, despite security measures taken, our systems may be vulnerable to physical break-ins, unauthorized access, viruses or other disruptive problems. If our systems or facilities were infiltrated or damaged, our clients could experience data loss, financial loss and significant business interruption leading to a material adverse effect on our business, financial condition and results of operations. We may be required to expend significant additional resources to modify protective measures, to investigate and remediate vulnerabilities or other exposures or to make required notifications.

We rely on the availability and performance of information technology services provided by third parties.

While we maintain some of our critical information technology systems, we are also dependent on third party service providers, including Salesforce.com, to provide important information technology services relating to, among other things, agency management services, sales and service support, electronic communications and certain finance functions. If the service providers to which we outsource these functions do not perform effectively, we may not be able to achieve the expected cost savings and may have to incur additional costs to correct errors made by such service providers. Depending on the function involved, such errors may also lead to business disruption, processing inefficiencies, the loss of or damage to intellectual property through security breach, the loss of sensitive data through security breach, or otherwise. While we or any third-party service provider have not experienced any significant disruption, failure or breach impacting our information technology systems, any such disruption, failure or breach could adversely affect our business, financial condition and results of operations.

Our inability to successfully recover should we experience a disaster or other business continuity problem could cause material financial loss, loss of human capital, regulatory actions, reputational harm or legal liability.

Should we experience a local or regional disaster or other business continuity problem, such as an earthquake, hurricane, terrorist attack, pandemic, security breach, power loss, telecommunications failure or other natural or man-made disaster, our continued success will depend, in part, on the availability of personnel, office facilities, and the proper functioning of computer, telecommunication and other related systems and operations. We could potentially lose client data or experience material adverse interruptions to our operations or delivery of services to clients in a disaster recovery scenario.

If we are unable to apply technology effectively in driving value for our clients through technology-based solutions or gain internal efficiencies and effective internal controls through the application of technology and related tools, our operating results, client relationships, growth and compliance programs could be adversely affected.

Our future success depends, in part, on our ability to anticipate and respond effectively to the threat of digital disruption and other technology change. We must also develop and implement technology solutions and technical

expertise among our employees that anticipate and keep pace with rapid and continuing changes in technology, industry standards, client preferences and internal control standards. We may not be successful in anticipating or responding to these developments on a timely and cost-effective basis, and our ideas may not be accepted in the marketplace. Additionally, the effort to gain technological expertise and develop new technologies in our business requires us to incur significant expenses. If we cannot offer new technologies as quickly as our competitors, or if our competitors develop more cost-effective technologies or product offerings, we could experience a material adverse effect on our operating results, client relationships, growth and compliance programs.

In some cases, we depend on key vendors and partners to provide technology and other support for our strategic initiatives, such as the Salesforce.com platform. If these third parties fail to perform their obligations or cease to work with us, our ability to execute on our strategic initiatives could be adversely affected.

Damage to our reputation could have a material adverse effect on our business.

Our reputation is one of our key assets. We advise our clients on and provide services related to a wide range of subjects and our ability to attract and retain clients is highly dependent upon the external perceptions of our level of service, trustworthiness, business practices, financial condition and other subjective qualities. Negative perceptions or publicity regarding these or other matters, including our association with clients or business partners who themselves have a damaged reputation, or from actual or alleged conduct by us or our employees, could damage our reputation. Any resulting erosion of trust and confidence among existing and potential clients, regulators and other parties important to the success of our business could make it difficult for us to attract new clients and maintain existing ones, which could have a material adverse effect on our business, financial condition and results of operations.

Our inability to retain or hire qualified employees, as well as the loss of any of our executive officers, could negatively impact our ability to retain existing business and generate new business.

Our success depends on our ability to attract and retain skilled and experienced personnel. There is significant competition from within the insurance industry and from businesses outside the industry for exceptional employees, especially in key positions. If we are not able to successfully attract, retain and motivate our employees, our business, financial condition, results of operations and reputation could be materially and adversely affected.

If any of our key professionals were to join an existing competitor or form a competing company, some of our customers could choose to use the services of that competitor instead of our services. Our key personnel are prohibited by contract from soliciting our employees and customers and from competing in our industry in the vicinity of the Company office at which such key personnel member was employed for a period of two years following separation from employment with us. However, there can be no assurance that we will be successful in enforcing these contracts.

In addition, we could be adversely affected if we fail to adequately plan for the succession of our senior leaders, including our founders, executives and key personnel. Although we operate with a decentralized management system, the loss of our senior managers or other key personnel, or our inability to continue to identify, recruit and retain such personnel, could materially and adversely affect our business, financial condition and results of operation.

The occurrence of natural or man-made disasters could result in declines in business and increases in claims that could adversely affect our financial condition, results of operations and cash flows.

We are exposed to various risks arising out of natural disasters, including earthquakes, hurricanes, fires, floods, landslides, tornadoes, typhoons, tsunamis, hailstorms, explosions, climate events or weather patterns and pandemic health events (such as the COVID-19 virus), as well as man-made disasters, including acts of terrorism, military actions, cyber-terrorism, explosions and biological, chemical or radiological events. The continued threat of terrorism and ongoing military actions may cause significant volatility in global financial markets, and a natural or man-made disaster could trigger an economic downturn in the areas directly or indirectly affected by the disaster. These consequences could, among other things, result in a decline in business and increased claims from those areas. They could also result in reduced underwriting capacity of our Carriers, making it more difficult for our agents to place business. Disasters also could disrupt public and private infrastructure, including communications and financial services, which could disrupt our normal business operations. Any increases in loss ratios due to natural or man-made disasters could impact our Contingent Commissions, which are primarily driven by both growth and profitability metrics.

A natural or man-made disaster also could disrupt the operations of our counterparties or result in increased prices for the products and services they provide to us. Finally, a natural or man-made disaster could increase the incidence or severity of E&O claims against us.

The extent to which the COVID-19 pandemic and the related economic impact may affect our financial condition or results of operations is uncertain. The extent of the impact on our operational and financial performance will depend on several other factors such as the duration and spread of the outbreak and its impact on home sales and consumer spending.

Non-compliance with or changes in laws, regulations or licensing requirements applicable to us could restrict our ability to conduct our business.

The industry in which we operate is subject to extensive regulation. We are subject to regulation and supervision both federally and in each applicable local jurisdiction. In general, these regulations are designed to protect clients, policyholders and insureds and to protect the integrity of the financial markets, rather than to protect stockholders or creditors. Our ability to conduct business in these jurisdictions depends on our compliance with the rules and regulations promulgated by federal regulatory bodies and other regulatory authorities. Failure to comply with regulatory requirements, or changes in regulatory requirements or interpretations, could result in actions by regulators, potentially leading to fines and penalties, adverse publicity and damage to our reputation in the marketplace. There can be no assurance that we will be able to adapt effectively to any changes in law. In extreme cases, revocation of a subsidiary's authority to do business in one or more jurisdictions could result from failure to comply with regulatory requirements. In addition, we could face lawsuits by clients, insureds and other parties for alleged violations of certain of these laws and regulations. It is difficult to predict whether changes resulting from new laws and regulations will affect the industry or our business and, if so, to what degree.

Employees and principals who engage in the solicitation, negotiation or sale of insurance, or provide certain other insurance services, generally are required to be licensed individually. Insurance laws and regulations govern whether licensees may share commissions with unlicensed entities and individuals. We believe that any payments we make to third parties are in compliance with applicable laws. However, should any regulatory agency take a contrary position and prevail, we will be required to change the manner in which we pay fees to such employees or principals or require entities receiving such payments to become registered or licensed.

State insurance laws grant supervisory agencies, including state insurance departments, broad administrative authority. State insurance regulators and the National Association of Insurance Commissioners continually review existing laws and regulations, some of which affect our business. These supervisory agencies regulate many aspects of the insurance business, including, the licensing of insurance brokers and agents and other insurance intermediaries, the handling of third-party funds held in a fiduciary capacity, and trade practices, such as marketing, advertising and compensation arrangements entered into by insurance brokers and agents.

Federal, state and other regulatory authorities have focused on, and continue to devote substantial attention to, the insurance industry as well as to the sale of products or services to seniors. Regulatory review or the issuance of interpretations of existing laws and regulations may result in the enactment of new laws and regulations that could adversely affect our operations or our ability to conduct business profitably. We are unable to predict whether any such laws or regulations will be enacted and to what extent such laws and regulations would affect our business.

In connection with the implementation of our corporate strategies, we face risks associated with the acquisition or disposition of businesses, the entry into new lines of business, the integration of acquired businesses and the growth and development of these businesses.

In pursuing our corporate strategy, we may acquire other businesses or dispose of or exit businesses we currently own. The success of this strategy is dependent upon our ability to identify appropriate acquisition and disposition targets, negotiate transactions on favorable terms, complete transactions and, in the case of acquisitions, successfully integrate them into our existing businesses. If a proposed transaction is not consummated, the time and resources spent in researching it could adversely result in missed opportunities to locate and acquire other businesses. If acquisitions are made, there can be no assurance that we will realize the anticipated benefits of such acquisitions, including, but not limited to, revenue growth, operational efficiencies or expected synergies. If we dispose of or otherwise exit certain businesses, there can be no assurance that we will not incur certain disposition related charges, or that we will be able to reduce overhead related to the divested assets.

From time to time, either through acquisitions or internal development, we may enter new lines of business or offer new products and services within existing lines of business. These new lines of business or new products and services may present additional risks, particularly in instances where the markets are not fully developed. Such risks include the investment of significant time and resources; the possibility that these efforts will not be successful; the possibility that marketplace does not accept our products or services, or that we are unable to retain clients that adopt our new products or services; and the risk of additional liabilities associated with these efforts. In addition, many of the businesses that we acquire and develop will likely have significantly smaller scales of operations prior to the implementation of our growth strategy. If we are not able to manage the growing complexity of these

businesses, including improving, refining or revising our systems and operational practices, and enlarging the scale and scope of the businesses, our business may be adversely affected. Other risks include developing knowledge of and experience in the new business, integrating the acquired business into our systems and culture, recruiting professionals and developing and capitalizing on new relationships with experienced market participants. External factors, such as compliance with new or revised regulations, competitive alternatives and shifting market preferences may also impact the successful implementation of a new line of business. Failure to manage these risks in the acquisition or development of new businesses could materially and adversely affect our business, financial condition and results of operations.

We have debt outstanding that could adversely affect our financial flexibility and subjects us to restrictions and limitations that could significantly impact our ability to operate our business.

As of December 31, 2020, we had total consolidated debt outstanding of approximately \$82.9 million, collateralized by substantially all of the Company's assets, including rights to future commissions. In the year ended December 31, 2020, we had debt servicing costs of \$30.1 million, \$1.5 million of which was attributable to scheduled principal payments, \$26.3 million was attributable to principal payments related to refinancing of existing indebtedness (see "Note 9. Debt" in the consolidated financial statements included herein) and \$2.3 million of which was attributable to interest. In the year ended December 31, 2019, we had debt servicing costs of \$4.9 million, \$2.4 million of which was attributable to interest. The level of debt we have outstanding during any period could adversely affect our financial flexibility. We also bear risk at the time debt matures. Our ability to make interest and principal payments, to refinance our debt obligations and to fund our planned capital expenditures will depend on our ability to generate cash from operations. Our ability to generate cash from operations is, to a certain extent, subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control, such as an environment of rising interest rates. The need to service our indebtedness will also reduce our ability to use cash for other purposes, including working capital, dividends to stockholders, acquisitions, capital expenditures, share repurchases, and general corporate purposes. If we cannot service our indebtedness, we may have to take actions such as selling assets, seeking additional equity or reducing or delaying capital expenditures, strategic acquisitions, and investments, any of which could impede the implementation of our business strategy or prevent us from entering into transactions that would otherwise benefit our business. Additionally, we may not be able to effect such actions, if necessary, on favorable terms, or at all. We may not be able to refinance any of our indebtedness on favorable terms, or at all.

The Credit Agreement (as defined below) governing our debt contains covenants that, among other things, restrict our ability to make certain restricted payments, incur additional debt, engage in certain asset sales, mergers, acquisitions or similar transactions, create liens on assets, engage in certain transactions with affiliates, change our business or make investments and require us to comply with certain financial covenants. The restrictions in the Credit Agreement governing our debt may prevent us from taking actions that we believe would be in the best interest of our business and our stockholders and may make it difficult for us to execute our business strategy successfully or effectively compete with companies that are not similarly restricted. We may also incur future debt obligations that might subject us to additional or more restrictive covenants that could affect our financial and operational flexibility, including our ability to pay dividends. We cannot make any assurances that we will be able to refinance our debt or obtain additional financing on terms acceptable to us, or at all. A failure to comply with the restrictions under the Credit Agreement could result in a default under the financing obligations or could require us to obtain waivers from our lenders for failure to comply with these restrictions. The occurrence of a default that remains uncured or the inability to secure a necessary consent or waiver could cause our obligations with respect to our debt to be accelerated and have a material adverse effect on our business, financial condition and results of operations.

Changes to reference rates could materially adversely affect our earnings

LIBOR, the interest rate benchmark used as a reference rate on our variable rate debt, including our Credit Agreement, interest rate swaps, and cross currency interest rate swaps is expected to be phased out after 2021, when private-sector banks are no longer required to report the information used to set the rate. Without this data, LIBOR may no longer be published, or the lack of quality and quantity of data may cause the rate to no longer be representative of the market. At this time, no consensus exists as to what rate or rates will become accepted alternatives to LIBOR, although the U.S. Federal Reserve, in connection with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with the Secured Overnight Financing Rate ("SOFR"). SOFR is a more generic measure than LIBOR and considers the cost of borrowing cash overnight, collateralized by U.S. Treasury securities. Given the inherent differences between LIBOR and SOFR or any other alternative benchmark rate that may be established, there are many uncertainties regarding a transition from LIBOR, including but not limited to the need to amend all contracts

with LIBOR as the referenced rate and how this will impact the Company's cost of variable rate debt and certain derivative financial instruments. The Company will also need to consider new contracts and if they should reference an alternative benchmark rate or include suggested fallback language, as published by the Alternative Reference Rates Committee. The consequences of these developments with respect to LIBOR cannot be entirely predicted and span multiple future periods but could result in an increase in the cost of our variable rate debt or derivative financial instruments which may be detrimental to our financial position or operating results.

Changes in our accounting estimates and assumptions could negatively affect our financial position and operating results.

We prepare our consolidated financial statements in accordance with GAAP. These accounting principles require us to make assumptions, estimates or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our consolidated financial statements. We are also required to make certain judgments and estimates that affect the disclosed and recorded amounts of revenues and expenses related to accounting under Topic 606. We periodically evaluate our assumptions, estimates and judgment. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. Such assumptions, estimates or judgments, however, are both subjective and could change in the future as more information becomes known, which could impact the amounts reported and disclosed in our consolidated financial statements. Additionally, changes in accounting standards could increase costs to the organization and could have an adverse impact on our future financial position and results of operations.

Because our business is highly concentrated in Texas, California, Florida and Illinois, adverse economic conditions, natural disasters, or regulatory changes in these states could adversely affect our financial condition.

A significant portion of our business is concentrated in Texas, California, Florida and Illinois. The insurance business is primarily a state-regulated industry, and therefore, state legislatures may enact laws that adversely affect the insurance industry. Because our business is concentrated in the states identified above, we face greater exposure to unfavorable changes in regulatory conditions in those states than insurance intermediaries whose operations are more diversified through a greater number of states. In addition, the occurrence of adverse economic conditions, natural or other disasters, or other circumstances specific to or otherwise significantly impacting these states could adversely affect our financial condition, results of operations and cash flows. We are susceptible to losses and interruptions caused by hurricanes (particularly in Texas, where our headquarters and several offices are located), earthquakes, power shortages, telecommunications failures, water shortages, floods, fire, extreme weather conditions, geopolitical events such as terrorist acts and other natural or man-made disasters. Our insurance coverage with respect to natural disasters is limited and is subject to deductibles and coverage limits. Such coverage may not be adequate or may not continue to be available at commercially reasonable rates and terms.

Changes in tax laws as a result of the enactment of recent tax legislation could impact our operations and profitability.

Legislation commonly known as the Tax Cuts and Jobs Act (the "Tax Reform Act") was signed into law on December 22, 2017. The Tax Reform Act will make significant changes to the U.S. federal income tax rules for taxation of individuals and corporations, generally effective for taxable years beginning after December 31, 2017. In the case of individuals, the tax brackets will be adjusted, the top federal income rate will be reduced to 37%, special rules will reduce taxation of certain income earned through pass-through entities and various deductions will be eliminated or limited, including limiting the deduction for state and local taxes to \$10,000 per year, decreasing the mortgage interest deduction on new homes to \$750,000 and eliminating the home equity line of credit interest deduction for loans that are not considered home acquisition debt.

Changes in these deductions may affect taxpayers in states with high residential home prices and high state and local taxes, such as California and New York, and may also negatively impact the housing market. Our homeowner and dwelling property lines of business comprised 55% of our premiums in 2020 and a majority of our new accounts are sourced by referral sources tied to home closing transactions. As we expand our franchise pipeline into new geographies that are located in high tax jurisdictions, we cannot guarantee our ability to grow our client base at the same pace as our existing geographies and generate new business if there is lower demand in the housing market as a consequence of the Tax Reform Act.

We derive a significant portion of our commission revenues from a limited number of Carriers, the loss of which would result in additional expense and loss of market share.

In 2020, three carriers represented more than 10% of total revenue at 20%, 13% and 12%. In 2019, two carriers represented more than 10% of total revenue at 16% and 10%. In 2018, two carriers represented more than 10% of total revenue at 17% and 11%. Should any of these Carriers seek to terminate its arrangements with us, we could be forced to move our business to another Carrier and some additional expense and loss of market share could possibly result.

Our business may be harmed if we lose our relationships with Carriers, fail to maintain good relationships with Carriers, become dependent upon a limited number of Carriers or fail to develop new Carrier relationships.

Our business typically enters into contractual agency relationships with Carriers that are sometimes unique to Goosehead, but non-exclusive and terminable on short notice by either party for any reason. In many cases, Carriers also have the ability to amend the terms of our agreements unilaterally on short notice. Carriers may be unwilling to allow us to sell their existing or new insurance products or may amend our agreements with them, for a variety of reasons, including for competitive or regulatory reasons or because of a reluctance to distribute their products through our platform. Carriers may decide to rely on their own internal distribution channels, choose to exclude us from their most profitable or popular products, or decide not to distribute insurance products in individual markets in certain geographies or altogether. The termination or amendment of our relationship with a Carrier could reduce the variety of insurance products we offer. We also could lose a source of, or be paid reduced commissions for, future sales and could lose Renewal Revenue for past sales. Our business could also be harmed if we fail to develop new Carrier relationships.

In the future, it may become necessary for us to offer insurance products from a reduced number of Carriers or to derive a greater portion of our revenues from a more concentrated number of Carriers as our business and the insurance industry evolve. Should our dependence on a smaller number of Carriers increase, whether as a result of the termination of Carrier relationships, Carrier consolidation or otherwise, we may become more vulnerable to adverse changes in our relationships with our Carriers, particularly in states where we offer insurance products from a relatively small number of Carriers or where a small number of Carriers dominate the market. The termination, amendment or consolidation of our relationship with our Carriers could harm our business, financial condition and results of operations.

The failure by Mark Jones and Robyn Jones to maintain either a minimum voting interest in us or the ability to elect or designate for election at least a majority of our board of directors could trigger a change of control default under our Credit Agreement.

Pursuant to the Credit Agreement, a change of control default will be triggered when any person or group other than Mark Jones and Robyn Jones becomes the beneficial owner of more than 50% of the voting power represented by our outstanding equity interests, unless Mark and Robyn Jones have the ability to elect or designate for election at least a majority of our board of directors. Such a default could result in the acceleration of repayment of our and our subsidiaries' indebtedness, including borrowings under the Revolving Credit Facility (as defined below) if not waived by the lenders under the Credit Agreement. Mark Jones and Robyn Jones may choose to dispose of part or all of their stakes in us and/or may cease to exercise the current level of control they have over the appointment and removal of members of our board of directors. Any such changes may trigger a change of control event that could result in us being forced to repay the outstanding sums owed under our Credit Agreement. If any such event occurs, this may negatively affect our financial condition and operating results. In addition, we may not have sufficient funds to finance repayment of any of such indebtedness upon any such change of control.

Risks relating to our franchise business

The failure to attract and retain highly qualified Franchisees could compromise our ability to expand the Goosehead network.

Our most important asset is the people in our network, and the success of Goosehead depends largely on our ability to attract and retain high quality franchise agents. If we fail to attract and retain franchise agents, our Franchisees may fail to generate the revenue necessary to pay the contractual fees owed to us.

The nature of franchise relationships can give rise to conflict. For example, Franchisees or agents may become dissatisfied with the amount of contractual fees owed under franchise or other applicable arrangements, particularly in the event that we decide to increase fees further. They may disagree with certain network-wide policies and procedures, including policies such as those dictating brand standards or affecting their marketing efforts. They may also be disappointed with any marketing campaigns designed to develop our brand. There are a variety of reasons why our franchisor-franchisee relationship can give rise to conflict. If we experience any conflicts with our Franchisees on a large scale, our Franchisees may decide not to renew their Franchise Agreements upon expiration.

or may file lawsuits against us or they may seek to disaffiliate with us, which could also result in litigation. These events may, in turn, materially and adversely affect our business, financial condition and results of operations.

Our financial results are affected directly by the operating results of Franchisees and agents, over whom we do not have direct control.

Our franchises generate revenue in the form of Agency Fees and commissions. Accordingly, our financial results depend upon the operational and financial success of our Franchisees and their agents. If industry trends or economic conditions are not sustained or do not continue to improve, our Franchisees' financial results may worsen, and our revenue may decline. We may also have to terminate Franchisees due to non-reporting and non-payment. Further, if Franchisees fail to renew their Franchise Agreements, or if we decide to restructure Franchise Agreements in order to induce Franchisees to renew these agreements, then our revenues may decrease, and profitability from new Franchisees may be lower than in the past due to reduced ongoing fees and other non-standard incentives we may need to provide.

We rely in part on our Franchisees and the manner in which they operate their locations to develop and promote our business. Although we have developed criteria to evaluate and screen prospective Franchisees, we cannot be certain that our Franchisees will have the business acumen or financial resources necessary to operate successful franchises in their franchise areas and state franchise laws may limit our ability to terminate or modify these Franchise Agreements. Moreover, despite our training, support and monitoring, Franchisees may not successfully operate in a manner consistent with our standards and requirements or may not hire and train qualified personnel. The failure of our Franchisees to operate their franchises successfully could have a material adverse effect on us, our reputation, our brand and our ability to attract prospective Franchisees and could materially adversely affect our business, financial condition or results of operations.

Our Franchisees and agents could take actions that could harm our business.

Our Franchisees are independent businesses and the agents who work within these brokerages are independent contractors and, as such, are not our employees, and we do not exercise control over their day-to-day operations. Our Franchisees may not operate their insurance brokerage businesses in a manner consistent with industry standards or may not attract and retain qualified independent contractor agents. If Franchisees were to provide diminished quality of service to customers, engage in fraud, defalcation, misconduct or negligence or otherwise violate the law or realtor codes of ethics, our image and reputation may suffer materially, and we may become subject to liability claims based upon such actions of our Franchisees and agents. Any such incidence could adversely affect our results of operations.

Brand value can be severely damaged even by isolated incidents, particularly if the incidents receive considerable negative publicity or result in litigation. Some of these incidents may relate to the way we manage our relationship with our Franchisees, our growth strategies or the ordinary course of our business or our Franchisees' business. Other incidents may arise from events that are or may be beyond our control and may damage our brand, such as actions taken (or not taken) by one or more Franchisees or their agents relating to health, safety, welfare or other matters; litigation and claims; failure to maintain high ethical and social standards for all of our operations and activities; failure to comply with local laws and regulations; and illegal activity targeted at us or others. Our brand value could diminish significantly if any such incidents or other matters erode consumer confidence in us, which may result in a decrease in our total agent count and, ultimately, lower continuing franchise fees, which in turn would materially and adversely affect our business, financial condition and results of operations.

We are subject to a variety of additional risks associated with our Franchisees.

Our franchise system subjects us to a number of risks, any one of which may harm the reputation associated with our brand, and/or may materially and adversely impact our business and results of operations.

Franchisee insurance. The Franchise Agreements require each Franchisee to maintain certain insurance types and levels. 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 or the Franchisee could lack the required insurance at the time the claim arises, in breach of the insurance requirement, 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 and adverse effect on a Franchisee's ability to satisfy its obligations under its Franchise Agreement, including its ability to make payments for contractual fees or to indemnify us.

Franchise nonrenewal. Each Franchise Agreement has an expiration date. Upon the expiration of the Franchise Agreement, we or the Franchisee may or may not elect to renew the Franchise Agreement. If the Franchise Agreement is renewed, such renewal is generally contingent on the Franchisee's execution of the then-current form of Franchise Agreement (which may include terms the Franchisee deems to be more onerous than the prior

Franchise Agreement), the satisfaction of certain conditions and the payment of a renewal fee. If a Franchisee is unable or unwilling to satisfy any of the foregoing conditions, the expiring Franchise Agreement will terminate upon expiration of the term of the Franchise Agreement. If Franchisees choose not to renew their Franchise Agreements, then this could have a material impact on our financial condition.

Failure to support our expanding franchise system could have a material adverse effect on our business, financial condition or results of operations.

Our growth strategy depends in part on expanding our franchise network, which will require the implementation of enhanced business support systems, management information systems, financial controls and other systems and procedures as well as additional management, franchise support and financial resources. We may not be able to manage our expanding franchise system effectively. Failure to provide our Franchisees with adequate support and resources could materially adversely affect both our new and existing Franchisees as well as cause disputes between us and our Franchisees and potentially lead to material liabilities. Any of the foregoing could materially adversely affect our business, financial condition and results of operations.

Our franchising activities are subject to a variety of state and federal laws and regulations regarding franchises, and any failure to comply with such existing or future laws and regulations could adversely affect our business.

The sale of franchises is regulated by various state laws as well as by the Federal Trade Commission ("FTC"). The FTC requires that franchisors make extensive disclosure to prospective Franchisees but does not require registration. A number of states require registration and/or disclosure in connection with franchise offers and sales. In addition, several states have "franchise relationship laws" or "business opportunity laws" that limit the ability of franchisors to terminate Franchise Agreements or to withhold consent to the renewal or transfer of these agreements. We believe that our franchising procedures, as well as any applicable state-specific procedures, comply in all material respects with both the FTC guidelines and all applicable state laws regulating franchising in those states in which we offer new Franchise Agreements. However, noncompliance could reduce anticipated revenue, which in turn may materially and adversely affect our business, financial condition and results of operations.

We are subject to certain risks related to litigation filed by or against us, and adverse results may harm our business and financial condition.

We cannot predict with certainty the costs of defense, the costs of prosecution, insurance coverage or the ultimate outcome of litigation and other proceedings filed by or against us, including remedies or damage awards, and adverse results in such litigation and other proceedings may harm our business and financial condition.

Such litigation and other proceedings may include, but are not limited to, complaints from or litigation by Franchisees, usually related to alleged breaches of contract or wrongful termination under the Franchise Agreements, actions relating to intellectual property, commercial arrangements and franchising arrangements.

In addition, litigation against a Franchisee or its affiliated sales agents by third parties, whether in the ordinary course of business or otherwise, may also include claims against us for liability by virtue of the franchise relationship. As our market share increases, competitors may pursue litigation to require us to change our business practices or offerings and limit our ability to compete effectively. Even claims without merit can be time-consuming and costly to defend and may divert management's attention and resources away from our business and adversely affect our business, financial condition and results of operations. Franchisees may fail to obtain insurance naming Goosehead Insurance, Inc. as an additional insured on such claims. In addition to increasing Franchisees' costs and limiting the funds available to pay us contractual fees and reducing the execution of new Franchise Agreements, claims against us (including vicarious liability claims) divert our management resources and could cause adverse publicity, which may materially and adversely affect us and our brand, regardless of whether such allegations are valid or whether we are liable. A substantial unsatisfied judgment against us or one of our subsidiaries could result in bankruptcy, which would materially and adversely affect our business, financial condition and results of operations.

We may not be able to manage growth successfully.

In order to successfully expand our business, we must effectively recruit, develop and motivate new Franchisees, and we must maintain the beneficial aspects of our corporate culture. We may not be able to hire new employees with the expertise necessary to manage our growth quickly enough to meet our needs. If we fail to effectively manage our hiring needs and successfully develop our Franchisees, our Franchisee and employee morale, productivity and retention could suffer, and our brand and results of operations could be harmed. Effectively managing our potential growth could require significant capital expenditures and place increasing demands on our

management. We may not be successful in managing or expanding our operations or in maintaining adequate financial and operating systems and controls. If we do not successfully manage these processes, our brand and results of operations could be adversely affected.

Risks relating to intellectual property and cybersecurity

Our business depends on a strong brand, and any failure to maintain, protect and enhance our brand would hurt our ability to grow our business, particularly in new markets where we have limited brand recognition.

We have developed a strong brand that we believe has contributed significantly to the success of our business. Maintaining, protecting and enhancing the “Goosehead Insurance” brand is critical to growing our business, particularly in new markets where we have limited brand recognition. If we do not successfully build and maintain a strong brand, our business could be materially harmed. Maintaining and enhancing the quality of our brand may require us to make substantial investments in areas such as marketing, community relations, outreach and employee training. We actively engage in advertisements, targeted promotional mailings and email communications, and engage on a regular basis in public relations and sponsorship activities. These investments may be substantial and may fail to encompass the optimal range of traditional, online and social advertising media to achieve maximum exposure and benefit to the brand.

Infringement, misappropriation or dilution of our intellectual property could harm our business.

We believe our Goosehead Insurance trademark has significant value and that this and other intellectual property are valuable assets that are critical to our success. Unauthorized uses or other infringement of our trademarks or service marks could diminish the value of our brand and may adversely affect our business. Effective intellectual property protection may not be available in every market. Failure to adequately protect our intellectual property rights could damage our brand and impair our ability to compete effectively. Even where we have effectively secured statutory protection for our trademarks and other intellectual property, our competitors and other third parties may misappropriate our intellectual property, and in the course of litigation, such competitors and other third parties occasionally attempt to challenge the breadth of our ability to prevent others from using similar marks or designs. If such challenges were to be successful, less ability to prevent others from using similar marks or designs may ultimately result in a reduced distinctiveness of our brand in the minds of consumers. Defending or enforcing our trademark rights, branding practices and other intellectual property could result in the expenditure of significant resources and divert the attention of management, which in turn may materially and adversely affect our business and operating results, even if such defense or enforcement is ultimately successful. Even though competitors occasionally may attempt to challenge our ability to prevent infringers from using our marks, we are not aware of any challenges to our right to use, and to authorize our Franchisees to use, any of our brand names or trademarks.

Failure to protect or enforce our intellectual property rights, or allegations that we have infringed on the intellectual property rights of others, could harm our reputation, ability to compete effectively, financial condition and business.

To protect our intellectual property rights, we rely on a combination of trademark laws, copyright laws, trade secret protection, confidentiality agreements and other contractual arrangements with our affiliates, employees, clients, strategic partners and others. However, the protective steps that we take may be inadequate to deter misappropriation of our proprietary information or infringement of our intellectual property. In addition, we may be unable to detect the unauthorized use of our intellectual property rights. Failure to protect our intellectual property adequately could harm our reputation and affect our ability to compete effectively. In addition, even if we initiate litigation against third parties such as infringement suits, we may not prevail.

Meanwhile, third parties may assert intellectual property rights claims against us, which may be costly to defend, could require the payment of damages and could limit our ability to use or offer certain technologies, products or other intellectual property. Any intellectual property claims, with or without merit, could be expensive, take significant time and divert management’s attention from other business concerns. Successful challenges against us could require us to modify or discontinue our use of technology or business processes where such use is found to infringe or violate the rights of others, or require us to purchase licenses from third parties, any of which could adversely affect our business, financial condition and results of operations.

Improper disclosure of confidential, personal or proprietary data, whether due to human error, misuse of information by employees or vendors, or as a result of cyberattacks, could result in regulatory scrutiny, legal liability or reputational harm, and could have an adverse effect on our business or operations.

We maintain confidential, personal and proprietary information relating to our company, our employees and our clients. This information includes personally identifiable information, protected health information and financial

information. We are subject to laws and regulations relating to the collection, use, retention, security and transfer of this information. These laws apply to transfers of information among our affiliates, as well as to transactions we enter into with third party vendors.

Cybersecurity breaches, such as computer viruses, unauthorized parties gaining access to our information technology systems and similar incidents could disrupt the security of our internal systems and business applications, impair our ability to provide services to our clients and protect the privacy of their data, compromise confidential business information, result in intellectual property or other confidential or proprietary information being lost or stolen, including client, employee or company data, which could harm our competitive position or otherwise adversely affect our business. Cyber threats are constantly evolving, which makes it more difficult to detect cybersecurity incidents, assess their severity or impact in a timely manner, and successfully defend against them.

We maintain policies, procedures and technical safeguards designed to protect the security and privacy of confidential, personal and proprietary information. Nonetheless, we cannot eliminate the risk of human error or guarantee our safeguards against employee, vendor or third-party malfeasance. It is possible that the steps we follow, including our security controls over personal data and training of employees on data security, may not prevent improper access to, disclosure of, or misuse of confidential, personal or proprietary information. This could cause harm to our reputation, create legal exposure, or subject us to liability under laws that protect personal data, resulting in increased costs or loss of revenue.

Data privacy is subject to frequently changing laws, rules and regulations in the various jurisdictions in which we operate. For example, legislators in the U.S. are proposing new and more robust cybersecurity legislation in light of the recent broad-based cyberattacks at a number of companies. These and similar initiatives around the country could increase the cost of developing, implementing or securing our servers and require us to allocate more resources to improved technologies, adding to our IT and compliance costs. Our failure to adhere to, or successfully implement processes in response to, changing legal or regulatory requirements in this area could result in legal liability or damage to our reputation in the marketplace.

Risks relating to our organizational structure

We are a holding company and our principal asset is our 50.0% ownership interest in Goosehead Financial, LLC, and we are accordingly dependent upon distributions from Goosehead Financial, LLC to pay dividends, if any, taxes, make payments under the tax receivable agreement and pay other expenses.

We are a holding company and our principal asset is our direct or indirect ownership of 50.0% of the outstanding LLC Units. We have no independent means of generating revenue. As the sole managing member of Goosehead Financial, LLC, we intend to cause Goosehead Financial, LLC to make distributions to the Pre-IPO LLC Members and us, in amounts sufficient to cover all applicable taxes payable by us and the Pre-IPO LLC members and any payments we are obligated to make under the tax receivable agreement we intend to enter into as part of the reorganization transactions and to fund dividends to our stockholders in accordance with our dividend policy, to the extent our board of directors declares such dividends.

Deterioration in the financial conditions, earnings or cash flow of Goosehead Financial, LLC 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 Goosehead Financial, LLC is restricted from making such distributions to us under applicable law or regulation, as a result of covenants in our Credit Agreement 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, Goosehead Financial, LLC will be required to make distributions to us and the other holders of LLC Units, and the distributions that Goosehead Financial, LLC will be required to make may be substantial.

Under the amended and restated Goosehead Financial, LLC agreement, Goosehead Financial, LLC will generally be required from time to time to make pro rata distributions in cash to us and the other holders of LLC Units in amounts that are intended to be sufficient to cover the taxes on our and the other LLC Units holders' respective allocable shares of the taxable income of Goosehead Financial, LLC. 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 favorable tax benefits that we anticipate receiving from (a) acquisitions of interests in Goosehead Financial, LLC in connection with future taxable redemptions or exchanges of LLC Units for shares of our Class A common stock and (b) payments under the tax receivable agreement, we expect that these tax distributions will be in amounts that exceed our tax liabilities and obligations to make payments under the tax

receivable agreement. Our board of directors will determine the appropriate uses for any excess cash so accumulated, which may include, among other uses, dividends, the payment of obligations under the tax receivable agreement 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 Goosehead Financial, LLC, the Pre-IPO LLC Members 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. See "Item 13. Certain relationships and related transactions, and director independence".

We are controlled by the Pre-IPO LLC Members whose interests in our business may be different than yours, and certain statutory provisions afforded to stockholders are not applicable to us.

The Pre-IPO LLC Members control approximately 50% of the combined voting power of our common stock. Further, pursuant to a stockholders agreement we and the Pre-IPO LLC Members entered into (the "Stockholders Agreement"), the Pre-IPO LLC Members may approve or disapprove substantially all transactions and other matters requiring approval by our stockholders, such as a merger, consolidation, dissolution or sale of all or substantially all of our assets, the issuance or redemption of certain additional equity interests in an amount exceeding \$50 million, any change in the size of the board of directors and amendments to our certificate of incorporation or bylaws. In addition, the Stockholders Agreement provides that approval by the Pre-IPO LLC Members is required for any changes to the strategic direction or scope of Goosehead Insurance, Inc. and Goosehead Financial, LLC's business, any acquisition or disposition of any asset or business having consideration in excess of 15% of our total assets and the hiring and termination of our Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, General Counsel or Controller (including terms of compensation). Furthermore, the Stockholders Agreement will provide that, until the Substantial Ownership Requirement is no longer met, the Pre-IPO LLC Members may designate a majority of the nominees for election to our board of directors, including the nominee for election to serve as Chairman of our board of directors.

This concentration of ownership and voting power may also delay, defer or even prevent an acquisition by a third party or other change of control of our company which could deprive you of an opportunity to receive a premium for your shares of Class A common stock and may make some transactions more difficult or impossible without the support of the Pre-IPO LLC Members, even if such events are in the best interests of minority stockholders. Furthermore, this concentration of voting power with the Pre-IPO LLC Members may have a negative impact on the price of our Class A common stock. In addition, because the Pre-IPO LLC Members, will have the ability to designate a majority of the nominees for election to our board of directors, including the nominee for election to serve as Chairman of our board of directors until the Substantial Ownership Requirement is no longer met, the Pre-IPO LLC Members will be able to control us as long as they hold at least 10% of the aggregate number of outstanding shares of our common stock. The Pre-IPO LLC Members may not be inclined to permit us to issue additional shares of Class A common stock, including for the facilitation of acquisitions, if it would dilute their holdings below the 10% threshold.

We cannot predict whether our dual class structure, combined with the concentrated control of the Pre-IPO LLC Members, will result in a lower or more volatile market price of our Class A common stock or in adverse publicity or other adverse consequences. For example, certain index providers have announced restrictions on including companies with multiple-class share structures in certain of their indexes. In July 2017, FTSE Russell announced that it plans to require new constituents of its indexes to have greater than 5% of the company's voting rights in the hands of public stockholders, and S&P Dow Jones announced that it will no longer admit companies with multiple-class share structures to certain of its indexes. Because of our dual class structure, we will likely be excluded from these indexes and, in the event we are included in one of such indexes, we may be subsequently removed. In addition, we cannot assure you that other stock indexes will not take similar actions. Given the sustained flow of investment funds into passive strategies that seek to track certain indexes, exclusion or removal from stock indexes would likely preclude investment by many of these funds and could make our Class A common stock less attractive to other investors. As a result, the market price of our Class A common stock could be adversely affected.

The Pre-IPO LLC Members' interests may not be fully aligned with yours, which could lead to actions that are not in your best interests. Because the Pre-IPO LLC Members hold a majority of their economic interests in our business through Goosehead Financial, LLC rather than through the public company, they may have conflicting interests with holders of shares of our Class A common stock. For example, the 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 tax receivable agreement, and whether and when we should undergo certain changes of control within the meaning of the tax receivable agreement or terminate the tax receivable agreement. 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. See "Item 13. Certain relationships and related transactions, and director independence". In addition, the Pre-IPO LLC Members' significant ownership in us and resulting ability to effectively control 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.

We have opted out of Section 203 of the General Corporation Law of the State of Delaware (the "DGCL"), which prohibits a publicly held Delaware corporation from engaging in a business combination transaction with an interested stockholder for a period of three years after the interested stockholder became such unless the transaction fits within an applicable exemption, such as board approval of the business combination or the transaction which resulted in such stockholder becoming an interested stockholder. Therefore, the Pre-IPO LLC Members are able to transfer control of us to a third party by transferring their shares of our common stock (subject to certain restrictions and limitations), which would not require the approval of our board of directors or our other stockholders.

Our certificate of incorporation and Stockholders Agreement will provide that, to the fullest extent permitted by law, the doctrine of "corporate opportunity" under Delaware law will only apply against our directors and officers and their respective affiliates for competing activities related to insurance brokerage activities. This doctrine will not apply to any business activity other than insurance brokerage activities. See "Item 13. Certain relationships and related transactions, and director independence". Furthermore, the Pre-IPO LLC Members have business relationships outside of our business.

We are a "controlled company" within the meaning of the Nasdaq rules and, as a result, qualify for, and will rely on, exemptions from certain corporate governance requirements that provide protection to the stockholders of companies that are subject to such corporate governance requirements.

Mark E. Jones, our chief executive officer and Chairman of the Board, and Robyn Jones, Vice Chairman of the Board, beneficially own more than 50% of the voting power for the election of members of our board of directors. As a result, we will be a "controlled company" within the meaning of the corporate governance standards of the Nasdaq rules. Under these rules, a listed company of which more than 50% of the voting power is held by an individual, group or another company is a "controlled company" and may elect not to comply with certain of Nasdaq's corporate governance requirements.

As a controlled company, we rely on certain exemptions from the Nasdaq standards that may enable us not to comply with certain Nasdaq corporate governance requirements. Accordingly, we have opted not to implement a stand-alone nominating and corporate governance committee and our compensation committee will not be fully independent. As a consequence of our reliance on certain exemptions from the Nasdaq standards provided to "controlled companies," you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the Nasdaq Global Market.

We will be required to pay the Pre-IPO LLC Members for certain tax benefits we may claim, and the amounts we may pay could be significant.

As described under "Organizational structure," future taxable redemptions or exchanges by the Pre-IPO LLC Members of LLC Units for shares of our Class A common stock are expected to result in tax basis adjustments to the assets of Goosehead Financial, LLC that will be allocated to us and thus produce favorable tax attributes. These tax attributes would not be available to us in the absence of those transactions. The anticipated tax basis adjustments are expected to reduce the amount of tax that we would otherwise be required to pay in the future.

We entered into a tax receivable agreement with the Pre-IPO LLC Members that will provide for the payment by us to the Pre-IPO LLC Members of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that we actually realize as a result of (i) any increase in tax basis in Goosehead Insurance, Inc.'s assets resulting from (a) the purchase of LLC Units from any of the Pre-IPO LLC Members using the net proceeds from any future offering, (b) redemptions or exchanges by the Pre-IPO LLC Members of LLC Units for shares of our Class A common stock or (c) payments under the tax receivable agreement and (ii) tax benefits related to imputed interest deemed arising as a result of payments made under the tax receivable agreement. This is a payment of obligation of us and not Goosehead Financial, LLC.

The actual increase in tax basis, as well as the amount and timing of any payments under the tax receivable agreement, will vary depending on a number of factors, including, but not limited to, the timing of any future redemptions, exchanges or purchases of the LLC Units held by Pre-IPO LLC Members, the price of our Class A common stock at the time of the purchase, redemption or exchange, the extent to which redemptions or exchanges are taxable, the amount and timing of the taxable income that we generate in the future, the tax rates then applicable and the portion of our payments under the tax receivable agreement constituting imputed interest. We expect that, as a result of the increases in the tax basis of the tangible and intangible assets of Goosehead Financial, LLC attributable to the redeemed or exchanged LLC Units, the payments that we may make to the existing Pre-IPO LLC Members could be substantial. Payments under the tax receivable agreement are not conditioned on the Pre-IPO LLC Members' continued ownership of us. There may be a material negative effect on our liquidity if, as described below, the payments under the tax receivable agreement exceed the actual benefits we receive in respect of the tax attributes subject to the tax receivable agreement and/or distributions to us by Goosehead Financial, LLC are not sufficient to permit us to make payments under the tax receivable agreement.

In addition, although we are not aware of any issue that would cause the Internal Revenue Service ("IRS") to challenge the tax basis increases or other benefits arising under the tax receivable agreement, the Pre-IPO LLC Members will not reimburse us for any payments previously made if such tax basis increases or other tax benefits are subsequently disallowed, except that any excess payments made to the Pre-IPO LLC Members will be netted against future payments otherwise to be made under the tax receivable agreement, if any, after our determination of such excess. As a result, in such circumstances we could make payments to the Pre-IPO LLC Members under the tax receivable agreement that are greater than our actual cash tax savings and may not be able to recoup those payments, which could negatively impact our liquidity.

In addition, the tax receivable agreement provides that, upon certain mergers, asset sales or other forms of business combination, or certain other changes of control, our obligations 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 tax receivable agreement. As a result, upon a change of control, we could be required to make payments under the tax receivable agreement that are greater than the specified percentage of our actual cash tax savings, which could negatively impact our liquidity.

This provision of the tax receivable agreement 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. In addition, we could be required to make payments under the tax receivable agreement that are substantial and in excess of our, or a potential acquirer's, actual cash savings in income tax.

Finally, because we are a holding company with no operations of our own, our ability to make payments under the tax receivable agreement is dependent on the ability of Goosehead Financial, LLC to make distributions to us. Our Credit Agreement restricts the ability of Goosehead Financial, LLC to make distributions to us, which could affect our ability to make payments under the tax receivable agreement. To the extent that we are unable to make payments under the tax receivable agreement 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 relating to ownership of our Class A common stock

Some provisions of Delaware law and our certificate of incorporation and by-laws may deter third parties from acquiring us and diminish the value of our Class A common stock.

Our certificate of incorporation and by-laws provide for, among other things:

- Until the Substantial Ownership Requirement is no longer met, the Pre-IPO LLC Members may designate a majority of the nominees for election to our board of directors, including the nominee for election to serve as Chairman of our board of directors;
- at any time after the Substantial Ownership Requirement is no longer met, there will be:
 - restrictions on the ability of our stockholders to call a special meeting and the business that can be conducted at such meeting or to act by written consent;
 - supermajority approval requirements for amending or repealing provisions in the certificate of incorporation and by-laws;

- a division of the board of directors into three classes of directors, with each class as equal in number as possible, serving staggered three-year terms, and such directors may only be removed for cause and by the affirmative vote of holders of 75% of the total voting power of our outstanding shares of common stock, voting together as a single class;
- our ability to issue additional shares of Class A common stock and to issue preferred stock with terms that the board of directors may determine, in each case without stockholder approval (other than as specified in our certificate of incorporation);
- the absence of cumulative voting in the election of directors; and
- advance notice requirements for stockholder proposals and nominations.

These provisions in our certificate of incorporation and by-laws 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.

Future sales, or the possibility of future sales, of a substantial number of our shares of Class A common stock could adversely affect the price of our shares of Class A common stock.

Future sales of a substantial number of our shares of Class A common stock, or the perception that such sales will occur, could cause a decline in the market price of our shares of Class A common stock. Approximately 19.3 million shares of our Class A common stock and LLC Units (which may be redeemed or exchanged for a corresponding number of shares of Class A common stock) are held by the Pre-IPO LLC Members, the Goosehead Management Holders and Texas Wasatch Holders. If these stockholders sell substantial amounts of shares of Class A common stock in the public market (including any shares of Class A common stock issued upon redemption or exchange of LLC Units), or the market perceives that such sales may occur, the market price of our shares of Class A common stock could be adversely affected. We have also entered into the Registration Rights Agreement (as defined below) pursuant to which we have agreed under certain circumstances to file a registration statement to register the resale of shares of our Class A common stock held by the Pre-IPO LLC Members, the Goosehead Management Holders and Texas Wasatch Holders, as well as to cooperate in certain public offerings of such shares. We have also filed registration statements to register all shares of Class A common stock and other equity securities that we have issued, or may issue under the Omnibus Incentive Plan and Employee Stock Purchase Plan. These shares of Class A common stock may be freely sold in the public market upon issuance, subject to certain limitations applicable to affiliates. If a large number of our shares of Class A common stock are sold in the public market, the sales could reduce the trading price of shares of Class A common stock.

We may not be able to successfully maintain effective internal controls over financial reporting.

We have previously identified material weaknesses that have been remediated, and we may suffer from other material weaknesses in the future. If we fail to maintain effective internal control over financial reporting in the future, such failure could result in a material misstatement of our annual or quarterly financial statements that would not be prevented or detected on a timely basis and which could cause investors and other users to lose confidence in our financial statements, limit our ability to raise capital and have a negative effect on the trading price of our common stock. Additionally, failure to maintain effective internal control over financial reporting may also negatively impact our operating results and financial condition, impair our ability to timely file our periodic and other reports with the Securities and Exchange Commission (the "SEC"), subject us to additional litigation and regulatory actions and cause us to incur substantial additional costs in future periods relating to the implementation of remedial measures.

We expect that our stock price will be volatile, which could cause the value of your investment to decline, and you may not be able to resell your shares at or above your investment price.

Securities markets worldwide have experienced, and are likely to continue to experience, significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of our Class A common stock regardless of our results of operations. The trading price of our Class A common stock is likely to be volatile and subject to wide price fluctuations in response to various factors, including:

- market conditions in the broader stock market in general, or in our industry in particular;
- actual or anticipated fluctuations in our quarterly financial and operating results;

- introduction of new products and services by us or our competitors;
- issuance of new or changed securities analysts' reports or recommendations;
- investor perceptions of us and the industries in which we or our clients operate;
- sales, or anticipated sales, of large blocks of our stock, including those by our existing investors;
- additions or departures of key personnel;
- regulatory or political developments;
- litigation and governmental investigations; and
- changing economic and political conditions.

These and other factors may cause the market price and demand for shares of our Class A common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of Class A common stock and may otherwise negatively affect the liquidity of our Class A common stock. In addition, in the past, when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the company that issued the stock. If any of our stockholders brought a lawsuit against us, we could incur substantial costs defending the lawsuit. Such a lawsuit could also divert the time and attention of our management from our business, which could significantly harm our profitability and reputation.

Our ability to pay dividends to our stockholders may be limited by our holding company structure, contractual restrictions and regulatory requirements.

We are a holding company and have no material assets other than our ownership of LLC Units in Goosehead Financial, LLC and we will not have any independent means of generating revenue. We intend to cause Goosehead Financial, LLC to make pro rata distributions to the Pre-IPO LLC Members and us in an amount at least sufficient to allow us and the Pre-IPO LLC Members to pay all applicable taxes, to make payments under the tax receivable agreement we will enter into with the Pre-IPO LLC Members and to pay our corporate and other overhead expenses. Goosehead Financial, LLC is a distinct legal entity and may be subject to legal or contractual restrictions that, under certain circumstances, may limit our ability to obtain cash from them. If Goosehead Financial, LLC is unable to make distributions, we may not receive adequate distributions, which could materially and adversely affect our dividends and financial position and our ability to fund any dividends.

Our board of directors will periodically review the cash generated from our business and the capital expenditures required to finance our global growth plans and determine whether to declare periodic dividends to our stockholders. Our board of directors will take into account general economic and business conditions, including our financial condition and results of operations, capital requirements, contractual restrictions, including restrictions and covenants contained in our debt agreements, business prospects and other factors that our board of directors considers relevant. In addition, our Credit Agreement limits the amount of distributions that Goosehead Financial, LLC can make to us and the purposes for which distributions can be made. Accordingly, we may not be able to pay dividends even if our board of directors would otherwise deem it appropriate. See "Item 7. Management's discussion and analysis of financial condition and results of operations — Liquidity and capital resources — Dividend Policy".

If securities analysts do not publish research or reports about our business or if they publish negative evaluations of our Class A common stock, the price of our Class A common stock could decline.

The trading market for our Class A common stock will rely in part on the research and reports that industry or securities analysts publish about us or our business. We currently have research coverage by industry and securities analysts. If no or few analysts continue coverage of us, the trading price of our Class A common stock would likely decrease. If one or more of the analysts covering our business downgrade their evaluations of our stock, the price of our Class A common stock could decline. If one or more of these analysts cease to cover our Class A common stock, we could lose visibility in the market for our stock, which in turn could cause our Class A common stock price to decline.

Item 1B. Unresolved staff comments

None.

Item 2. Properties

Our headquarters is located in leased offices in Westlake, Texas. The lease consists of approximately 150,000 square feet and expires in January 2031. As of December 31, 2020, our company-owned insurance brokerage business leases approximately 237,000 square feet of office space in Texas, Nevada, Illinois, and North Carolina under nine leases. These offices are typically located in small office parks, generally with lease terms of five to ten years. We believe that all of our properties and facilities are well maintained.

Item 3. Legal proceedings

From time to time, we may be involved in various legal proceedings, lawsuits and claims incidental to the conduct of our business. Our businesses are also subject to extensive regulation, which may result in regulatory proceedings against us. We are not currently party to any material legal proceedings.

Item 4. Mine safety disclosures

Not applicable.

PART II

Item 5. Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities

Market Information

Our Class A Common Stock is traded on NASDAQ under the symbol "GSHD."

Our Class B Common Stock is not listed nor traded on any stock exchange.

Holders of Record

As of February 26, 2021, there were 9 shareholders of record of our Class A common stock. The number of record holders does not include persons who held shares of our Class A common stock in nominee or "street name" accounts through brokers. As of February 26, 2021, there were 49 shareholders of record of our Class B common stock.

Dividend Policy

Subject to funds being legally available, we intend to cause Goosehead Financial, LLC to make pro rata distributions to the Pre-IPO LLC Members and us in an amount at least sufficient to allow us and the Pre-IPO LLC Members to pay all applicable taxes, to make payments under the tax receivable agreement we entered into with the Pre-IPO LLC Members and to pay our corporate and other overhead expenses. The declaration and payment of any dividends by Goosehead Insurance, Inc. will be at the sole discretion of our board of directors, which may change our dividend policy at any time. Our board of directors will take into account:

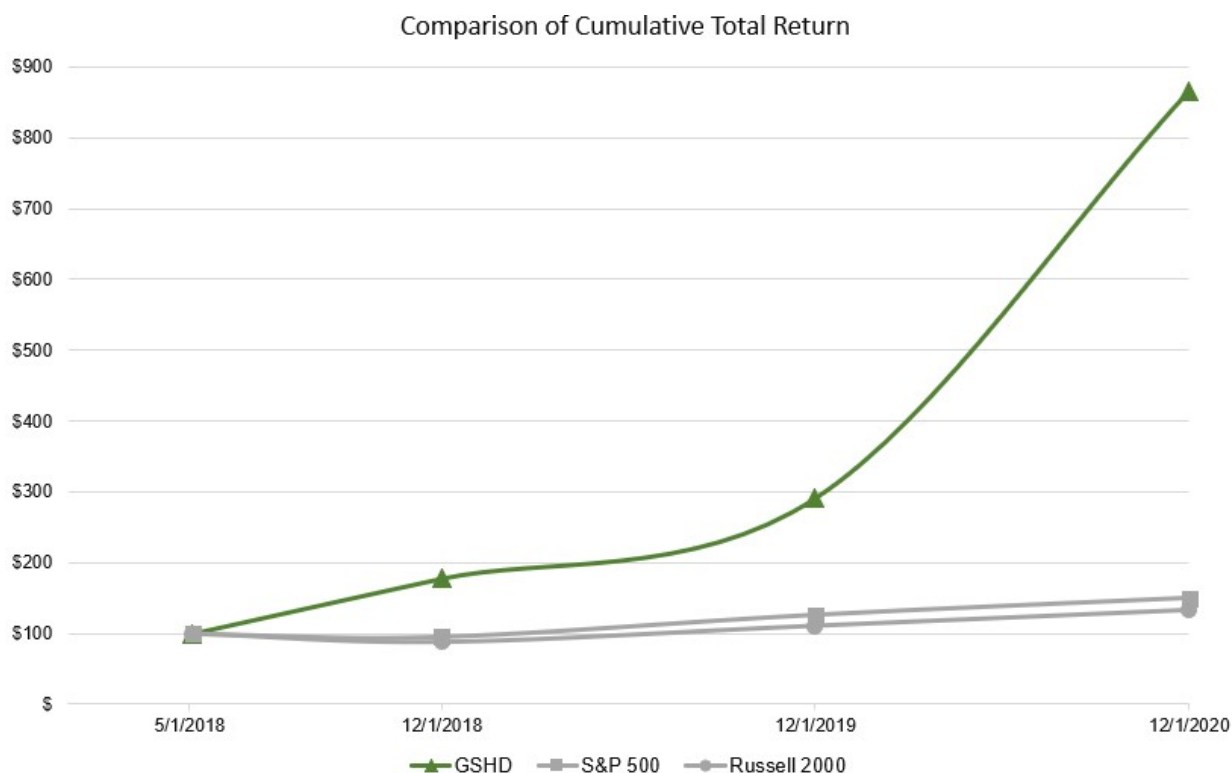
- general economic and business conditions;
- our financial condition and operating results;
- our available cash and current and anticipated cash needs;
- our capital requirements;
- contractual, legal, tax and regulatory restrictions and implications on the payment of dividends by us to our stockholders or by our subsidiaries (including Goosehead Financial, LLC) to us; and
- such other factors as our board of directors may deem relevant.

Goosehead Insurance, Inc. is a holding company and does not have material assets other than its ownership of LLC Units in Goosehead Financial, LLC, and as a consequence, our ability to declare and pay dividends to the holders of our Class A common stock is subject to the ability of Goosehead Financial, LLC to provide distributions to us. If Goosehead Financial, LLC makes such distributions, the Pre-IPO LLC Members will be entitled to receive equivalent distributions from Goosehead Financial, LLC. However, because we must pay taxes, make payments under the tax receivable agreement and pay our expenses, amounts ultimately distributed as dividends to holders of our Class A common stock are expected to be less than the amounts distributed by Goosehead Financial, LLC to the Pre-IPO LLC Members on a per share basis. See "Item 13. Certain relationships and related transactions, and director independence."

Assuming Goosehead Financial, LLC makes distributions to its members in any given year, the determination to pay dividends, if any, to our Class A common stockholders out of the portion, if any, of such distributions remaining after our payment of taxes, tax receivable agreement payments and expenses (any such portion, an "excess distribution") will be made by our board of directors. Because our board of directors may determine to pay or not pay dividends to our Class A common stockholders, our Class A common stockholders may not necessarily receive dividend distributions relating to excess distributions, even if Goosehead Financial, LLC makes such distributions to us.

Stock Performance Graph

The following graph and table illustrate the total return from May 1, 2018 through December 31, 2020 for (i) our Class A common stock, (ii) the Standard and Poor's 500 Index, and (iii) the Russell 2000 Index, assuming an investment of \$100 on May 1, 2018 including the reinvestment of dividends.



| | 5/1/2018 | 12/31/2018 | 12/31/2019 | 12/31/2020 |
|--------------|----------|------------|------------|------------|
| GSHD | \$ 100 | \$ 178 | \$ 291 | \$ 865 |
| S&P 500 | 100 | 96 | 126 | 149 |
| Russell 2000 | 100 | 88 | 111 | 133 |

Securities Authorized for Issuance Under Equity Incentive Plans

The following table provides information about our compensation plans under which our Class A Common Stock is authorized for issuance, as of December 31, 2020:

| | |
|--|-------|
| Number of securities to be issued upon exercise of outstanding options (in thousands) | 2,290 |
| Weighted-average exercise price of outstanding options | 24.63 |
| Number of securities remaining available for future issuances under equity compensation plans (in thousands) | 1,260 |
| Number of securities issued in connection with the Employee Stock Purchase Plan | 21 |
| Number of securities remaining available for future issuance in connection with the Employee Stock Purchase Plan | 19 |

Issuer Purchases of Equity Securities

None.

Use of Proceeds

Not applicable.

Item 6. Selected financial data

The following table sets forth our selected historical consolidated financial data for the periods ended and as of the dates indicated below. We have derived the selected historical consolidated financial data as of December 31, 2020 and 2019, and for each of the twelve months ended December 31, 2020, 2019 and 2018 from our audited consolidated financial statements included elsewhere in this report. We have derived the selected historical consolidated financial data as of December 31, 2018, 2017, and 2016 and for the twelve months ended December 31, 2017 and 2016, from our audited consolidated financial statements, which are not included in this report.

The Company adopted ASC 842, Leases ('ASC 842') and ASC 606, Revenue from Contracts with Customers ('ASC 606') in 2020 and 2019, respectively. Financial information presented for years prior to the respective adoptions has not been adjusted in accordance with the provisions of those new standards.

Our historical results are not necessarily indicative of the results expected for any future period. You should read the following financial data together with Part I, Item 1A, "Risk Factors," Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," our audited consolidated financial statements and related notes appearing elsewhere in this report, and our audited consolidated financial statements and related notes included in our annual reports on Form 10-K for the years ended December 31, 2019 and December 31, 2018 previously filed with the SEC.

Years ended December 31,

| | 2020 (ASC 606) | 2019 (ASC 606) | 2018 (ASC 605) | 2017 (ASC 605) | 2016 (ASC 605) |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Selected statements of operations data (in thousands): | | | | | |
| Commissions and agency fees ⁽¹⁾ | 71,811 | 46,366 | 36,704 | 27,030 | 21,283 |
| Franchise revenues ⁽¹⁾ | 44,390 | 30,503 | 23,022 | 15,438 | 10,101 |
| Employee compensation and benefits ⁽¹⁾ | 66,819 | 41,715 | 58,256 | 24,544 | 19,469 |
| General and administrative expenses | 25,532 | 19,042 | 13,060 | 8,597 | 5,732 |
| Income (loss) from operations ⁽¹⁾ | 19,940 | 14,073 | (13,930) | 7,611 | 5,136 |
| Net income (loss) ⁽¹⁾ | 18,755 | 10,382 | (18,667) | 8,678 | 4,723 |
| Net income (loss) attributable to Goosehead Insurance, Inc. ⁽¹⁾ | 9,287 | 3,567 | (8,903) | — | — |
| Per share data: | | | | | |
| Earnings per share - basic ⁽¹⁾⁽²⁾ | 0.55 | 0.24 | (0.66) | n/a | n/a |
| Earnings per share - diluted ⁽¹⁾⁽²⁾ | 0.51 | 0.22 | (0.66) | n/a | n/a |
| Selected balance sheets data (at period end, in thousands): | | | | | |
| Cash and restricted cash | 26,236 | 15,260 | 19,011 | 4,948 | 3,778 |
| Total current assets ⁽¹⁾ | 50,645 | 26,733 | 22,839 | 7,719 | 6,098 |
| Total assets ⁽¹⁾ | 185,837 | 64,628 | 34,798 | 16,706 | 8,695 |
| Total current liabilities ⁽¹⁾ | 20,360 | 13,410 | 7,812 | 5,767 | 3,476 |
| Total debt | 82,908 | 46,161 | 48,447 | 48,656 | 29,373 |
| Total liabilities ⁽¹⁾ | 224,241 | 95,635 | 60,001 | 57,839 | 32,935 |
| Total equity ⁽¹⁾ | (38,404) | (31,007) | (25,203) | (41,133) | (24,240) |
| Selected cash flow data (in thousands): | | | | | |
| Net cash provided by operating activities | 24,643 | 21,241 | 10,275 | 13,542 | 4,402 |
| Net cash used for investing activities | (10,333) | (4,078) | (2,222) | (6,135) | (696) |
| Net cash (used for) provided by financing activities | (3,334) | (20,914) | 5,592 | (6,237) | (965) |
| Selected operating data: | | | | | |
| Adjusted EBITDA (in thousands) ⁽¹⁾⁽³⁾ | 27,832 | 17,530 | 14,752 | 10,718 | 8,112 |
| Adjusted EBITDA margin ⁽¹⁾⁽³⁾ | 24 % | 23 % | 25 % | 25 % | 26 % |
| Total Written Premium (in thousands) | 1,074,076 | 739,009 | 509,012 | 342,330 | 240,994 |
| Corporate sales agents (at period end) | 364 | 248 | 167 | 111 | 69 |
| Operating franchises (at period end) | 891 | 614 | 457 | 292 | 190 |

(1)The impact from the adoption of ASC 606 may affect the comparability to 2018. See Form 10-K for the year ended December 31, 2019 for additional information regarding the impact.

(2) Adjusted EBITDA and Adjusted EBITDA margin are Non-GAAP Measures. See Item 7 "Management's discussion and analysis of financial condition and results of operation" for additional information and a reconciliation to the most directly comparable GAAP financial measure.

Item 7. Management's discussion and analysis of financial condition and results of operations

Overview

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Item 6. Selected financial data" and our consolidated financial statements and the related notes and other financial information included elsewhere in this Annual Report. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results and timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under "Risk factors" and elsewhere in this Annual Report.

This discussion includes references to non-GAAP financial measures as defined in the rules of the Securities and Exchange Commission ("SEC"). We present such non-GAAP financial measures, specifically, Core Revenue, Adjusted EBITDA and Adjusted EPS non-GAAP financial measures, as we believe such information is of interest to the investment community because it provides additional meaningful methods of evaluating certain aspects of the Company's operating performance from period to period on a basis that may not be otherwise apparent under U.S. GAAP, and these provide a measure against which our businesses may be assessed in the future.

Our methods of calculating these measures may differ from those used by other companies and therefore comparability may be limited. These financial measures should be viewed in addition to, not in lieu of, the consolidated financial statements for the year ended December 31, 2020. See 'Non-GAAP Financial Measures' below for further discussion of our Core Revenue, Adjusted EBITDA and Adjusted EPS non-GAAP financial measures

The following discussion contains references to periods prior to the Offering, including January through April 2018, which represents the consolidated and combined financial results of our predecessor Goosehead Financial, LLC and its subsidiaries Texas Wasatch Insurance Services, LP, Goosehead Insurance Agency, LLC and its affiliates Goosehead Management, LLC and Texas Wasatch Insurance Holdings Group, LLC.

We are a rapidly growing personal lines independent insurance agency, reinventing the traditional approach to distributing personal lines products and services throughout the United States. We were founded with one vision in mind—to provide consumers with superior insurance coverage at the best available price and in a timely manner. By leveraging our differentiated business model and innovative technology platform, we are able to deliver a superior insurance experience to our clients.

The following discussion contains references to the years ended December 31, 2020 and December 31, 2019. See Goosehead's Annual Report on Form 10-K for the year ended December 31, 2019 for a discussion of the changes from year ended December 31, 2018 to the year ended December 31, 2019.

Financial Highlights for 2020:

- Total revenue increased 51% from 2019 to \$117.0 million; Core Revenues* of \$95.1 million increased 41% over 2019
- Total Written Premiums Placed increased 45% from 2019 to \$1.074 billion
- Net income increased by \$8.4 million from 2019 to \$18.8 million
- Adjusted EBITDA*, a non-GAAP measure, increased 59% from 2019 to \$27.8 million, or 24% of total revenues
- Basic earnings per share was \$0.55 and Adjusted EPS*, a non-GAAP measure, was \$0.68 for the year ended December 31, 2020.
- Policies in Force increased 48% from December 31, 2019 to 713,000 at December 31, 2020.
- Corporate sales headcount increased 47% from December 31, 2019 to 364 at December 31, 2020.
 - As of December 31, 2020, 207 of these Corporate sales agents had less than one year of tenure and 157 had greater than one year of tenure.

- Operating franchises increased 45% from December 31, 2019 to 891 at December 31, 2020.
 - In Texas as of December 31, 2020, 43 operating franchises had less than one year of tenure and 185 operating franchisees had greater than one year of tenure.
 - Outside of Texas as of December 31, 2020, 285 operating franchises had less than one year of tenure and 378 had greater than one year of tenure.

*Core Revenue, Adjusted EBITDA and Adjusted EPS are non-GAAP measures. Reconciliation of Adjusted EBITDA to net income (loss) and Adjusted EPS to EPS, the most directly comparable financial measures presented in accordance with GAAP, are set forth in the "Key performance indicators" section of Management's discussion and analysis of financial condition and results of operations of this Form 10-K.

Factors affecting our results of operations

We believe that the most significant factors affecting our results of operations include:

- **Investment in growth.** We continue to invest in expanding our national footprint, increasing our revenue-producing headcount, and increasing the level of support provided to our salespeople. Our ability to attract and retain top Corporate Channel sales agents and franchise owners, ramp up new agent productivity, and retain existing and future Policies in Force are key to continued profitable growth.
- **Investment in technology.** We continue to develop and invest in our technology platform to drive scalability, adaptability, and efficiency in both the Corporate Channel and Franchise Channel. We believe our significant proprietary investment in our technology is a key competitive advantage that supports our growth and operating margins.
- **Continued penetration of Franchise Channel into existing markets.** We will continue to market actively for new franchises in our established markets, including Texas, which represent over 97% of the U.S. population. We are now licensed with the necessary state departments of commerce and insurance and registered as a franchisor in all 50 states in the U.S.
- **Continued retention of existing Book of Business.** We have made significant progress in recent years in Client Retention metrics, and maintaining these high levels of Client Retention is key to future profitability.
- **Increase in margins as business shifts from new to renewal.** Because we are entitled to a higher percentage of Royalty Fees after the first term of a policy and the higher level of back-office support needed during the first term of an insurance policy, the Company begins to see higher levels of profitability on Renewal Revenue. We will focus simultaneously on converting New Business Revenue to Renewal Revenue through our retention efforts, and on continuing to grow New Business Revenue that will convert and allow us to expand our margins in future periods.
- **Strength of the insurance market or particular lines of business.** We generate the majority of our revenues through commissions, which are calculated as a percentage of the total insurance policy premium. A softening of the insurance market or the particular lines of business that are our focus, characterized by a period of declining premium rates, could negatively impact our profitability.
- **Seasonality and cyclicity of housing market conditions.** The majority of our new accounts are sourced by referral sources tied to home closing transactions. Major slowdowns in the various housing markets Goosehead serves could impact our ability to generate new business. We experience seasonality and revenue related to the sale of insurance policies throughout the course of a calendar year that is tied to the seasonality of new home sales. Revenue from home insurance leads is higher from April to August and lower from October through January. While this can impact month-to-month or quarter-to-quarter results, we expect productivity to normalize year-over-year.
- **Effect of natural or man-made disasters.** Any increases in loss ratios due to natural or man-made disasters could impact our Contingent Commissions, which are primarily driven by both growth and loss ratio metrics.
- **Cost of being a public company.** To operate as a public company, we are required to continue to implement changes in certain aspects of our business and develop, manage, and train management level and other employees to comply with on-going public company requirements. We also incur expenses as a public

company, including public reporting obligations, proxy statements, stockholder meetings, stock exchange fees and transfer agent fees.

Effects of the reorganization on our corporate structure

Goosehead Insurance, Inc. was formed for the purpose of the Offering and has engaged to date only in activities related to Goosehead Financial, LLC. Goosehead Insurance, Inc. is a holding company and its sole material asset is a controlling ownership and profits interest in Goosehead Financial, LLC. All of our business is conducted through Goosehead Financial, LLC and its consolidated subsidiaries, and the financial results of Goosehead Financial, LLC and its consolidated subsidiaries are included in the consolidated financial statements of Goosehead Insurance, Inc. Goosehead Financial, LLC is currently taxed as a partnership for federal income tax purposes and, as a result, its members, including Goosehead Insurance, Inc., pay taxes with respect to their allocable shares of its net taxable income.

We expect that redemptions and exchanges of LLC Units will result in increases in the tax basis in our share of the tangible and intangible assets of Goosehead Financial, LLC that otherwise would not have been available. These increases in tax basis may reduce the amount of tax that we would otherwise be required to pay in the future. The tax receivable agreement requires Goosehead Insurance, Inc. to pay 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 to the Pre-IPO LLC Members. Furthermore, payments under the tax receivable agreement give rise to additional tax benefits and therefore additional payments under the tax receivable agreement itself. See "Item 13. Certain relationships and related transactions, and director independence".

Novel coronavirus ("COVID-19")

An outbreak of a novel strain of the coronavirus, COVID-19, was recognized as a pandemic by the World Health Organization on March 11, 2020. This COVID-19 outbreak has severely restricted the level of economic activity around the world. In response to this outbreak, the governments of many countries, states, cities and other geographic regions, including in the United States, have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes. In the United States, temporary closures of businesses have been ordered and numerous other businesses have temporarily closed voluntarily.

During the first quarter, the Company reduced workforce density at all corporate offices by requiring employees to work from home. Additionally, the Company indefinitely suspended all corporate travel, field support visits, in-person marketing efforts and in-person team meetings. Leveraging the Company's cloud based technology, video conferencing technology and importantly the Company's mortgage activity database to continue marketing efforts allowed operations to be largely uninterrupted. During the third quarter, the Company began bringing employees back to the office on a reduced and rotational basis. The Company will continue to follow all local government and CDC guidelines in reopening corporate offices. Changes in consumer behavior linked to the COVID-19 pandemic, may have resulted in reduced loss ratios throughout 2020, increasing the amount of revenue from Contingent Commissions the Company expects to receive.

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

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

Certain income statement line items

Revenues

Effective as of the Annual Report on Form 10-K for the year ended December 31, 2019, the Company adopted new accounting guidance, ASU 2014-09 - *Revenue from Contracts with Customers* ("Topic 606"), related to revenue from contracts with customers. The Company adopted Topic 606 using the modified retrospective method, which applies the new guidance prospectively, beginning as of 2019, the year of adoption. Accordingly, the adoption of Topic 606 using the modified retrospective method does not impact consolidated financial statements prior to 2019.

In 2020, revenue increased by 51% to \$117.0 million from \$77.5 million in 2019. Total Written Premium growth, which is the best leading indicator of future revenue growth, was 45% to \$1.074 billion from \$739 million in 2019. Total Written Premiums Placed drive our current and future Core Revenue and gives us potential opportunities to earn Ancillary Revenue in the form of Contingent Commissions. Our various revenue streams do not equally contribute to the long-term value of Goosehead. For instance, Renewal Revenue and Renewal Royalty Fees are more predictable and have higher margin profiles, thus are higher quality revenue streams for the Company. Alternatively, Contingent Commissions, while high margin, are unpredictable and dependent on insurance company underwriting and forces of nature and thus are lower quality revenue for the Company. Our revenue streams can be viewed in three distinct categories: Core Revenue, Cost Recovery Revenue, and Ancillary Revenue, which are non-GAAP measures. A reconciliation of Core Revenue, Cost Recovery Revenue, and Ancillary Revenue to total revenue, the most directly comparable financial measures presented in accordance with GAAP, are set forth in the "Key performance indicators" section of Management's discussion and analysis of financial condition and results of operations of this Form 10-K.

Core Revenue:

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

Cost Recovery Revenue:

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

Ancillary Revenue:

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

We discuss below the breakdown of our revenue by stream:

| <i>(in thousands)</i> | Years ended December 31, | | | | | | 2020 |
|--|--------------------------|--------------|------------------|--------------|------------------|--------------|--------------|
| | 2020 (ASC 606) | | 2019 (ASC 606) | | 2018 (ASC 605) | | % Growth |
| Core Revenue: | | | | | | | |
| Renewal Commissions ⁽¹⁾ | \$ 28,891 | 25 % | \$ 22,924 | 30 % | \$ 18,357 | 31 % | 26 % |
| Renewal Royalty Fees ⁽²⁾ | 29,309 | 25 % | 19,462 | 25 % | 12,104 | 20 % | 51 % |
| New Business Commissions ⁽¹⁾ | 17,324 | 15 % | 11,961 | 15 % | 9,347 | 15 % | 45 % |
| New Business Royalty Fees ⁽²⁾ | 10,623 | 9 % | 7,149 | 9 % | 4,873 | 8 % | 49 % |
| Agency Fees ⁽¹⁾ | 8,921 | 7 % | 6,058 | 8 % | 5,169 | 9 % | 47 % |
| Total Core Revenue | 95,068 | 81 % | 67,554 | 87 % | 49,850 | 83 % | 41 % |
| Cost Recovery Revenue: | | | | | | | |
| Initial Franchise Fees ⁽²⁾ | 4,236 | 4 % | 3,784 | 5 % | 6,045 | 10 % | 12 % |
| Interest Income | 813 | 1 % | 617 | 1 % | 422 | 1 % | 32 % |
| Total Cost Recovery Revenue | 5,049 | 5 % | 4,401 | 6 % | 6,467 | 11 % | 15 % |
| Ancillary Revenue: | | | | | | | |
| Contingent Commissions ⁽¹⁾ | 16,675 | 14 % | 5,423 | 7 % | 3,831 | 6 % | 207 % |
| Other Income ⁽²⁾ | 222 | — % | 108 | — % | — | — % | 106 % |
| Total Ancillary Revenue | 16,897 | 14 % | 5,531 | 7 % | 3,831 | 6 % | 205 % |
| Total Revenues | \$ 117,014 | 100 % | \$ 77,486 | 100 % | \$ 60,148 | 100 % | 51 % |

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

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

Core Revenue:

The Company's primary source of revenue is through the placement of insurance policies. We are paid a percentage of the premium from the Carriers in the form of New Business Commissions and, in states which allow it, we charge Agency Fees for the placement of the policy. For policies placed by the Franchise Channel, we receive 20% of the commissions and fees received as New Business Royalties during the first term of the policy. All clients are serviced by our world-class service centers, allowing for predictable retention of our Book of Business, which has historically been 88%. All commissions received in the Corporate Channel after the first term of the policy are recognized as Renewal Commissions, which are higher margin due to lower servicing costs. For all policies that renew in our Franchise Channel, we receive 50% of the commissions received from the Carrier as Renewal Royalty Fees, creating a mechanical increase in revenue of 120% if we renew at historical rates, and higher margin due to lower servicing costs on higher revenue. For this reason, and because we are placing an increasing percentage of Total Written Premium in the Franchise Channel, Core Revenue growth will lag that of Total Written Premium.

Cost Recovery Revenue:

The Company charges every franchise an Initial Franchise Fee, which, on a cash flow basis, covers our costs to recruit, train, onboard, and support the franchise for the first year. The Initial Franchise Fee is determined by the state of the Franchise location and the payment terms. The Company recognizes revenue over the 10-year life of the contract. If the franchise elects the payment plan, the difference between the pay-in-full and the payment plan amounts is recognized as Interest Income using the interest rate method over the 5-year term of the payment plan.

Ancillary Revenue:

With certain Carriers, the Company has the opportunity to earn additional revenue in the form of Contingent Commissions, typically based on the growth and loss ratio of the business placed with the select Carriers. The Contingent Commissions are extremely difficult to predict in any given period. Although the Company can control the amount of business placed with the Carriers, loss ratios depend on many factors that are outside of our control, such as weather events and Carrier underwriting accuracy. As such, we view these Contingent Commissions as a

bonus and have historically returned the cash from the Contingent Commissions to shareholders by way of a special dividend. The Company estimates the amount to be received during the period over which the Contingent Commissions are earned.

Below is a summary showing the historical Contingent Commissions as a percentage of Total Written Premiums Placed for the period in which the Contingent Commissions were earned (in thousands).

| | Total Written Premium | Contingent Commission Revenue (ASC 606) | % of Premium |
|------|-----------------------|---|---------------|
| 2019 | 739,009 | 5,423 | 0.73 % |
| 2020 | 1,074,076 | 16,675 | 1.55 % |
| | | Historical average | 1.14 % |

Contingent Commissions can vary significantly from year-to-year and should be viewed over several years. Since the Company adopted ASC 606 in 2019, revenue from Contingent Commissions have historically represented approximately 1.14% of Total Written Premium at year-end. Most of our Contingent Commissions are earned in the year prior to when they are received. For the year ended December 31, 2019, \$5.4 million of Contingent Commissions were earned (below our historical average as a percentage of premium), of which \$3.6 million was still receivable at December 31, 2019. For the year ended December 31, 2020, \$16.7 million of Contingent Commissions were earned (significantly above our historical average as a percentage of premium), of which \$15.1 million was still receivable at December 31, 2020. Contingent Commissions are paid by Carriers based upon the profitability, volume and/or growth of the business placed with such companies during the prior year, therefore, Contingent Commissions earned can vary greatly from year to year.

Premium by line of business

We are a distributor of insurance policies in a range of primarily personal lines of business including homeowner's insurance, automotive, dwelling property insurance, flood, wind and earthquake insurance, excess liability or umbrella insurance, specialty lines insurance (motorcycle, recreational vehicle, and other insurance), commercial lines insurance (general liability, property and auto insurance for small businesses) and life insurance. The following table sets forth our Total Written Premium placed by line of business by amount and as a percentage of our Total Written Premium for the periods indicated (*in thousands*):

| Line of business | Year Ended December 31, | | | | | |
|------------------------------|-------------------------|--------------|-------------------|--------------|-------------------|--------------|
| | 2020 | | 2019 | | 2018 | |
| Homeowner | \$ 585,515 | 55 % | \$ 395,572 | 53 % | \$ 270,479 | 53 % |
| Automotive | 456,320 | 42 % | 321,857 | 44 % | 225,591 | 44 % |
| Commercial | 20,730 | 2 % | 13,831 | 2 % | 8,507 | 2 % |
| Other | 11,511 | 1 % | 7,749 | 1 % | 4,435 | 1 % |
| Total Written Premium | \$ 1,074,076 | 100 % | \$ 739,009 | 100 % | \$ 509,012 | 100 % |

Expenses

Due to our purely organic-focused growth strategy, virtually all of our investments in future growth are in people and certain technologies. Therefore, the majority of our investments are not capitalizable and are recognized immediately on our statement of operations.

Employee compensation and benefits. Employee compensation and benefits is our largest expense and consists of (a) base compensation comprising salary, bonuses and benefits paid and payable to employees, (b) stock option awards for our senior employees, and (c) pre-IPO equity-based compensation associated with the grants of restricted interest awards to senior employees. We expect to continue to experience a general rise in compensation and benefits expense commensurate with expected growth in headcount and with the need to maintain competitive compensation levels as we expand geographically and create new products and services.

General and administrative expenses. General and administrative expenses include travel, accounting, legal and other professional fees, commissions, placement fees, office expenses, depreciation and other costs associated with our operations. Our occupancy-related costs and professional services expenses, in particular, generally increase or decrease in relative proportion to the number of our employees and the overall size and scale of our business operations. Expenses allocated to the Segments related to our service centers and other overhead are applied to the appropriate Segment using a transfer pricing methodology that seeks to maximize the scale efficiencies of our business by sharing certain expenses across the two Segments. These shared expenses are then allocated between the two Segments based on certain cost drivers related to each expense. Examples of specific expenses and their cost drivers include, but are not limited to: service team compensation costs are allocated based on the number of cases processed for each Segment, our rent expense by location is allocated based on the full time equivalent count and Segment, and our technology charges are allocated based on the number of individual licenses used by each Segment.

Key performance indicators

Our key operating metrics are discussed below:

Total Written Premium

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

For the year ended December 31, 2020, we had \$1.074 billion in Total Written Premium, representing a 45% increase, compared to \$739 million for the year ended December 31, 2019. The following table shows Total Written Premium by channel for the years ended 2020 and 2019 (in thousands).

| | Year Ended December 31 | | % Change |
|---|------------------------|------------|----------|
| | 2020 | 2019 | |
| Corporate Channel Total Written Premium | \$ 320,495 | \$ 244,576 | 31 % |
| Franchise Channel Total Written Premium | 753,581 | 494,433 | 52 % |
| Total Written Premium | \$ 1,074,076 | \$ 739,009 | 45 % |

Policies in Force

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

As of December 31, 2020, we had 713,000 Policies in Force compared to 482,000 as of December 31, 2019, representing a 48% increase.

NPS

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

NPS has increased to 92 as of December 31, 2020 from 89 at December 31, 2019, primarily driven by the service team's continued focus on delivering highly differentiated service levels.

Client Retention

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

Client Retention has remained steady at 88% at December 31, 2020 when compared to December 31, 2019, again driven by the service team's continued focus on delivering highly differentiated service levels. Our retention rate is even stronger on a premium basis. In 2020, we retained 89% of the premiums we distributed in 2019, a modest decrease from premium retention in 2019 of 91% due to lower premium increases from our Carriers during the year. Our premium retention rate is higher than our Client Retention rate as a result of both premiums increasing year over year and additional coverages sold by our sales and service teams.

New Business Revenue

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

For the year ended December 31, 2020, New Business Revenue grew 46% to \$36.9 million, from \$25.2 million for the year ended December 31, 2019. Growth in New Business Revenue is driven by an increase in Corporate Channel sales agent headcount of 47% and growth in operating franchises of 45%.

Renewal Revenue

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

For the year ended December 31, 2020, Renewal Revenue grew 37% to \$58.2 million, from \$42.4 million for the year ended December 31, 2019. Growth in Renewal Revenue was driven by Client Retention of 88% at December 31, 2020. As our agent force matures on both the Corporate Channel and the Franchise Channel, the policies they wrote in prior years begins to convert from New Business Revenue to more profitable Renewal Revenue.

Non-GAAP Financial Measures

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

Core Revenue

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

Core Revenue increased by \$27.5 million, or 41%, to \$95.1 million for the year ended December 31, 2020 from \$67.6 million for the year ended December 31, 2019. The primary driver of the increase is increases in operating franchises, corporate agent sales headcount, and number of policies in the renewal term from December 31, 2019 to December 31, 2020.

Cost Recovery Revenue

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

Cost Recovery Revenue increased by \$0.6 million, or 15%, to \$5.1 million for the year ended December 31, 2020 from \$4.4 million for the year ended December 31, 2019. The primary driver of the increase is a larger number of franchises in the system.

Ancillary Revenue

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

Ancillary Revenue increased by \$11.4 million, or 205%, to \$16.9 million for the year ended December 31, 2020 from \$5.5 million for the year ended December 31, 2019. The primary driver of the growth is an increase in Total Written Premium from December 31, 2019 to December 31, 2020 and very favorable loss ratios with our carriers.

Adjusted EBITDA

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

Adjusted EBITDA increased by \$10.3 million, or 59%, to \$27.8 million for the year ended December 31, 2020, from \$17.5 million for the year ended December 31, 2019, driven primarily by a significant increase in high-margin revenue from Contingent Commissions.

Adjusted EBITDA Margin

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

For the year ended December 31, 2020, Adjusted EBITDA Margin was 24% compared to 23% for the year ended December 31, 2019. The Adjusted EBITDA margin expansion came from a significant increase in high-margin Contingent Commissions, offset by investments to grow the Corporate sales agents 47%, increase the recruiting team to 98 people, plus additional investments in systems technology and public company costs related to SOX internal controls compliance.

Adjusted EPS

Adjusted EPS is a supplemental measure of our performance, defined as earnings per share (the most directly comparable GAAP measure) before non-recurring or non-operating income and expenses, adjusted to assume a single class of stock (Class A) and assuming non-controlling interest does not exist. Adjusted EPS is a useful measure to management because it eliminates the impact of items that do not relate to business performance and helps compare companies that may not have a dual-share class structure.

GAAP to Non-GAAP Reconciliations

| | Year ended December 31, | | |
|--|-------------------------|------------------|------------------|
| | 2020 (ASC 606) | 2019 (ASC 606) | 2018 (ASC 605) |
| Total Revenues | \$ 117,014 | \$ 77,486 | \$ 60,148 |
| Core Revenue: | | | |
| Renewal Commissions ⁽¹⁾ | \$ 28,891 | \$ 22,924 | \$ 18,357 |
| Renewal Royalty Fees ⁽²⁾ | 29,309 | 19,462 | 12,104 |
| New Business Commissions ⁽¹⁾ | 17,324 | 11,961 | 9,347 |
| New Business Royalty Fees ⁽²⁾ | 10,623 | 7,149 | 4,873 |
| Agency Fees ⁽¹⁾ | 8,921 | 6,058 | 5,169 |
| Total Core Revenue | 95,068 | 67,554 | 49,850 |
| Cost Recovery Revenue: | | | |
| Initial Franchise Fees ⁽²⁾ | 4,236 | 3,784 | 6,045 |
| Interest Income | 813 | 617 | 422 |
| Total Cost Recovery Revenue | 5,049 | 4,401 | 6,467 |
| Ancillary Revenue: | | | |
| Contingent Commissions ⁽¹⁾ | 16,675 | 5,423 | 3,831 |
| Other Income ⁽²⁾ | 222 | 108 | — |
| Total Ancillary Revenue | 16,897 | 5,531 | 3,831 |
| Total Revenues | \$ 117,014 | \$ 77,486 | \$ 60,148 |

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

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

The following tables show a reconciliation from net income to Adjusted EBITDA for the year ended December 31, 2020, 2019, and 2018 (*in thousands*):

| | Year ended December 31, | | |
|---|-------------------------|------------------|------------------|
| | 2020 (ASC 606) | 2019 (ASC 606) | 2018 (ASC 605) |
| Net income (loss) | \$ 18,755 | \$ 10,382 | \$ (18,667) |
| Interest expense | 2,310 | 2,387 | 4,266 |
| Depreciation and amortization | 3,147 | 1,931 | 1,464 |
| Tax expense (benefit) | (1,035) | 1,304 | 449 |
| Equity-based compensation | 4,745 | 1,526 | 27,083 |
| Other income (expense, including state franchise tax) | (90) | — | 157 |
| Adjusted EBITDA | \$ 27,832 | \$ 17,530 | \$ 14,752 |
| Adjusted EBITDA Margin⁽¹⁾ | 24 % | 23 % | 25 % |

(1) Adjusted EBITDA Margin is calculated as Adjusted EBITDA divided by Total Revenue excluding other non-operating items (\$27,832 / \$117,014) for the year ended December 31, 2020, (\$17,530 / \$77,486) for the year ended December 31, 2019, and (\$14,752 / \$60,148) for the year ended December 31, 2018 under ASC 605.

The following tables show a reconciliation from basic earnings per share to Adjusted EPS for the year ended December 31, 2020, 2019, and 2018. Note that totals may not sum due to rounding:

| | Year ended December 31, | | |
|--|-------------------------|----------------|----------------|
| | 2020 (ASC 606) | 2019 (ASC 606) | 2018 (ASC 605) |
| Earnings (loss) per share - basic (GAAP) | \$ 0.55 | \$ 0.24 | \$ (0.66) |
| Add: income prior to the Reorganization Transactions ⁽¹⁾ | — | — | 0.12 |
| Less: estimated controlling interest taxes on income prior to Reorganization Transactions ⁽²⁾ | — | — | (0.03) |
| Add: origination fees from previous debt immediately recognized upon refinance ⁽³⁾ | — | — | 0.02 |
| Add: equity-based compensation ⁽⁴⁾ | 0.13 | 0.04 | 0.75 |
| Adjusted EPS (non-GAAP) | <u>\$ 0.68</u> | <u>\$ 0.28</u> | <u>\$ 0.20</u> |

(1) Calculated for the full year 2018 as the income prior to the Reorganization Transactions divided by the sum of Class A and Class B shares at the time of IPO [\$4.4 million / (13.5 million + 22.7 million)]. See "Item 8. Financial statements and supplementary data."

(2) Calculated as the income prior to the Reorganization Transactions, times the controlling interest percentage at the time of IPO, times the assumed effective tax rate of 25%, divided by the count of Class A shares at the time of the IPO [\$4.4 million * 37.3% * 25% / 13.5 million].

(3) Calculated as the origination fees of previous debt immediately recognized upon refinance divided by sum of Class A and Class B shares at the time of the refinance [\$871 thousand / (13.5 million + 22.7 million)]

(4) Calculated as equity-based compensation divided by the weighted average of Class A and Class B shares outstanding during the period 2020 - [\$4.7 million / (16.8 million + 19.7 million) 2019 - [\$1.5 million / (14.9 million + 21.4 million)] 2018 - [\$27.1 million / (13.6 million + 22.7 million)]

Consolidated results of operations

The following is a discussion of our consolidated results of operations for each of the years ended December 31, 2020, December 31, 2019, and December 31, 2018 (under ASC 605). This information is derived from our accompanying consolidated financial statements prepared in accordance with GAAP.

The following table summarizes our results of operations for the years ended December 31, 2020, 2019, and 2018:

| | Year Ended December 31, | | | | | |
|--|-------------------------|--------------|-----------------|--------------|-------------------|--------------|
| | 2020 (ASC 606) | | 2019 (ASC 606) | | 2018 (ASC 605) | |
| Revenues: | | | | | | |
| Commissions and agency fees | \$ 71,811 | 61 % | \$ 46,366 | 60 % | \$ 36,704 | 61 % |
| Franchise revenues | 44,390 | 38 % | 30,503 | 39 % | 23,022 | 38 % |
| Interest income | 813 | 1 % | 617 | 1 % | 422 | 1 % |
| Total revenues | 117,014 | 100 % | 77,486 | 100 % | 60,148 | 100 % |
| Operating Expenses: | | | | | | |
| Employee compensation and benefits (including Class B unit compensation \$26,134 for the year ended December 31, 2018) | 66,819 | 69 % | 41,715 | 66 % | 58,256 | 79 % |
| General and administrative expenses | 25,532 | 26 % | 19,042 | 30 % | 13,060 | 17 % |
| Bad debts | 1,576 | 2 % | 725 | 1 % | 1,298 | 2 % |
| Depreciation and amortization | 3,147 | 3 % | 1,931 | 3 % | 1,464 | 2 % |
| Total operating expenses | 97,074 | 100 % | 63,413 | 100 % | 74,078 | 100 % |
| Income (loss) from operations | 19,940 | | 14,073 | | (13,930) | |
| Other Income (Expense): | | | | | | |
| Other income (expense) | 90 | | — | | (22) | |
| Interest expense | (2,310) | | (2,387) | | (4,266) | |
| Income (loss) before taxes | 17,720 | | 11,686 | | (18,218) | |
| Tax expense (benefit) | (1,035) | | 1,304 | | 449 | |
| Net Income (loss) | 18,755 | | 10,382 | | (18,667) | |
| Less: net income (loss) attributable to non-controlling interests | 9,468 | | 6,815 | | (9,764) | |
| Net Income (loss) attributable to Goosehead Insurance Inc. | \$ 9,287 | | \$ 3,567 | | \$ (8,903) | |

Revenues

In 2020, revenue increased by 51% to \$117.0 million from \$77.5 million in 2019.

Commissions and agency fees

Commissions and agency fees consist of Core Revenue from New Business Commissions, Renewal Commissions, and Agency Fees, and Ancillary Revenue from Contingent Commissions generated from the Corporate Channel and Franchise Channel and other income.

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

| | Year Ended December 31 | | | | | |
|------------------------------------|------------------------|--------------|------------------|--------------|------------------|--------------|
| | 2020 (ASC 606) | | 2019 (ASC 606) | | 2018 (ASC 605) | |
| Core Revenue: | | | | | | |
| Renewal Commissions | \$ 28,891 | 40 % | \$ 22,924 | 49 % | \$ 18,357 | 50 % |
| New Business Commissions | 17,324 | 24 % | 11,961 | 26 % | 9,347 | 25 % |
| Agency Fees | 8,921 | 12 % | 6,058 | 13 % | 5,169 | 14 % |
| Total | 55,136 | 77 % | 40,943 | 88 % | 32,873 | 90 % |
| Ancillary Revenue: | | | | | | |
| Contingent Commissions | 16,675 | 23 % | 5,423 | 12 % | 3,831 | 10 % |
| Commissions and agency fees | \$ 71,811 | 100 % | \$ 46,366 | 100 % | \$ 36,704 | 100 % |

Renewal Commissions increased by \$6.0 million, or 26%, to \$28.9 million for the year ended December 31, 2020 from \$22.9 million for the year ended December 31, 2019. These increases are primarily attributable to an increase in the number of policies in the renewal term at December 31, 2020 compared to December 31, 2019.

New Business Commissions increased by \$5.4 million, or 45%, to \$17.3 million for the year ended December 31, 2020 from \$12.0 million for the year ended December 31, 2019. Revenue from Agency Fees increased by \$2.9 million, or 47%, to \$8.9 million for the year ended December 31, 2020 from \$6.1 million for the year ended December 31, 2019. These increases were primarily attributable to an increase in total sales agent head count to 364 at December 31, 2020, from 248 at December 31, 2019, a 47% increase.

Revenue from Contingent Commissions increased by \$11.3 million, or 208%, to \$16.7 million for the year ended December 31, 2020, from \$5.4 million for the year ended December 31, 2019. The increase is primarily attributable to the increase in Total Written Premium for year ended December 31, 2020 compared to the year ended December 31, 2019 and a more profitable book of business with the Carriers that offer contingency programs.

Franchise Revenues

Franchise Revenues consist of Core Revenues from Royalty Fees, Cost Recovery Revenues from Initial Franchise Fees, and Ancillary Revenues from Interest Income.

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

| | Year Ended December 31, | | | | | |
|--------------------------------|-------------------------|--------------|------------------|--------------|------------------|--------------|
| | 2020 (ASC 606) | | 2019 (ASC 606) | | 2018 (ASC 605) | |
| Core Revenues: | | | | | | |
| Renewal Royalty Fees | \$ 29,309 | 66 % | \$ 19,462 | 64 % | \$ 12,104 | 53 % |
| New Business Royalty Fees | 10,623 | 24 % | 7,149 | 23 % | 4,873 | 21 % |
| Total | 39,932 | 90 % | 26,611 | 87 % | 16,977 | 74 % |
| Cost Recovery Revenues: | | | | | | |
| Initial Franchise Fees | 4,236 | 10 % | 3,784 | 12 % | 6,045 | 26 % |
| Ancillary Revenues: | | | | | | |
| Other Franchise Revenues | 222 | 1 % | 108 | — % | — | — % |
| Franchise revenues | \$ 44,390 | 100 % | \$ 30,503 | 100 % | \$ 23,022 | 100 % |

Revenue from Renewal Royalty Fees increase by \$9.8 million, or 51%, to \$29.3 million, for the year ended December 31, 2020 from \$19.5 million for the year ended December 31, 2019. The increase in revenue from Renewal Royalty Fees was primarily attributable to an increase in the number of policies in the renewal term, and the higher Royalty Fee rate on renewal business compared to new business (50% vs. 20%, respectively).

Revenue from New Business Royalty Fees increased by \$3.5 million, or 49%, to \$10.6 million for the year ended December 31, 2020 from \$7.1 million for the year ended December 31, 2019. The increase in revenue from New Business Royalty Fees was primarily attributable to an increase in the total number of operating franchises at December 31, 2020 compared to December 31, 2019.

Initial Franchise Fee revenue increased approximately \$0.5 million, or 12%, to \$4.2 million for the year ended December 31, 2020 from \$3.8 million for the year ended December 31, 2019. The primary driver of the increase in Initial Franchise Fees was the increase in total franchises. Under Topic 606, the Company recognizes the Initial Franchise Fee ratably over the 10-year term of the franchise agreement.

Interest Income

Interest Income increased \$0.2 million, or 32% to \$0.8 million for 2020 from \$0.6 million for 2019. This increase was primarily attributable to additional Franchise Agreements signed under the payment plan option.

Expenses

Employee compensation and benefits

Employee compensation and benefits expenses increased by \$25.1 million, or 60%, to \$66.8 million for 2020 from \$41.7 million for 2019. This was attributable to an increase in total headcount from 2019 to 2020, as well as additional stock options granted during 2020.

General and administrative expenses

General and administrative expenses increased by \$6.5 million, or 34%, to \$25.5 million for 2020 from \$19.0 million for 2019. This increase was attributable to \$1.0 million of expenses related to operating as a public company, and increases in expenses related to continued development of technology of \$4.5 million. The remainder of the increase is attributable to higher costs associated with an increase in operating franchises and employees.

Bad debts

Bad debts increased by \$0.9 million, or 117%, to \$1.6 million for 2020 from \$0.7 million for 2019. This increase was primarily attributable to increases in Agency Fees sold by the company.

Depreciation and amortization

Depreciation and amortization increased by \$1.2 million, or 63%, to \$3.1 million for 2020 from \$1.9 million for 2019. This increase was primarily attributable to the increase in fixed assets during the same period, including a full year of depreciation on the fixed assets put in place in connection with the additional hiring and lease space taken during the year.

Other income (expense)

During 2020 the Company had other income of \$90,000 related to legal settlement proceeds and sublease income, compared to \$0 in 2019.

Interest expense

Interest expenses decreased by \$77,000, or 3%, to \$2.3 million for 2020 from \$2.4 million for 2019. This decrease was attributable to a lower average interest rate throughout year as the company continues to de-lever its debt through Adjusted EBITDA growth.

Liquidity and capital resources

Historical liquidity and capital resources

We have managed our historical liquidity and capital requirements primarily through the receipt of revenues from our Corporate Channel and our Franchise Channel. Our primary cash flow activities involve: (1) generating cash flow from Corporate Channel operations, which largely includes Renewal Revenue (Corporate) and New Business Revenue (Corporate); (2) generating cash flow from Franchise Channel operations, which largely includes Royalty

Fees and Initial Franchise Fees; (3) making distributions to the Goosehead Management Holders and Texas Wasatch Holders; and (4) borrowings, interest payments and repayments under our Credit Agreement. As of December 31, 2020, our unrestricted cash and cash equivalents, and restricted cash was \$26.2 million. We have used cash flow from operations primarily to pay compensation and related expenses, general, administrative and other expenses, debt service and distributions to our owners.

Credit agreement

See "Note 9. Debt" in the consolidated financial statements included herein for a discussion of the Company's credit facilities.

Comparative cash flows

The following table summarizes our cash flows from operational, investing and financing activities for the periods indicated:

| | Year Ended December 31 | | |
|---|-------------------------------|------------------|------------------|
| | 2020 | 2019 | 2018 |
| Net cash provided by operating activities | \$ 24,643 | \$ 21,241 | \$ 10,275 |
| Net cash used for investing activities | (10,333) | (4,078) | (2,222) |
| Net cash (used for) provided by financing activities | (3,334) | (20,914) | 5,592 |
| Net increase (decrease) in cash and cash equivalents | 10,976 | (3,751) | 13,645 |
| Cash and cash equivalents, and restricted cash, beginning of period | 15,260 | 19,011 | 5,366 |
| Cash and cash equivalents, and restricted cash, end of period | <u>\$ 26,236</u> | <u>\$ 15,260</u> | <u>\$ 19,011</u> |

Operational activities

Net cash provided by operational activities was \$24.6 million for 2020 as compared to net cash provided by operational activities of \$21.2 million for 2019. This increase in net cash provided by operational activities was primarily attributable to a \$8.4 million increase in net income and a \$5.1 million increase in contract liabilities, offset by a \$9.8 million decrease in deferred rent.

Business investment activities

Net cash used in business investment activities was \$10.3 million for 2020 as compared to net cash used in business investment activities of \$4.1 million for 2019. This increase in net cash used in business investment activities was primarily attributable to fixed asset growth directly related to headcount increases and additional office space buildout during the year.

Financing activities

Net cash used in financing activities was \$3.3 million for 2020 as compared to net cash used by financing activities of \$20.9 million for 2019. This decrease in net cash used financing activities is due to the \$64.8 million increase in proceeds received from notes payable during 2020, offset by a \$25.3 million increase in repayments made on notes payable and a \$26.0 million increase in distributions and dividends paid during 2020.

Future sources and uses of liquidity

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

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

Dividend policy

Assuming Goosehead Financial, LLC makes distributions to its members in any given year, the determination to pay dividends, if any, to our Class A common stockholders out of the portion, if any, of such distributions remaining after our payment of taxes, tax receivable agreement payments and expenses (any such portion, an "excess distribution") will be made at the sole discretion of our board of directors. Our board of directors may change our dividend policy at any time. See "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Dividend policy".

Tax receivable agreement

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

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

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

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

Contractual obligations, commitments and contingencies

The following table represents our contractual obligations as of December 31, 2020, aggregated by type.

| (in thousands) | Contractual obligations, commitments and contingencies | | | | |
|---|--|------------------|------------------|------------------|-------------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Operating leases ⁽¹⁾ | \$ 41,873 | \$ 4,150 | \$ 9,097 | \$ 8,605 | \$ 20,021 |
| Debt obligations payable ⁽²⁾ | 83,500 | 3,500 | 80,000 | — | — |
| Interest expense ⁽³⁾ | 2,035 | 85 | 1,950 | — | — |
| Liabilities under tax receivable agreement ⁽⁴⁾ | 62,121 | 549 | 6,500 | 8,300 | 46,772 |
| Total | \$ 189,529 | \$ 8,284 | \$ 97,547 | \$ 16,905 | \$ 66,793 |

- (1) The Company leases its facilities under non-cancelable operating leases. In addition to monthly lease payments, the lease agreements require the Company to reimburse the lessors for its portion of operating costs each year. Rent expense was \$3.1 million, \$1.9 million, and \$1.6 million for year ending December 31, 2020, 2019, and 2018.
- (2) The Company refinanced its credit facilities on March 6, 2020 in the form of a \$80 million term loan and \$25 million revolving credit facility, of which \$5 million was drawn as of December 31, 2020.
- (3) Interest payments on our outstanding debt obligations under our Credit Agreement. Our debt obligations have variable interest rates. We have calculated future interest obligations based on the interest rate for our debt obligations as of December 31, 2020.
- (4) See "Item 7. Management's discussion and analysis of financial condition and results of operation - Tax receivable agreement."

Off-balance sheet arrangements

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

Critical accounting policies and estimates

We prepare our consolidated financial statements in accordance with GAAP. In applying many of these accounting principles, we need to make assumptions, estimates or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates or judgments, however, are both subjective and subject to change, and actual results may differ from our assumptions and estimates. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates or judgments. See "Item 8. Financial statements and supplementary data - Summary of significant accounting policies" for a summary of our significant accounting policies, and discussion of recent accounting pronouncements.

Revenue recognition

The adoption of the new revenue standard on January 1, 2019 has increased the significance of judgments and estimates management must make to apply the guidance. In particular, judgments related to the amount of variable revenue consideration to ultimately be received on commission revenue, royalty fees, and contingent commissions, which were previously recognized when the Company received notification from the insurance carrier, now require significant judgments and estimates. The Company adjusts its estimates of revenue recognized for commissions and royalty fees based on cash collections during the terms of the policies.

Under the new standard, certain costs to obtain or fulfill a contract that were previously expensed as incurred have been capitalized. The Company capitalizes the incremental costs to obtain contracts primarily related to commission payments. These deferred costs are amortized over the expected life of the underlying franchise fee, and are included in Other assets in the Company's consolidated balance sheet as of December 31, 2020.

Liabilities under Tax Receivable Agreement

In connection with the Offering we entered into a tax receivable agreement with the Pre-IPO LLC Members that will provide for the payment by us to the Pre-IPO LLC Members of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that we actually realize as a result of (i) any increase in tax basis

in Goosehead Financial, LLC's assets resulting from (a) the acquisition of LLC Units using the net proceeds from any future offering, (b) redemptions or exchanges by the Pre-IPO LLC Members of LLC Units and the corresponding number of shares of Class B common stock for shares of our Class A common stock or (c) payments under the tax receivable agreement, and (ii) tax benefits related to imputed interest deemed arising as a result of payments made under the tax receivable agreement.

The actual increase in tax basis, as well as the amount and timing of any payments under the tax receivable agreement, will vary depending on a number of factors, including, but not limited to, the timing of any future redemptions, exchanges or purchases of the LLC Units held by Pre-IPO LLC Members, the price of our Class A common stock at the time of the purchase, redemption or exchange, the extent to which redemptions or exchanges are taxable, the amount and timing of the taxable income that we generate in the future, the tax rates then applicable and the portion of our payments under the tax receivable agreement constituting imputed interest.

As of December 31, 2020, as a result of the redemption of LLC Units, we recognized liabilities totaling \$61.6 million relating to our obligations under the Tax Receivable Agreement.

Item 7A. Quantitative and qualitative disclosure of market risks

Market risk is the potential loss arising from adverse changes in market rates and prices, such as premium amounts, interest rates, and equity prices. We are exposed to market risk through our Book of Business and borrowings under our Credit Agreement.

Insurance premium pricing within the P&C insurance industry has historically been cyclical, based on the underwriting capacity of the insurance industry and economic conditions. External events, such as terrorist attacks, man-made and natural disasters, can also have significant impacts on the insurance market. We use the terms "soft market" and "hard market" to describe the business cycles experienced by the industry. A soft market is an insurance market characterized by a period of declining premium rates, which can negatively affect commissions earned by insurance agents. A hard market is an insurance market characterized by a period of rising premium rates, which, absent other changes, can positively affect commissions earned by insurance agents.

As of December 31, 2020, we had \$83.5 million of borrowings outstanding under our Credit Agreement which bears interest on a floating basis tied to the London Interbank Offered Rate (LIBOR) and therefore subject to changes in the associated interest expense. The effect of an immediate hypothetical 10% change in interest rates would not have a material effect on our consolidated financial statements.

Item 8. Financial statements and supplementary data

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Report of Independent Registered Public Accounting Firm

To the stockholders and the Board of Directors of Goosehead Insurance, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Goosehead Insurance, Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective January 1, 2019, the Company adopted *Revenue from Contracts with Customers* (ASU 2014-09) ("Topic 606"), as amended, using the modified retrospective method.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Commissions and Agency Fees and Franchise Revenues – New and Renewal Commissions and New and Renewal Royalty Fees — Refer to Note 3 to the financial statements

Critical Audit Matter Description

Commissions revenue consists of commissions earned from insurance carriers for services performed on behalf of the insured in the placement of insurance policies both for the initial placement of the policies and the subsequent renewals of those policies. Commissions revenue is recorded at a point in time on the effective date of the policy. Franchise revenues consist of royalty fees earned by the Company for providing initial training, onboarding, ongoing

support and use of the Company's business operations over the period of the franchise agreement based on a percentage of commissions earned by franchisees from insurance carriers. Royalty fees revenue is recognized over time under the sales- and usage-based exception on the effective date of policies placed by franchisees. The Company estimates the amount of commissions and royalty fees revenue to recognize on the effective date a policy is placed into service based on estimates of premiums placed, policy changes, and cancellations, net of a constraint. Management adjusts its estimates of revenue recognized for commissions and royalty fees based on cash collections during the terms of the policies. For the year ended December 31, 2020, commissions and agency fees was \$71.8 million, of which \$46.2 million relates to new and renewal commissions. For the year ended December 31, 2020, franchise revenue was \$44.4 million, of which \$39.9 million relates to new and renewal royalty fees.

We identified commissions and royalty fees revenue as a critical audit matter because of the judgments necessary for management to estimate policy changes and cancellations and for management to estimate constraints for renewal commissions and renewal royalty fees. This required extensive audit effort due to the volume of commissions contracts and required a high degree of auditor judgment when performing audit procedures to audit management's estimates of policy changes, policy cancellations, and constraints and evaluating the results of those procedures.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to management's estimates of premiums placed, policy changes, policy cancellations, and constraints and adjustments to its estimates based on cash collections used to recognize revenue for commissions and royalty fees revenue included the following, among others:

- We tested the operating effectiveness of controls over commissions and royalty fees revenue, including management's controls over the adjustments to its estimates of policy changes, policy cancellations, and constraints based on cash collections.
- We evaluated management's revenue estimates for commissions and royalty fees revenue made at year end based on cash collections during the terms of the policies by performing the following:
 - Compared the adjustments of revenue based on cash collections used by management to historical cash collection rates for portfolios of policies with the same remaining policy term.
 - Tested the accuracy and completeness of historical cash collection data used in the calculation of historical cash collection rates.
- We evaluated management's estimate of the constraints applied to renewal commissions and renewal royalty fees revenue by comparing the constraints to historical adjustments of commissions and royalty fees revenue.
- We evaluated whether publicly available information contradicted management's assumptions.

/s/ Deloitte & Touche LLP

Dallas, Texas

February 26, 2021

We have served as the Company's auditor since 2017.

Goosehead Insurance, Inc.

Consolidated statements of operations

(In thousands, except per share amounts)

| | Year Ended December 31, | | |
|---|-------------------------|-----------------|-------------------|
| | 2020 | 2019 | 2018 |
| Revenues: | | | |
| Commissions and agency fees | \$ 71,811 | \$ 46,366 | \$ 36,704 |
| Franchise revenues | 44,390 | 30,503 | 23,022 |
| Interest income | 813 | 617 | 422 |
| Total revenues | 117,014 | 77,486 | 60,148 |
| Operating Expenses: | | | |
| Employee compensation and benefits (including Class B unit compensation of \$26,134 for the year ended December 31, 2018) | 66,819 | 41,715 | 58,256 |
| General and administrative expenses | 25,532 | 19,042 | 13,060 |
| Bad debts | 1,576 | 725 | 1,298 |
| Depreciation and amortization | 3,147 | 1,931 | 1,464 |
| Total operating expenses | 97,074 | 63,413 | 74,078 |
| Income (loss) from operations | 19,940 | 14,073 | (13,930) |
| Other Income (Expense): | | | |
| Other income (expense) | 90 | — | (22) |
| Interest expense | (2,310) | (2,387) | (4,266) |
| Income (loss) before taxes | 17,720 | 11,686 | (18,218) |
| Tax expense (benefit) | (1,035) | 1,304 | 449 |
| Net Income (loss) | 18,755 | 10,382 | (18,667) |
| Less: net income (loss) attributable to non-controlling interests | 9,468 | 6,815 | (9,764) |
| Net Income (loss) attributable to Goosehead Insurance Inc. | \$ 9,287 | \$ 3,567 | \$ (8,903) |
| Earnings per share: | | | |
| Basic | \$ 0.55 | \$ 0.24 | \$ (0.66) |
| Diluted | \$ 0.51 | \$ 0.22 | \$ (0.66) |
| Weighted average shares of Class A common stock outstanding | | | |
| Basic | 16,785 | 14,864 | 13,554 |
| Diluted | 18,383 | 16,100 | 13,554 |

See Notes to the Consolidated Financial Statements

Goosehead Insurance, Inc.

Consolidated balance sheets

(In thousands, except share and par value amounts)

| | December 31, | |
|---|-------------------|------------------|
| | 2020 | 2019 |
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 24,913 | \$ 14,337 |
| Restricted cash | 1,323 | 923 |
| Commissions and agency fees receivable, net | 18,604 | 6,884 |
| Receivable from franchisees, net | 2,100 | 2,602 |
| Prepaid expenses | 3,705 | 1,987 |
| Total current assets | <u>50,645</u> | <u>26,733</u> |
| Receivable from franchisees, net of current portion | 18,179 | 11,014 |
| Property and equipment, net of accumulated depreciation | 16,650 | 9,542 |
| Right-of use asset | 22,513 | — |
| Intangible assets, net of accumulated amortization | 549 | 445 |
| Deferred income taxes, net | 73,363 | 15,537 |
| Other assets | 3,938 | 1,357 |
| Total assets | <u>\$ 185,837</u> | <u>\$ 64,628</u> |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 8,101 | \$ 5,033 |
| Premiums payable | 1,323 | 923 |
| Lease liability | 3,203 | — |
| Deferred rent | — | 683 |
| Contract liabilities | 4,233 | 2,771 |
| Note payable | 3,500 | 4,000 |
| Total current liabilities | <u>20,360</u> | <u>13,410</u> |
| Lease liability, net of current portion | 32,933 | — |
| Deferred rent, net of current portion | — | 6,681 |
| Note payable, net of current portion | 79,408 | 42,161 |
| Contract liabilities, net of current portion | 29,968 | 20,024 |
| Liabilities under tax receivable agreement, net of current portion | 61,572 | 13,359 |
| Total liabilities | 224,241 | 95,635 |
| Commitments and contingencies (see notes 9, 15, and 17) | | |
| Class A common stock, \$0.01 par value per share 300,000,000 shares authorized, 18,303,649 shares issued and outstanding as of December 31, 2020, 15,238,079 issued and outstanding as of December 31, 2019 | 183 | 152 |
| Class B common stock, \$0.01 par value per share - 50,000,000 shares authorized, 18,446,689 issued and outstanding as of December 31, 2020, 21,054,935 issued and outstanding as of December 31, 2019 | 184 | 210 |
| Additional paid in capital | 29,371 | 14,442 |
| Accumulated deficit | (34,614) | (23,811) |
| Total stockholders' equity and members' deficit | <u>(4,876)</u> | <u>(9,007)</u> |
| Non-controlling interests | (33,528) | (22,000) |
| Total equity | <u>(38,404)</u> | <u>(31,007)</u> |
| Total liabilities and equity | <u>\$ 185,837</u> | <u>\$ 64,628</u> |

See Notes to the Consolidated Financial Statements

Goosehead Insurance, Inc.

Consolidated statement of stockholders' equity

(In thousands)

| | Members' deficit | Issued shares of Class A common stock | Issued shares of Class B common stock | Class A Common stock | Class B Common Stock | Additional paid in capital | Accumulated deficit | Total stockholders' equity | Non-controlling interest | Total equity |
|---|------------------|---------------------------------------|---------------------------------------|----------------------|----------------------|----------------------------|---------------------|----------------------------|--------------------------|--------------|
| Balance January 1, 2018 | \$ (41,133) | — | — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ (41,133) |
| Net Income | 3,768 | — | — | — | — | — | — | — | — | 3,768 |
| Capital withdrawn | — | — | — | — | — | — | — | — | — | — |
| Balance March 31, 2018 | (37,365) | — | — | — | — | — | — | — | — | (37,365) |
| Net income prior to the Reorganization Transactions | 621 | — | — | — | — | — | — | — | — | 621 |
| Distributions prior to the Reorganization Transactions | (1,278) | — | — | — | — | — | — | — | — | (1,278) |
| Balance prior to the Reorganization Transactions | (38,022) | — | — | — | — | — | — | — | — | (38,022) |
| Effects of the Reorganization Transactions | 38,022 | — | 22,747 | — | 227 | (94,180) | (21,562) | (115,515) | (36,241) | (113,734) |
| Initial non-controlling interest allocation | — | — | — | — | — | (18,920) | — | (18,920) | 18,920 | — |
| Issuance of Class A common stock sold in initial public offering, net of offering costs | — | 13,533 | — | 135 | — | 123,875 | — | 124,010 | — | 124,010 |
| Distributions subsequent to initial public offering | — | — | — | — | — | — | — | — | (1,735) | (1,735) |
| Net income subsequent to initial public offering | — | — | — | — | — | — | 801 | 801 | 2,159 | 2,960 |
| Equity-based compensation subsequent to initial public offering | — | — | — | — | — | 949 | — | 949 | — | 949 |
| Activity under employee stock purchase plan | — | 5 | — | — | — | 143 | — | 143 | — | 143 |
| Redemption of LLC Units | — | 261 | (261) | 3 | (3) | (194) | — | (194) | 194 | — |
| Deferred tax adjustments related to Tax Receivable Agreement | — | — | — | — | — | 315 | — | 315 | — | 315 |
| Deferred tax adjustments | — | — | — | — | — | (89) | — | (89) | — | (89) |
| Balance December 31, 2018 | \$ — | 13,799 | 22,486 | \$ 138 | \$ 224 | \$ 11,899 | \$ (20,761) | \$ (8,500) | \$ (16,703) | \$ (25,203) |

| | Issued shares of Class A common stock | Issued shares of Class B common stock | Class A Common stock | Class B Common Stock | Additional paid in capital | Accumulated deficit | Total stockholders' equity | Non-controlling interest | Total equity |
|---|---------------------------------------|---------------------------------------|----------------------|----------------------|----------------------------|---------------------|----------------------------|--------------------------|--------------|
| Balance January 1, 2019 | 13,799 | 22,486 | 138 | 224 | 11,899 | (20,761) | (8,500) | (16,703) | (25,203) |
| Cumulative effect of adoption of the revenue recognition standard | — | — | — | — | — | (517) | (517) | (841) | (1,358) |
| Distributions | — | — | — | — | — | — | — | (3,739) | (3,739) |
| Dividends declared | — | — | — | — | — | (5,962) | (5,962) | (9,038) | (15,000) |
| Net income | — | — | — | — | — | 3,567 | 3,567 | 6,815 | 10,382 |
| Equity-based compensation | — | — | — | — | 1,526 | — | 1,526 | — | 1,526 |
| Redemption of LLC Units | 1,431 | (1,431) | 14 | (14) | (1,368) | — | (1,368) | 1,368 | — |
| Deferred tax adjustments related to Tax Receivable Agreement | — | — | — | — | 2,060 | — | 2,060 | — | 2,060 |
| Activity under employee stock purchase plan | 8 | — | — | — | 325 | — | 325 | — | 325 |
| Reallocation of Non-controlling interest | — | — | — | — | — | (138) | (138) | 138 | — |
| Balance December 31, 2019 | 15,238 | 21,055 | 152 | 210 | 14,442 | (23,811) | (9,007) | (22,000) | (31,007) |

| | Issued shares of Class A common stock | Issued shares of Class B common stock | Class A Common stock | Class B Common Stock | Additional paid in capital | Accumulated deficit | Total stockholders' equity | Non-controlling interest | Total equity |
|--|---------------------------------------|---------------------------------------|----------------------|----------------------|----------------------------|---------------------|----------------------------|--------------------------|--------------|
| Balance January 1, 2020 | 15,238 | 21,055 | 152 | 210 | 14,442 | (23,811) | (9,007) | (22,000) | (31,007) |
| Distributions | — | — | — | — | — | — | — | (2,697) | (2,697) |
| Dividends declared | — | — | — | — | — | (19,895) | (19,895) | (22,105) | (42,000) |
| Net income | — | — | — | — | — | 9,287 | 9,287 | 9,468 | 18,755 |
| Exercise of stock options | 450 | — | 5 | — | 4,493 | — | 4,498 | — | 4,498 |
| Equity-based compensation | — | — | — | — | 4,745 | — | 4,745 | — | 4,745 |
| Activity under employee stock purchase plan | 8 | — | — | — | 542 | — | 542 | — | 542 |
| Redemption of LLC Units | 2,608 | (2,608) | 26 | (26) | (3,525) | — | (3,525) | 3,525 | — |
| Deferred tax adjustments related to Tax Receivable Agreement | — | — | — | — | 8,674 | — | 8,674 | 86 | 8,760 |
| Reallocation of Non-controlling interest | — | — | — | — | — | (195) | (195) | 195 | — |
| Balance December 31, 2020 | 18,304 | 18,447 | 183 | 184 | 29,371 | (34,614) | (4,876) | (33,528) | (38,404) |

See Notes to the Consolidated Financial Statements

Goosehead Insurance, Inc.

Consolidated statements of cash flows

(In thousands)

| | Year Ended December 31, | | |
|--|-------------------------|------------------|------------------|
| | 2020 | 2019 | 2018 |
| Cash flows from operating activities: | | | |
| Net income (loss) | \$ 18,755 | \$ 10,382 | \$ (18,667) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 3,570 | 2,145 | 2,522 |
| Loss on disposal of fixed assets | — | — | 22 |
| Bad debt expense | 1,576 | 725 | 1,298 |
| Equity based compensation | 4,745 | 1,526 | 26,960 |
| Impact of tax receivable agreement | 48,760 | 11,676 | 1,702 |
| Deferred income taxes | (49,066) | (11,382) | (1,732) |
| Noncash lease expense | 13,623 | — | — |
| Changes in operating assets and liabilities: | | | |
| Receivable from franchisees | (7,085) | (5,161) | (1,637) |
| Commissions and agency fees receivable | (12,909) | 2,474 | (1,258) |
| Prepaid expenses | (1,718) | (877) | (588) |
| Other assets | (2,581) | (346) | 435 |
| Accounts payable and accrued expenses | 2,541 | 913 | 1,210 |
| Deferred rent | (7,365) | 2,389 | 582 |
| Contract liabilities | 11,406 | 6,281 | — |
| Premiums payable | 400 | 547 | (42) |
| Unearned revenue | — | (51) | (532) |
| Payments pursuant to the tax receivable agreement | (9) | — | — |
| Net cash provided by operating activities | 24,643 | 21,241 | 10,275 |
| Cash flows from investing activities: | | | |
| Proceeds from notes receivable | 35 | 19 | 22 |
| Purchase of software | (393) | (403) | (148) |
| Purchase of property and equipment | (9,975) | (3,694) | (2,096) |
| Net cash used for investing activities | (10,333) | (4,078) | (2,222) |
| Cash flows from financing activities: | | | |
| Debt issuance cost | (677) | — | (639) |
| Repayment of note payable | (27,821) | (2,500) | (50,625) |
| Proceeds from notes payable | 64,821 | — | 50,000 |
| Proceeds from the issuance of Class A common stock | 5,040 | 325 | 86,915 |
| Member distributions and dividends to stockholders | (44,697) | (18,739) | (80,059) |
| Net cash (used for) provided by financing activities | (3,334) | (20,914) | 5,592 |
| Net increase (decrease) in cash and cash equivalents, and restricted cash | 10,976 | (3,751) | 13,645 |
| Cash and cash equivalents, and restricted cash, beginning of period | 15,260 | 19,011 | 5,366 |
| Cash and cash equivalents, and restricted cash, end of period | \$ 26,236 | \$ 15,260 | \$ 19,011 |
| Supplemental disclosure of cash flow data: | | | |
| Non-cash management fee note repayment | — | — | 135 |
| Cash paid during the year for interest | 1,887 | 2,173 | 3,207 |
| Cash paid for income taxes | 270 | 1,175 | 300 |

See Notes to the Consolidated Financial Statements

Goosehead Insurance, Inc.

Notes to consolidated financial statements

1. Organization

On May 1, 2018 Goosehead Insurance, Inc. ("GSHD") completed the Offering of 9,810 thousand shares of Class A common stock at a price of \$10.00 per share, which included 1,280 thousand shares issued pursuant to the underwriter's over-allotment option. GSHD became the sole managing member of Goosehead Financial, LLC ("GF"). GF was organized on January 1, 2016 as a Delaware Limited Liability Company and is headquartered in Westlake, TX. The operations of GF represent the predecessor to GSHD prior to the Offering, and the consolidated entities of GF are described in more detail below. Information for any periods prior to May 1, 2018 relates to GF and its subsidiaries and affiliates.

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

The operations of the corporate-owned units are recorded in Texas Wasatch Insurance Services, L.P. ("TWIS")—a Texas limited partnership headquartered in Westlake, TX and operating since 2003. TWIS is a wholly owned subsidiary of GF. The Company had nine corporate-owned locations in operation at December 31, 2020 and seven at December 31 2019 and 2018.

The operations of the franchise units are recorded in Goosehead Insurance Agency, LLC ("GIA")—a Delaware limited liability company headquartered in Westlake, TX and operating since 2011. GIA is 100% owned by Goosehead Insurance Holdings ("GIH"), which is 100% owned by GF. Franchisees are provided access to insurance Carrier Appointments, product training, technology infrastructure, client service centers and back office services. During years ended December 31, 2020, 2019, and 2018, the Company onboarded 337, 247, and 214 franchise locations, respectively and had 891, 614, and 457 operating franchise locations as of December 31, 2020 and 2019, respectively. No franchises were purchased by the Company during the years ended December 31, 2020, 2019, and 2018.

In connection with the Offering, both Goosehead Management, LLC ("GM") and Texas Wasatch Insurance Holdings Group LLC ("TWIHG") became wholly owned indirect subsidiaries of GF. Both GM and TWIHG are non-operating holding companies created to receive management fees from the operating entities TWIS and GIA.

All intercompany accounts and transactions have been eliminated in consolidation.

Reorganization Transactions

In connection with the Offering, the Company completed the following transactions (the "Reorganization Transactions"):

- The GF limited liability company agreement was amended to, among other things, i) appoint GSHD as the sole managing member of GF and ii) modify the capital structure of GF by reclassifying the interests previously held by Pre-IPO LLC Members into a single new class of non-voting LLC Units.
- GSHD was authorized to issue two classes of common stock. 9,810 thousand shares of Class A common stock were issued pursuant to the Offering, including the underwriters' over-allotment option. 22,747 thousand shares of Class B common stock were issued to the Pre-IPO LLC Members in an amount equal to the number of LLC Units held by each such Pre-IPO LLC Member in exchange for certain management rights of GF. Each share of Class A common stock and Class B common stock entitles its holder to one vote per share on all matters submitted to a vote of GSHD's stockholders. Each share of Class B common stock can be exchanged for one share of Class A common stock or, at GSHD's discretion, a cash payment equal to the volume weighted average market price of one share of Class A common stock, thus canceling the share of Class B common stock on a one-for-one basis.
- The Goosehead Management Holders and Texas Wasatch Holders indirectly transferred their ownership interests in GM and TWIHG, respectively, to GSHD in exchange for the Goosehead Management Note and Texas Wasatch Note. The aggregate principal amount of the Goosehead Management Note and the Texas Wasatch Note was approximately \$114 million. Because the net proceeds from the Offering were insufficient to repay the aggregate principal amount of the notes, 3,724 thousand shares of Class A common stock

were issued to the Goosehead Management Holders and the Texas Wasatch Holders for the difference. GSHD contributed direct and indirect ownership interests in each of TWIHG and GM to GF.

Following completion of the Reorganization Transactions and the Offering, GSHD owned 37.3% of GF and the Pre-IPO LLC Members owned the remaining 62.7%. GSHD is the sole managing member of GF and, although GSHD holds a minority economic interest in GF, GSHD has the sole voting power and control of management of GF. Accordingly, GSHD consolidates the financial results of GF and reports non-controlling interest in GSHD's consolidated financial statements.

2. Summary of significant accounting policies

Impact of the coronavirus (“COVID-19”) pandemic

The extent to which the COVID-19 pandemic and the related economic impact may affect our financial condition or results of operations is uncertain. The extent of the impact on our operational and financial performance will depend on various factors, including the duration and spread of the outbreak and its impact on home sales and consumer spending. To date, the pandemic has not increased our costs of or access to capital under our term note and revolving credit facility, and we do not believe it is reasonably likely to do so in the future. In addition, we do not believe that the pandemic will affect our ongoing ability to meet the covenants in our debt instruments, including under our term note and revolving credit facility. To date, the pandemic has not impacted the collectability of receivables or adversely affected our ability to generate new business, add new franchises, or retain existing franchises or policies. Due to the nature of our business, the effect of the COVID-19 pandemic may not be fully reflected in our results of operations until future periods. Changes in consumer behavior linked to the COVID-19 pandemic may have contributed to reduced loss ratios through the twelve months ended December 31, 2020, increasing the amount of revenue from Contingent Commissions the Company expects to receive.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates as more information becomes known.

Cash and cash equivalents

The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits; however, the Company has not historically experienced any losses in these accounts. The Company believes it is not exposed to any significant credit risk. The Company currently holds no financial instruments that would be considered cash equivalents.

Restricted cash

The Company holds premiums received from the insured, but not yet remitted to the insurance carrier in a fiduciary capacity. Premiums received but not yet remitted included in restricted cash were \$1,323 thousand and \$923 thousand as of December 31, 2020 and 2019, respectively.

The following is a reconciliation of our cash and restricted cash balances as presented in the consolidated statement of cash flows for the years ended December 31, 2020, 2019, and 2018 (in thousands):

| | December 31, 2020 | | |
|--|--------------------------|------------------|------------------|
| | 2020 | 2019 | 2018 |
| Cash and cash equivalents | \$ 24,913 | \$ 14,337 | \$ 18,635 |
| Restricted cash | 1,323 | 923 | 376 |
| Cash and cash equivalents, and restricted cash | <u>\$ 26,236</u> | <u>\$ 15,260</u> | <u>\$ 19,011</u> |

Commissions and agency fees receivable

Upon issuance of a new policy, the Company typically collects the first premium payment from the insured, and then will remit the full premium amount to the insurance carriers. The insurance carriers collect the remaining premiums directly from the insureds and remit the applicable commissions to the Company. Accordingly, as reported in the accompanying consolidated balance sheet, commissions are receivables from the insurance carriers. These direct-

bill arrangements consist of a high volume of transactions with small premium amounts, with the billing controlled by the insurance carriers. The income statement and balance sheet effects of the commissions are recorded at the contract effective date and generally are based on a percentage of premiums for insurance coverage. During 2020, the Company wrote with over 140 insurance carriers, of which 45 provided national coverage. In 2020, three carriers represented more than 10% of total revenue at 20%, 13% and 12%. In 2019, two carriers represented more than 10% of total revenue at 16% and 10%. In 2018, two carriers represented more than 10% of total revenue at 17% and 11%.

In select states, agents have the option to charge an agency fee for the placement of the insurance policy. These non-refundable fees are recorded as receivable on the date the policy is effective with the insurance carrier.

Allowance for uncollectible agency fees

The Company records agency fees receivable net of an allowance for estimated uncollectible accounts to reflect any loss anticipated for the related agency fees receivable balances and charge to bad debts. The agency fees receivable balance consists of numerous small-balance, homogeneous accounts. The Company calculates the allowance based on collection history and writes off all uncollected agency fee balances outstanding over ninety days.

Receivable from franchisees

Receivable from franchisees consists of franchise fees receivable, net of allowance for uncollectible franchise fees and unamortized discount on franchise fees, royalty fees receivable, and notes receivable from franchisees.

Franchise fees receivable

At the start date of the franchise agreement, an entry to franchise fees receivable is recorded along with an entry for a contract liability, to be amortized to franchise fees within Franchise revenues over the 10-year life of the franchise contract. Franchisees have the option to pay the full amount of franchise fees up front or to pay a deposit up front and the remaining balance by payment plan over time. The franchisees that elect to pay the initial franchise fee over a term extending greater than one year pay in total an amount that exceeds the amount due had they paid the full amount up front. As such, the payment plan option is treated as a zero-interest rate note, which creates an imputation of interest. The imputed interest is recorded as a discount on the franchise fee receivable and amortized using the interest rate method over the life of the payment plan. The amount of interest recorded in 2020, 2019, and 2018 related to franchise fees on a payment plan was \$803 thousand, \$606 thousand, and \$418 thousand, respectively, and is included in Interest income.

Allowance for uncollectible franchise fees receivable

The Company records franchise fees receivable net of an allowance for estimated uncollectible accounts to reflect any loss anticipated related to the franchise fees receivable balances and charged to bad debts. The franchise fees receivable balance consists of numerous small-balance, homogeneous accounts. The Company calculates the allowance based on our history of write offs for all franchise accounts. Franchise fees receivable and the related allowance is charged off to bad debts if the franchisee owing the balance terminates.

Royalty fees receivable

Royalty fees are recorded at the point in time when the policy becomes effective with the insurance carrier. The royalty fees are secured by the commissions of the franchisee with no historical losses incurred for uncollectible royalty fees. As such, there is no allowance for doubtful accounts relating to royalty fees.

Revenue recognition

The adoption of the new revenue standard on January 1, 2019 has increased the significance of judgments and estimates management must make to apply the guidance. In particular, judgments related to the amount of variable revenue consideration to ultimately be received on commission revenue, royalty fees, and contingent commissions, which were previously recognized when the Company received notification from the insurance carrier, now require significant judgments and estimates. The Company adjusts its estimates of revenue recognized for commissions and royalty fees based on cash collections during the terms of the policies.

Under the new standard, certain costs to obtain or fulfill a contract that were previously expensed as incurred have been capitalized. The Company capitalizes the incremental costs to obtain contracts primarily related to commission

payments. These deferred costs are amortized over the expected life of the underlying franchise fee, and are included in Other assets in the Company's consolidated balance sheet as of December 31, 2020

Property & equipment

The Company carries fixed assets at cost, less accumulated depreciation, as stated in the accompanying consolidated balance sheets. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful life of five years for furniture, fixtures and equipment and three years for computer equipment. Leasehold improvements are also amortized using the straight-line method and are amortized over the shorter of the remaining term of the lease or the useful life of the improvement. Expenditures for improvements are capitalized, and expenditures for maintenance and repairs are expensed as incurred. Upon sale or retirement, the cost and related accumulated depreciation and amortization is removed from the related accounts, and the resulting gain or loss, if any, is reflected in income.

Intangible assets

Intangible assets are stated at cost less accumulated amortization and reflect amounts paid for the Company's web domain and computer software costs. The web domain is amortized over a useful life of fifteen years and software costs are amortized over a useful life of three years.

Premiums payable

Premiums payable represent premium payments that have been received from insureds, but not yet remitted to the insurance carriers.

Deferred financing costs

Deferred financing costs incurred in connection with the issuance of debt are capitalized and amortized to interest expense in accordance with the related debt agreements. Deferred financing costs are included as a reduction in notes payable on the accompanying consolidated balance sheets.

Lease Accounting

The primary leased asset class of the Company is real estate. For leases with an original term longer than one year, lease liabilities are initially recognized on the lease commencement date based on the present value of the future minimum lease payments over the lease term, including non-lease components such as fixed common area maintenance costs and other fixed costs for generally all leases. A corresponding right of use ("ROU") asset is initially recognized equal to the lease liability adjusted for any lease prepayments, initial direct costs and lease incentives and amortized into rent expense, which is mapped to general and administrative expenses in the consolidated statements of operations.

The discount rates used in determining the present value of leases represent our collateralized borrowing rate considering each lease's term. The lease term includes options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Certain leases have renewal options that can be exercised at the discretion of the Company. Rent expense is generally recognized on a straight-line basis over the lease term and included in General and administrative expenses in the Consolidated Statement of Operations. See Note 15 for further information.

Deferred rent

Deferred rent consists of rent abatement affecting the timing of cash rent payments related to the Company's corporate office leases, as well as lease incentives such as construction allowances. In 2019, deferred rent was recorded as a liability and amortized over the lease term as a reduction to rent expense. In 2020, upon the adoption of ASC 842, the entire cumulative deferred rent balance under ASC 840 was treated as an adjustment to the ROU balance.

Income Taxes

Prior to the Offering, GF was treated as a partnership for U.S. federal and applicable state and local income tax purposes. As a partnership, GF's taxable income or loss was included in the taxable income of its members. Accordingly, no income tax expense was recorded for federal and state and local jurisdictions for periods prior to the Offering.

In connection with the Offering completed on May 1, 2018, the Company became a taxable entity.

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

Advertising

The Company expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2020, 2019, and 2018 was \$879 thousand, \$812 thousand, and \$521 thousand.

Recently issued accounting pronouncements

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

Simplifying the Accounting for Income Taxes (ASU 2019-12): This standard removes certain exceptions for recognizing deferred taxes for investments, performing intraperiod allocation and calculating income taxes in interim periods. It also adds guidance in certain areas, including the recognition of franchise taxes, recognition of deferred taxes for tax goodwill, allocation of taxes to members of a consolidated group, computation of annual effective tax rates related to enacted changes in tax laws, and minor improvements related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method. This standard is effective for annual reporting periods beginning after December 15, 2020, including interim periods therein. We do not expect the adoption of ASU 2019-12 to have a material impact to our consolidated financial statements.

Recently adopted accounting pronouncements

Leases (ASU 2016-02): ASU 2016-02 amended the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new guidance also required additional disclosures about leases. The Company adopted the requirements of the new standard as of the first day of 2020 using the modified retrospective approach, without restating comparative periods. As part of our adoption, we elected the package of practical expedients, as well as the hindsight practical expedient, permitted under the new guidance, which, among other things, allowed the Company to continue utilizing historical classification of leases. For those leases that fall under the definition of a short-term lease, the Company elected the short-term lease recognition exemption. The adoption of the new standard resulted in the recording of a right-of-use asset of \$11.2 million and lease liabilities of \$18.5 million, and had no impact on retained earnings as of the beginning of 2020. The standard did not materially impact our Consolidated Statements of Operations and had no impact on cash flows.

Credit Losses (ASU 2016-13): Under the new guidance an entity is required to measure all credit losses on certain financial instruments, including trade receivables and various off-balance sheet credit exposures, using an expected credit loss model. This model incorporates past experience, current conditions and reasonable and supportable forecasts affecting collectability of these instruments. The Company adopted the requirements of the new standard as of the first day of 2020, however, the adoption of the amendment did not have a material effect on our consolidated financial statements or on our disclosures.

3. Revenues

The primary impacts of the new standard to the Company's revenues and expenses are as follows:

Commissions and agency fees

The Company earns new and renewal commissions paid by insurance Carriers and fees paid by its clients for the binding of insurance coverage. The transactions price is set as the estimated commissions to be received over the term of the policy based on an estimate of premiums placed, policy changes and cancellations, net of a constraint.

These commissions and fees are earned at a point in time upon the effective date of bound insurance coverage, as no performance obligation exists after coverage is bound.

Prior to the adoption of Topic 606, Commissions from insurance carriers, net of estimated cancellations, were recognized as revenue when the data necessary to reasonably determine such amounts was made available to the Company. Subsequent commission adjustments, such as policy changes, were recognized when the adjustments become known. As a result of the adoption of Topic 606, commissions from insurance carriers, net of estimated policy changes and cancellations, are recognized as revenue at the effective date of the policy. Significant factors in determining our estimates of policy changes and cancellations include forecasted commissions revenue, which is estimated based on historical experience and assumptions concerning future customer behavior and market conditions. Subsequent adjustments to estimated policy changes and cancellations are possible as facts and circumstances change over time. These commission revenues are now generally recognized earlier than they had been previously.

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

Prior to the adoption of Topic 606, Agency Fees were recognized as revenue on the date coverage was agreed upon with the client and placed with the Carrier. As a result of the adoption of Topic 606, Agency Fees are recognized as revenue on the effective date of the policy, generally later than they had been previously.

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

Prior to the adoption of Topic 606, revenue from contingent commissions was recognized when the amounts were fixed and determinable, typically when we received the payment from the insurance carrier. As a result of the adoption of Topic 606, the Company must estimate the amount of consideration that will be received such that a significant reversal of revenue is not probable. Contingent commissions represent a form of variable consideration associated with the placement and profitability of coverage, for which we earn commissions. In connection with Topic 606, contingent commissions are estimated with a constraint applied and accrued relative to the recognition of the corresponding core commissions for the period over which the contract applies. The resulting effect on the timing of recognizing contingent commissions will now more closely follow a similar pattern as our commissions and fees with any adjustments recognized when payments are received or as additional information that affects the estimate becomes available.

Franchise revenues

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

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

Prior to the adoption of Topic 606, initial franchise fees were recognized as revenue in the month the agency owner or initial agency representative attends training. As a result of the adoption of Topic 606, initial franchise fees are recognized as revenue over the 10-year life of the franchise contract, beginning on the start date of the contract.

Revenue from New and Renewal Royalty Fees is recorded by applying the sales- and usage-based royalties exception. Under the sales- and usage-based exception, the Company estimates the anticipated amount of the royalties to be received over the term of the policy based on an estimate of premiums placed by the franchisee, policy changes, and cancellations, net of a constraint. Revenue from Royalty Fees is recognized over time as the placement of the underlying policies occur.

Prior to the adoption of Topic 606, royalty fees were recognized as revenue when the data necessary to reasonably determine such amounts was made available to the Company. As a result of the adoption of Topic 606, royalty fees are recognized over time as the underlying policies are placed, which is on the effective date of the policies. Recognition of royalty fees generally takes place earlier under Topic 606.

Contract Costs

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

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

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

Disaggregation of Revenue

The following tables disaggregates revenue by segment and source (*in thousands*):

| Year Ended December 31, 2020 | Franchise Channel | Corporate Channel | Total |
|---------------------------------------|-------------------|-------------------|------------|
| <i>Type of revenue stream:</i> | | | |
| Commissions and agency fees | | | |
| Renewal Commissions | \$ — | \$ 28,891 | \$ 28,891 |
| New Business Commissions | — | 17,324 | 17,324 |
| Agency Fees | — | 8,921 | 8,921 |
| Contingent Commissions | 10,754 | 5,921 | 16,675 |
| Franchise revenues | | | |
| Renewal Royalty Fees | 29,309 | — | 29,309 |
| New Business Royalty Fees | 10,623 | — | 10,623 |
| Initial Franchise Fees | 4,236 | — | 4,236 |
| Other Franchise Revenues | 222 | — | 222 |
| Interest Income | 813 | — | 813 |
| Total Revenues | \$ 55,957 | \$ 61,057 | \$ 117,014 |

| | | | |
|--|-----------|-----------|------------|
| <i>Timing of revenue recognition:</i> | | | |
| Transferred at a point in time | \$ — | \$ 55,136 | \$ 55,136 |
| Transferred over time | 55,957 | 5,921 | 61,878 |
| Total Revenues | \$ 55,957 | \$ 61,057 | \$ 117,014 |

| Year Ended December 31, 2019: | Franchise Channel | Corporate Channel | Total |
|--------------------------------|-------------------|-------------------|------------------|
| Type of revenue stream: | | | |
| Commissions and agency fees | | | |
| Renewal Commissions | \$ — | \$ 22,924 | \$ 22,924 |
| New Business Commissions | — | 11,961 | 11,961 |
| Agency Fees | — | 6,058 | 6,058 |
| Contingent Commissions | 3,530 | 1,893 | 5,423 |
| Franchise revenues | | | — |
| Renewal Royalty Fees | 19,462 | — | 19,462 |
| New Business Royalty Fees | 7,149 | — | 7,149 |
| Initial Franchise Fees | 3,784 | — | 3,784 |
| Other Franchise Revenues | 108 | — | 108 |
| Interest Income | 617 | — | 617 |
| Total Revenues | \$ 34,650 | \$ 42,836 | \$ 77,486 |

| | | | |
|---------------------------------------|------------------|------------------|------------------|
| Timing of revenue recognition: | | | |
| Transferred at a point in time | \$ — | \$ 40,943 | \$ 40,943 |
| Transferred over time | 34,650 | 1,893 | 36,543 |
| Total Revenues | \$ 34,650 | \$ 42,836 | \$ 77,486 |

Contract Balances

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

| | December 31, 2020 | December 31, 2019 | Increase/(decrease) |
|--|-------------------|-------------------|---------------------|
| Cost to obtain franchise contracts ⁽¹⁾ | \$ 1,412 | \$ 1,004 | \$ 408 |
| Commissions and agency fees receivable, net ⁽²⁾ | 18,604 | 6,884 | 11,720 |
| Receivable from franchisees ⁽²⁾ | 20,279 | 13,616 | 6,663 |
| Contract liability ⁽³⁾ | 34,201 | 22,795 | 11,406 |

(1) Cost to obtain franchise contracts is included in Other assets on the consolidated balance sheets.

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

(3) Initial Franchise Fees to be recognized over the life of the contract

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

| | December 31, 2020 | December 31, 2019 |
|--|-------------------|-------------------|
| Contract liability at beginning of period | \$ 22,795 | \$ 16,514 |
| Revenue recognized during the period | (4,236) | (3,784) |
| New deferrals ⁽¹⁾ | 15,642 | 10,065 |
| Contract liability at end of period | \$ 34,201 | \$ 22,795 |

(1) Initial franchise fees where the consideration is received from the customer for services which are to be transferred to the franchisee over the term of the franchise agreement

Anticipated Future Recognition of Deferred Initial Franchise Fees

The following table reflects the estimated initial franchise fees (contract liability) to be recognized in the future related to performance obligations that are unsatisfied at the end of the period (*in thousands*):

| Estimate for the year ended December 31: | | |
|--|----|---------------|
| 2021 | \$ | 4,233 |
| 2022 | | 4,149 |
| 2023 | | 4,135 |
| 2024 | | 4,062 |
| 2025 | | 3,921 |
| Thereafter | | 13,701 |
| | \$ | <u>34,201</u> |

4. Franchise fees receivable

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

| | December 31 | |
|--|------------------|------------------|
| | 2020 | 2019 |
| Franchise fees receivable | \$ 25,757 | \$ 15,314 |
| Less: Unamortized discount | (6,553) | (3,771) |
| Less: Allowance for uncollectible franchise fees | (149) | (52) |
| Total franchise fees receivable | <u>\$ 19,055</u> | <u>\$ 11,491</u> |

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

| | | |
|---|----|------------|
| Allowance for Uncollectible Franchise Fees: | | |
| Balance at December 31, 2018 | \$ | 455 |
| Adjustments related to adoption of ASC 606 | | (440) |
| Adjusted balance at January 1, 2019 | | 15 |
| Charges to bad debts | | 121 |
| Write offs | | (84) |
| Balance at December 31, 2019 | | <u>52</u> |
| Charges to bad debts | | 387 |
| Write offs | | (290) |
| Balance at December 31, 2020 | \$ | <u>149</u> |

5. Allowance for uncollectible agency fees

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

| Allowance for Uncollectible Agency Fees: | |
|--|--------|
| Balance at December 31, 2018 | \$ 242 |
| Adjustments related to adoption of ASC 606 | (134) |
| Adjusted balance at January 1, 2019 | 108 |
| Charges to bad debts | 604 |
| Write offs | (534) |
| Balance at December 31, 2019 | 178 |
| Charges to bad debts | 1,189 |
| Write offs | (899) |
| Balance at December 31, 2020 | \$ 468 |

6. Property and equipment

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

| | December 31, | |
|-------------------------------|--------------|----------|
| | 2020 | 2019 |
| Furniture & fixtures | \$ 4,404 | \$ 3,012 |
| Computer equipment | 2,453 | 1,480 |
| Network equipment | 352 | 268 |
| Phone system | 937 | 885 |
| Leasehold improvements | 16,534 | 9,073 |
| Total | 24,680 | 14,718 |
| Less accumulated depreciation | (8,030) | (5,176) |
| Property and equipment, net | \$ 16,650 | \$ 9,542 |

Depreciation expense was \$2.9 million, \$1.7 million, and \$1.3 million for the years ended December 31, 2020, 2019, and 2018, respectively.

7. Intangible assets

Intangible assets consisted of the following (*in thousands*):

| | December 31, | | Weighted average amortization period (years) |
|--------------------------------|--------------|----------|--|
| | 2020 | 2019 | |
| Computer software & web domain | \$ 1,473 | \$ 1,080 | 3.09 |
| Less accumulated amortization | (924) | (635) | |
| Intangible assets, net | \$ 549 | \$ 445 | |

Amortization expense was \$288 thousand, \$204 thousand, and \$117 thousand for the years ended December 31, 2020, 2019, and 2018, respectively.

Expected amortization over the next five years is as follows:

| | Amount |
|--------------------------|---------------|
| Year Ending December 31, | |
| 2021 | \$ 286 |
| 2022 | 190 |
| 2023 | 71 |
| 2024 | 1 |
| 2025 and thereafter | 1 |
| Total | \$ 549 |

8. Employee benefit obligation

The Company has adopted a qualified deferred compensation plan under section 401(k) of the Internal Revenue Code. Full-time employees over the age of 21 with six months of service are eligible to participate. Under the plan, the Company's contribution is based on a discretionary matching of 100% of salary deferral elected by each eligible employee up to a maximum of 3% of compensation. The Company's matching portion vests over a four-year period, after which time the employee becomes fully vested and all future contributions will vest immediately.

Matching contributions may be changed at the discretion of the Company. Company contributions totaled \$845 thousand, \$592 thousand, and \$529 thousand for the years ended December 31, 2020, 2019, and 2018.

9. Debt

On March 6, 2020, the Company refinanced its \$13.0 million revolving credit facility and \$40.0 million term note payable to a \$25.0 million revolving credit facility and \$80 million term note payable in order to obtain a more favorable interest rate on the outstanding debt. The Company has the right, subject to approval by the administrative agent and each issuing bank, to increase the commitments under the credit facilities an additional \$50.0 million. As part of the refinancing, \$0.2 million of debt issuance costs from previous debt were immediately recognized as interest expense

The \$25.0 million revolving credit facility accrues interest on amounts drawn at an initial interest rate of LIBOR plus 2.50%, then at an interest rate determined by the Company's leverage ratio for the preceding period. At December 31, 2020, the Company had \$5.0 million drawn against the revolver. At December 31, 2020, the Company had a letter of credit of \$333 thousand applied against the maximum borrowing availability, thus amounts available to draw totaled \$19.7 million. The revolving credit facility is collateralized by substantially all the Company's assets, which includes rights to future commissions. Interest payment on the revolving credit facility totaled \$85 thousand, \$450 thousand, and \$198 thousand for the years ended December 31, 2020, 2019, and 2018, respectively.

The \$80.0 million term note accrues interest at an initial interest rate of LIBOR plus 2.00%, then at an interest rate determined by the Company's leverage ratio for the preceding period. As of December 31, 2020, the Company was in the greater than 1.50x leverage ratio tranche, accruing interest of LIBOR plus 2.00%. The aggregate principal amount of the term note as of December 31, 2020 is \$78.5 million, payable in quarterly installments of \$0.5 million for the first twelve months, \$1.0 million for the next twelve months, and \$2.0 million for the last twelve months, with a balloon payment on March 6, 2023. The term note is collateralized by substantially all the Company's assets, which includes rights to future commissions.

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

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

Maturities of the term note payable for the next two calendar years as of December 31, 2020 are as follows (*in thousands*):

| | | Amount |
|-------|----|---------------|
| 2021 | \$ | 3,500 |
| 2022 | | 7,000 |
| 2023 | | 68,000 |
| Total | \$ | <u>78,500</u> |

The \$5.0 million drawn against the revolver is coterminous with the term loan and is due in full on March 6, 2023.

Loan origination fees of \$423 thousand at December 31, 2020 are reflected as a reduction to the note balance and are amortized through interest expense. As part of the March 6, 2020 refinancing, \$0.2 million of origination fees from previous debt were immediately recognized as interest expense.

The Company's note payable agreement contains certain restrictions and covenants. Under these restrictions, the Company is limited in the amount of debt incurred and distributions payable. In addition, the credit agreement contains certain change of control provisions that, if broken, would trigger a default. Finally, the Company must maintain certain financial ratios. As of December 31, 2020, the Company was in compliance with these covenants.

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

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

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

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

10. Income taxes

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

Income tax expense

The components of income tax expense are as follows (*in thousands*):

| | Year Ended December 31 | | |
|------------------------------|------------------------|----------|--------|
| | 2020 | 2019 | 2018 |
| Current income taxes | | | |
| Federal | \$ (1,719) | \$ 735 | \$ 343 |
| State and local | 373 | 283 | 136 |
| Total current income taxes | (1,346) | 1,018 | 479 |
| Deferred income taxes | | | |
| Federal | 217 | 260 | (27) |
| State and local | 94 | 26 | (3) |
| Total deferred income taxes | 311 | 286 | (30) |
| Income tax expense (benefit) | \$ (1,035) | \$ 1,304 | \$ 449 |

A reconciliation of income tax expense computed at the U.S. federal statutory income tax rate to the income tax expense recognized is as follows (*in thousands*):

| | Year Ended December 31 | | |
|--|------------------------|-----------|-------------|
| | 2020 | 2019 | 2018 |
| Income (loss) before taxes | \$ 17,720 | \$ 11,686 | \$ (18,218) |
| Less: (income) prior to the Reorganization Transactions | — | — | (4,389) |
| Income (loss) before taxes | \$ 17,720 | \$ 11,686 | \$ (22,607) |
| Income taxes at U.S. federal statutory rate | 3,720 | 2,454 | (4,747) |
| Tax on income not subject to entity level federal income tax | (2,264) | (1,453) | (544) |
| Permanent Differences: | | | |
| Non-controlling interest | — | — | 3,536 |
| Non-deductible stock compensation costs | (3,004) | — | 2,038 |
| Non-deductible excess compensation | — | — | 27 |
| Non-deductible employee moving expenses | 1 | — | — |
| Meals & Entertainment | 47 | 61 | 38 |
| State income tax, net of federal benefit | 524 | 236 | 99 |
| Other Reconciling items: | | | |
| Other | (59) | 6 | 2 |
| Income tax expense (benefit) | \$ (1,035) | \$ 1,304 | \$ 449 |

Deferred tax assets and liabilities

The components of deferred tax assets are as follows (*in thousands*):

| | December 31, 2020 | December 31, 2019 |
|-----------------------------------|-------------------|-------------------|
| Net operating loss carryforwards | \$ 703 | \$ — |
| Investment in flow-through entity | 72,660 | 15,537 |
| Net deferred tax asset | \$ 73,363 | \$ 15,537 |

Uncertain tax positions

GSHD has determined there are no material uncertain tax positions as of December 31, 2020.

Tax Receivable Agreement

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

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

During the years ended December 31, 2020, 2019 and 2018, an aggregate of 2.6 million, 1.4 million and 0.3 million LLC Units, respectively, were redeemed by the Pre-IPO LLC Members for newly-issued shares of Class A common stock. In connection with these redemptions, we received 2.6 million, 1.4 million and 0.3 million LLC Units, which resulted in an increase in the tax basis of our investment in GF subject to the provisions of the Tax Receivable Agreement. We recognized a liability for the TRA Payments due to the Pre-IPO LLC Members, representing 85% of the aggregate tax benefits we expect to realize from the tax basis increases related to the redemptions of LLC Units, after concluding it was probable that such TRA Payments would be paid based on our estimates of future taxable income. As of December 31, 2020 and 2019, the total amount of TRA Payments due to the Pre-IPO LLC Members under the Tax Receivable Agreement was \$62.1 million and \$13.4 million, respectively, of which \$549 thousand and \$9 thousand, respectively, was current and included in Accounts payables and accrued expenses on the Consolidated Balance Sheet.

11. Stockholder's equity

Class A Common Stock

GSHD has a total of 18,304 thousand and 15,238 thousand shares of its Class A common stock outstanding at December 31, 2020 and 2019, respectively. Each share of Class A common stock holds economic rights and entitles its holder to one vote per share on all matters submitted to a vote of the stockholders of GSHD.

Class B Common Stock

GSHD has a total of 18,447 thousand and 21,055 thousand shares of its Class B common stock outstanding at December 31, 2020 and 2019, respectively. Each share of Class B common stock has no economic rights but entitles its holder to one vote per share on all matters submitted to a vote of the stockholders of GSHD.

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

Earnings Per Share

The following table sets forth the calculation of basic earnings per share ("EPS") based on net income attributable to GSHD for the years ended December 31, 2020 and 2019, divided by the basic weighted average number of Class A common stock as of December 31, 2020 and 2019 (*in thousands, except per share amounts*). Diluted earnings per share of Class A common stock is computed by dividing net income attributable to GSHD by the weighted average number of shares of Class A common stock outstanding adjusted to give effect to potentially dilutive securities. The

Company has not included the effects of conversion of Class B shares to Class A shares in the diluted EPS calculation using the "if-converted" method, because doing so has no impact on diluted EPS (*in thousands*):

| | Year Ended December 31, | | |
|--|-------------------------|------------------|-------------------|
| | 2020 | 2019 | 2018 |
| Numerator: | | | |
| Income (loss) before taxes | \$ 17,720 | \$ 11,686 | \$ (18,218) |
| Less: income (loss) before taxes attributable to non-controlling interests | 9,468 | 6,956 | (9,702) |
| Income (loss) before taxes attributable to GSHD | 8,252 | 4,730 | (8,516) |
| Less: income tax expense attributable to GSHD | (1,035) | 1,163 | 387 |
| Net income (loss) attributable to GSHD ⁽¹⁾ | <u>\$ 9,287</u> | <u>\$ 3,567</u> | <u>\$ (8,903)</u> |
| Denominator: | | | |
| Weighted average shares of Class A common stock outstanding - basic | 16,785 | 14,864 | 13,554 |
| Effect of dilutive securities: | | | |
| Stock options ⁽²⁾ | 1,598 | 1,236 | — |
| Weighted average shares of Class A common stock outstanding - diluted | <u>\$ 18,383</u> | <u>\$ 16,100</u> | <u>\$ 13,554</u> |
| Earnings per share of Class A common stock - basic | \$ 0.55 | \$ 0.24 | \$ (0.66) |
| Earnings per share of Class A common stock - diluted | \$ 0.51 | \$ 0.22 | \$ (0.66) |

(1) Net income attributable to GSHD for the year ended December 31, 2018 excludes all net income prior to the Offering.

(2) 1,650 thousand stock options were excluded from the computation of diluted earnings per share of Class A common stock for the year ended December 31, 2018 because the effect would have been anti-dilutive, as GSHD recorded a net loss for the period.

12. Non-controlling interest

Non-Controlling Interests

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

On a quarterly basis, GF makes distributions to the LLC Unit holders on a pro rata basis. For the years ended December 31, 2020 and 2019, GF made distributions of \$4.8 million and \$6.3 million, respectively, of which \$2.7 million and \$3.7 million, respectively, were made to Pre-IPO LLC Members. The remaining \$2.2 million and \$2.6 million, respectively, were made to GSHD and were eliminated in consolidation.

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

During 2020 and 2019, an aggregate of 2.6 million and 1.4 million LLC Units, respectively, were redeemed by the non-controlling interest holders. Pursuant to the GF LLC Agreement, we issued 2.6 million and 1.4 million shares of

Class A common stock in connection with these redemptions and received 2.6 million and 1.4 million LLC Interests, increasing our ownership interest in GF LLC. Simultaneously, and in connection with these redemptions, 2.6 million and 1.4 million shares of Class B common stock were surrendered and canceled.

The following table summarizes the ownership interest in GF as of December 31, 2020 and 2019 (in thousands).

| | December 31, 2020 | | December 31, 2019 | |
|--|-------------------|-------------|-------------------|-------------|
| | LLC Units | Ownership % | LLC Units | Ownership % |
| Number of LLC Units held by GSHD | 18,304 | 49.8% | 15,238 | 42.0% |
| Number of LLC Units held by non-controlling interest holders | 18,447 | 50.2% | 21,055 | 58.0% |
| Number of LLC Units outstanding | 36,750 | 100.0% | 36,294 | 100.0% |

The weighted average ownership percentages for the applicable reporting periods are used to attribute net income to GSHD and the non-controlling interest holders. The non-controlling interest holders' weighted average ownership percentage for the years ended December 31, 2020 and 2019 was 54.0% and 59.0%, respectively. All net income prior to the Offering is attributed to non-controlling interest holders.

The following table summarizes the effects of changes in ownership in GF on the equity of GSHD for the years ended December 31, 2020, 2019, and 2018 is as follows (in thousands):

| | Year Ended December 31, | | |
|---|-------------------------|-----------------|-------------------|
| | 2020 | 2019 | 2018 |
| Net Income attributable to Goosehead Insurance Inc. | \$ 9,287 | \$ 3,567 | \$ (8,903) |
| Transfers (to) from non-controlling interests: | | | |
| Decrease in additional paid-in capital as a result of the redemption of LLC interests | (3,525) | (1,368) | (194) |
| Increase in additional paid-in capital as a result of activity under employee stock purchase plan | 542 | 325 | 143 |
| Total effect of changes in ownership interest on equity attributable to Goosehead Insurance Inc. | \$ 6,304 | \$ 2,524 | \$ (8,954) |

13. Equity-based compensation

A summary of equity-based compensation expense during the years ended December 31, 2020, 2019, and 2018 is as follows (in thousands):

| | Year Ended December 31, | | |
|-----------------------------------|-------------------------|----------|-----------|
| | 2020 | 2019 | 2018 |
| Class B unit compensation | \$ — | \$ — | \$ 26,134 |
| Stock options | 4,745 | 1,526 | 949 |
| Equity-based compensation expense | \$ 4,745 | \$ 1,526 | \$ 27,083 |

Class B unit compensation:

Prior to the Offering, certain Pre-IPO LLC Members held non-vesting and non-voting Class B units. In accordance with accounting guidance, any dividends paid to Class B unit holders are recognized as compensation expense when declared, as the Class B non-vesting units are considered to be a non-substantive class of equity. Dividends paid to Class B unit holders prior to the Offering, included in employee compensation and benefits, totaled \$122 thousand for the year ended December 31, 2018.

In connection with the Reorganization Transactions, immediately prior to the Offering, historical Class B interests in TWIHG and GM vested by converting to the Texas Wasatch Note and Goosehead Management Note, respectively, paid with a combination of proceeds from the Offering and shares of Class A common stock. This conversion changed the nature of the Class B interests from a profit sharing arrangement to a substantive class of equity and were expensed under the guidance of Topic ASC 718, *Compensation – Stock Compensation*. At the Offering price

of \$10.00 per share, GSHD incurred total compensation expense of \$6.2 million in connection with the conversion, recognized in the second quarter of 2018.

Class B interests in GF were also deemed vested by converting, along with all pre-offering Class A equity, on a one-to-one basis with the number of LLC units previously owned, to both LLC Units and shares of Class B common stock. This conversion changed the nature of the Class B interests from a profit sharing arrangement to a substantive class of equity and were expensed under the guidance of ASC 718. At the initial public offering price of \$10.00 per share, the Company issued a total of 2.0 million LLC Units and shares of Class B common stock and incurred total compensation expense of \$19.8 million as part of the conversion, recognized in the second quarter of 2018.

Stock options:

In connection with the IPO, GSHD granted 1,650 thousand options to directors and certain employees. The stock options were granted with a strike price of \$10.00 per share (the initial public offering price). The 365 thousand director stock options vest quarterly over a three-year period, and the 1,285 thousand employee stock options vest annually from 2020 to 2022. The grant date fair value was determined using the Black-Scholes valuation model using the following assumptions:

| | |
|--------------------------|--------|
| Expected volatility | 25 % |
| Expected dividend yield | — |
| Expected term (in years) | 5.95 |
| Risk-free interest rate | 2.59 % |

GSHD will recognize the total compensation expense of \$5.2 million related to such option grants on a straight-line basis over the requisite service period of the award recipient (three years for directors and four years for certain employees).

In April 2018, GSHD adopted the Omnibus Incentive Plan, which reserved 1.5 million shares of Class A Common Stock for delivery to directors, officers, and managing directors in connection with future awards granted under the plan. GSHD also adopted an Employee Stock Purchase Plan ("ESPP"), which reserved 20 thousand shares of Class A Common Stock for delivery to employees. On March 7, 2019, GSHD's Board of Directors amended the Omnibus Incentive Plan, increasing the number of shares available under the plan to 3.0 million shares. On the same date, GSHD's Board of Directors approved an increase in the total number of shares available under the ESPP to 30 thousand shares. There were 21 thousand and 13 thousand shares outstanding related to the Employee Stock Purchase Plan at December 31, 2020 and 2019.

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

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

A summary of stock option activity for the years ended December 31, 2020, 2019 and 2018 is as follows (*in thousands except per share amounts*):

| | Stock Options | Weighted Average Exercise Price | Aggregate Intrinsic Value | Weighted Average Remaining Contractual Life (Years) |
|--|---------------|---------------------------------|---------------------------|---|
| Outstanding as January 1, 2018 | — \$ | — \$ | — | |
| Granted | 1,650 | 10.00 | 5,153 | |
| Exercised | — | — | — | |
| Forfeited | — | — | — | |
| Expired | — | — | — | |
| Outstanding as of December 31, 2018 | 1,650 \$ | 10.00 \$ | 5,153 | |
| Granted | 80 | 34.50 | 815 | |
| Exercised | — | — | — | |
| Forfeited | — | — | — | |
| Expired | — | — | — | |
| Outstanding as of December 31, 2019 | 1,730 \$ | 11.13 \$ | 5,969 | |
| Granted | 1,010 | 41.24 | 16,322 | |
| Exercised | (450) | 10.00 | 1,390 | |
| Forfeited | — | — | — | |
| Expired | — | — | — | |
| Outstanding as of December 31, 2020 | 2,290 \$ | 24.63 \$ | 20,901 | 8.15 |
| Options vested and exercisable as of December 31, 2020 | 313 \$ | 10.00 \$ | 958 | 7.25 |
| Options expected to vest as of December 31, 2020 | 1,977 \$ | 26.95 \$ | 19,943 | 8.28 |

As of December 31, 2020, total unrecognized compensation expense related to unvested stock options was \$15.1 million, which is expected to be recognized over a weighted average period of 2.59 years. Cash received from stock option exercises during the year ended December 31, 2020 was \$4.5 million.

A summary of unvested stock option activity for the years ended December 31, 2020, 2019 and 2018 is as follows (*in thousands except per share amounts*):

| | Stock Options | Weighted Average Grant Date Fair Value |
|----------------------------------|---------------|--|
| Unvested as January 1, 2018 | — \$ | — |
| Vested | (91) | 2.96 |
| Granted | 1,650 | 3.12 |
| Forfeited | — | — |
| Unvested as of December 31, 2018 | 1,559 \$ | 3.13 |
| Vested | (122) | 2.96 |
| Granted | 80 | 10.19 |
| Forfeited | — | — |
| Unvested as of December 31, 2019 | 1,517 \$ | 3.15 |
| Vested | (550) | 3.12 |
| Granted | 1,010 | 16.16 |
| Forfeited | — | — |
| Unvested as of December 31, 2020 | 1,977 \$ | 10.09 |

The total fair value of stock options vested during the years ended December 31, 2020, 2019 and 2018 was \$1.7 million, \$0.4 million and \$0.3 million, respectively.

14. Dividends

On March 7, 2019, GF approved a \$15 million extraordinary dividend to all holders of LLC Units, including GSHD. The board of directors of the Company then declared an extraordinary dividend of \$0.41 (rounded) to all holders of Class A common stock of GSHD with a record date of March 18, 2019, paid on or before April 1, 2019. A summary of the total amounts declared by GF is as follows (*in thousands*):

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

On July 30, 2020, GF approved an extraordinary dividend in the aggregate amount of \$42 million payable to holders of LLC Units, including GSHD. The board of directors of the Company subsequently declared an extraordinary dividend of \$1.15 (rounded) to all holders of Class A common stock of GSHD with a record date of August 10, 2020, which was paid on August 24, 2020. A summary of the total amounts declared by GF is as follows (*in thousands*):

| | LLC Units held as of August 10, 2020 | Dividends declared |
|--|---|---------------------------|
| Class A common stockholders | 17,263 | \$ 19,843 |
| Class B common stockholders via LLC Units held | 19,276 | 22,157 |
| Total | 36,539 | \$ 42,000 |

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

15. Leases

Effective January 1, 2020, the Company adopted new guidance that requires lessees to recognize on the Consolidated balance sheets all leases with lease terms greater than twelve months as a lease liability with a corresponding right-of-use ("ROU") asset. Accordingly, the Company recognized operating lease liabilities and ROU asset of \$18.5 million and \$11.2 million, respectively, on January 1, 2020. For those leases that fall under the definition of a short-term lease, the Company elected the short-term lease recognition exemption. The adoption of the new lease guidance did not have a material impact on the Company's Consolidated statements of operations. The change in accounting due to the adoption of the new lease guidance did not result in a material change to the net rent expense when compared to December 31, 2019.

At December 31, 2020, Goosehead was obligated under a number of operating leases, exclusively leases for premises and equipment used for business purposes. These leases generally have terms of 7 years or less, determined based on the contractual maturity of the lease, and include periods covered by options to extend or terminate the lease when the Company is reasonably certain that it will exercise those options. None of these lease agreements impose restrictions on the Company's ability to pay dividends, engage in debt or equity financing transactions or enter into further lease agreements. Certain of these leases contain escalation clauses that will increase rent payments based on maintenance, utility and tax increases, which are non-lease components and variable in nature. The Company elected not to separate lease and non-lease components of a contract for its real estate and equipment leases. As such, real estate lease payments represent payments on both lease and non-lease components.

Operating lease liabilities and ROU asset are recognized at the lease commencement date based on the present value of the future minimum lease payments over the lease term. The future lease payments are discounted at a rate that represents the Company's collateralized borrowing rate for financing instruments of a similar term. We estimate this for our portfolio of leases using information obtained from our bankers. The ROU asset also includes any lease prepayments made, plus initial direct costs incurred, less any lease incentives received. Rent expense associated with operating leases is recognized on a straight-line basis over the lease term, and generally included in occupancy expense within General and administrative expenses in the Consolidated statements of operations.

The following table provides information related to the Company's leases as of December 31, 2020 (*in thousands*):

| | December 31, 2020 |
|--|--------------------------|
| Right-of-use assets | \$ 22,513 |
| Short term lease liabilities | 3,203 |
| Long term lease liabilities | 32,933 |
| Total lease liabilities | 36,136 |
| Weighted average remaining lease term (in years) | 9.23 |
| Weighted average incremental borrowing rate | 3.1 % |

The following is a schedule showing the components of lease cost for the year ended December 31, 2020 (*in thousands*):

| | December 31, 2020 |
|----------------------------|------------------------------|
| Gross operating lease cost | \$ 3,111 |
| Sublease income | (25) |
| Net lease cost | \$ 3,086 |

Rent expense was \$1.9 million and \$1.6 million for the years ended December 31, 2019 and 2018.

The following is a schedule of supplemental cash flow information related to leases for the year ended December 31, 2020 (*in thousands*):

| | December 31, 2020 |
|---|------------------------------|
| Cash paid for amounts included in the measurement of lease liabilities | |
| Operating cash flows from operating leases | \$ (36,136) |
| Right of use assets obtained in exchange for lease obligation | |
| Operating leases | \$ 22,513 |

The following is a schedule of future maturity of lease liability as of December 31, 2020 (*in thousands*):

| | December 31, 2020 |
|---|------------------------------|
| 2021 | \$ 4,150 |
| 2022 | 4,556 |
| 2023 | 4,541 |
| 2024 | 4,391 |
| 2025 | 4,214 |
| Thereafter | 20,021 |
| Total lease payments | 41,873 |
| Less: imputed interest | (5,737) |
| Future maturity of lease liability | \$ 36,136 |

As previously disclosed in the Company's 2019 Annual Report and under previous lease accounting, the minimum lease payments required under operating leases were as follows (*in thousands*):

| | Non-cancelable Operating Leases |
|-------------------------------------|--|
| 2020 | \$ 2,575 |
| 2021 | 2,793 |
| 2022 | 2,762 |
| 2023 | 2,578 |
| 2024 | 2,394 |
| Thereafter | 9,231 |
| Total minimum lease payments | \$ 22,333 |

In addition to the table above, as of December 31, 2020, the Company had additional future operating lease commitments of \$3.2 million that were signed but had not yet commenced. These operating leases will commence between 2021 and 2022 with lease terms up to 7 years.

16. Segment information

The Company has two reportable segments: Corporate Channel and Franchise Channel. The Corporate Channel consists of company-owned and financed operations with employees who are hired, trained, and managed by Goosehead. The Franchise Channel network consists of franchisee operations that are owned and managed by individual business owners. These business owners have a contractual relationship with Goosehead to use the Company's processes, systems, and back-office support team to sell insurance and manage their business. In exchange, Goosehead is entitled to an initial franchise fee and ongoing royalty fees. Allocations of contingent commissions and certain operating expenses are based on reasonable assumptions and estimates primarily using revenue, headcount and other information. The Company's chief operating decision maker uses net income before

interest, income taxes, depreciation and amortization, adjusted to exclude equity-based compensation and other non-operating items, including, among other things, certain non-cash charges and certain non-recurring or non-operating gains or losses (“Adjusted EBITDA”) as a performance measure to manage resources and make decisions about the business. Summarized financial information concerning the Company’s reportable segments is shown in the following tables (in thousands). There are no intersegment sales, only interest income and interest expense related to an intersegment line of credit, all of which eliminate in consolidation. The “Other” column includes any income and expenses not allocated to reportable segments and corporate-related items, including equity-based compensation, certain legal expenses and interest related to the note payable.

| | Franchise Channel | Corporate Channel | Other | Total |
|---|-------------------|-------------------|--------------|----------------|
| Year Ended December 31, 2020 | | | | |
| Revenues: | | | | |
| <i>Commissions and agency fees</i> | | | | |
| Renewal Commissions | \$ — | \$ 28,891 | \$ — | \$ 28,891 |
| Agency Fees | — | 8,921 | — | 8,921 |
| New Business Commissions | — | 17,324 | — | 17,324 |
| Contingent Commissions | 10,754 | 5,921 | — | 16,675 |
| Total Commissions and Agency Fees | 10,754 | 61,057 | — | 71,811 |
| <i>Franchise revenue</i> | | | | |
| Renewal Royalty Fees | 29,309 | — | — | 29,309 |
| New Business Royalty Fees | 10,623 | — | — | 10,623 |
| Initial Franchise Fees | 4,236 | — | — | 4,236 |
| Other Income | 222 | — | — | 222 |
| Total Franchise Revenue | 44,390 | — | — | 44,390 |
| <i>Interest income</i> | | | | |
| Interest Income | 813 | — | — | 813 |
| Total Interest Income | 813 | — | — | 813 |
| Total | 55,957 | 61,057 | — | 117,014 |
| Operating expenses: | | | | |
| Employee compensation and benefits, excluding equity-based compensation | 26,231 | 35,843 | — | 62,074 |
| General and administrative expenses | 9,618 | 12,058 | 3,856 | 25,532 |
| Bad debts | 387 | 1,189 | — | 1,576 |
| Total | 36,236 | 49,090 | 3,856 | 89,182 |
| Adjusted EBITDA | 19,721 | 11,967 | (3,856) | 27,832 |
| Other income (expense) | 90 | — | — | 90 |
| Equity based compensation | — | — | (4,745) | (4,745) |
| Interest expense | — | — | (2,310) | (2,310) |
| Depreciation and amortization | (1,775) | (1,372) | — | (3,147) |
| Taxes | — | — | 1,035 | 1,035 |
| Net income | \$ 18,036 | \$ 10,595 | \$ (9,876) | \$ 18,755 |
| At December 31, 2020: | | | | |
| Total Assets | \$ 82,804 | \$ 25,609 | \$ 77,424 | \$ 185,837 |

| | Franchise Channel | Corporate Channel | Other | Total |
|---|-------------------|-------------------|------------|---------------|
| Year Ended December 31, 2019 | | | | |
| Revenues: | | | | |
| <u>Commissions and agency fees</u> | | | | |
| Renewal Commissions | \$ — | \$ 22,924 | \$ — | \$ 22,924 |
| Agency Fees | — | 6,058 | — | 6,058 |
| New Business Commissions | — | 11,961 | — | 11,961 |
| Contingent Commissions | 3,530 | 1,893 | — | 5,423 |
| Total Commissions and Agency Fees | 3,530 | 42,836 | — | 46,366 |
| <u>Franchise revenue</u> | | | | |
| Renewal Royalty Fees | 19,462 | — | — | 19,462 |
| New Business Royalty Fees | 7,149 | — | — | 7,149 |
| Initial Franchise Fees | 3,784 | — | — | 3,784 |
| Other Income | 108 | — | — | 108 |
| Total Franchise Revenue | 30,503 | — | — | 30,503 |
| <u>Interest income</u> | | | | |
| Interest Income | 617 | — | — | 617 |
| Total Interest Income | 617 | — | — | 617 |
| Total | 34,650 | 42,836 | — | 77,486 |
| Employee compensation and benefits, excluding equity-based compensation | 16,673 | 23,516 | — | 40,189 |
| General and administrative expenses | 7,392 | 8,769 | 2,881 | 19,042 |
| Bad debts | 121 | 604 | — | 725 |
| Total | 24,186 | 32,889 | 2,881 | 59,956 |
| Adjusted EBITDA | 10,464 | 9,947 | (2,881) | 17,530 |
| Equity based compensation | — | — | (1,526) | (1,526) |
| Interest expense | — | — | (2,387) | (2,387) |
| Depreciation and amortization | (960) | (971) | — | (1,931) |
| Taxes | — | — | (1,304) | (1,304) |
| Net income | \$ 9,504 | \$ 8,976 | \$ (8,098) | \$ 10,382 |
| At December 31, 2019: | | | | |
| Total Assets | \$ 22,676 | \$ 15,127 | \$ 26,825 | \$ 64,628 |

| | Franchise Channel | Corporate Channel | Other | Total |
|---|-------------------|-------------------|-------------|---------------|
| Year ended December 31, 2018 | | | | |
| Revenues: | | | | |
| <i>Commissions and agency fees</i> | | | | |
| Renewal Commissions | \$ — | \$ 18,357 | \$ — | \$ 18,357 |
| Agency Fees | — | 5,169 | — | 5,169 |
| New Business Commissions | — | 9,347 | — | 9,347 |
| Contingent Commissions | 2,417 | 1,414 | — | 3,831 |
| Total Commissions and Agency Fees | 2,417 | 34,287 | — | 36,704 |
| <i>Franchise revenue</i> | | | | |
| Renewal Royalty Fees | 12,104 | — | — | 12,104 |
| New Business Royalty Fees | 4,873 | — | — | 4,873 |
| Initial Franchise Fees | 6,045 | — | — | 6,045 |
| Other Income | — | — | — | — |
| Total Franchise Revenue | 23,022 | — | — | 23,022 |
| <i>Interest income</i> | | | | |
| Interest Income | 422 | — | — | 422 |
| Total Interest Income | 422 | — | — | 422 |
| Total | 25,861 | 34,287 | — | 60,148 |
| Employee compensation and benefits, excluding equity-based compensation | 12,511 | 18,662 | — | 31,173 |
| General and administrative expenses, excluding state franchise tax ⁽¹⁾ | 4,326 | 7,200 | 1,399 | 12,925 |
| Bad debts | 409 | 889 | — | 1,298 |
| Total | 17,246 | 26,751 | 1,399 | 45,396 |
| Adjusted EBITDA | 8,615 | 7,536 | (1,399) | 14,752 |
| Other income (expense) | — | (22) | (135) | (157) |
| Equity based compensation | — | — | (27,083) | (27,083) |
| Interest expense | — | — | (4,266) | (4,266) |
| Depreciation and amortization | (519) | (945) | — | (1,464) |
| Taxes | — | — | (449) | (449) |
| Net income | \$ 8,096 | \$ 6,569 | \$ (33,332) | \$ (18,667) |
| At December 31, 2018: | | | | |
| Total Assets | \$ 8,572 | \$ 6,862 | \$ 19,364 | \$ 34,798 |

(1) Excluded from general and administrative expenses is \$135 thousand of state franchise tax that is not calculated based on income.

17. Litigation

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

18. Selected quarterly financial data (unaudited)

The following tables set forth certain unaudited quarterly results of operations for the years ended December 31, 2020, 2019, and 2018 (in thousands, except per share data). The sum of the four quarters may differ from the annual amount due to rounding (*in thousands*):

| | 2020 ¹ | | | |
|--|-------------------|----------------|---------------|----------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Total revenue | \$ 20,425 | \$ 29,924 | \$ 32,015 | \$ 34,650 |
| Income from operations | \$ 201 | \$ 7,625 | \$ 6,966 | \$ 5,656 |
| Net income | \$ (296) | \$ 7,386 | \$ 6,725 | \$ 5,486 |
| Net Income (loss) attributable to Goosehead Insurance Inc. | \$ (156) | \$ 3,379 | \$ 3,267 | \$ 2,892 |
| Earnings per share ⁽²⁾ | | | | |
| Basic | \$ (0.01) | \$ 0.21 | \$ 0.19 | \$ 0.16 |
| Diluted | \$ (0.01) | \$ 0.19 | \$ 0.17 | \$ 0.15 |
| | | | | |
| | 2019 ³ | | | |
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Total revenue | \$ 23,133 | \$ 19,386 | \$ 21,169 | \$ 20,408 |
| Income from operations | \$ 8,688 | \$ 3,873 | \$ 3,673 | \$ 3,236 |
| Net income | \$ 7,318 | \$ 2,817 | \$ 2,763 | \$ 2,427 |
| Net Income attributable to Goosehead Insurance Inc. | \$ 2,472 | \$ 903 | \$ 998 | \$ 946 |
| Earnings per share ⁽²⁾ | | | | |
| Basic | \$ 0.17 | \$ 0.06 | \$ 0.07 | \$ 0.06 |
| Diluted | \$ 0.16 | \$ 0.06 | \$ 0.06 | \$ 0.05 |
| | | | | |
| | 2018 | | | |
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Total revenue | \$ 14,589 | \$ 14,788 | \$ 16,054 | \$ 14,717 |
| Income from operations | \$ 4,763 | \$ (22,749) | \$ 2,653 | \$ 1,403 |
| Net income | \$ 3,768 | \$ (23,875) | \$ 836 | \$ 605 |
| Net Income (loss) attributable to Goosehead Insurance Inc. | \$ — | \$ (9,234) | \$ 241 | \$ 90 |
| Earnings per share ⁽²⁾⁽⁴⁾ | | | | |
| Basic | \$ 0.08 | \$ (0.68) | \$ 0.02 | \$ 0.01 |
| Diluted | \$ 0.08 | \$ (0.68) | \$ 0.02 | \$ 0.01 |

(1) The quarterly results are shown under Topic 840, as the Company was required to show the impact of the changes in leases on a full-year basis for 2020.

(2) Basic and diluted earnings per share are computed independently for each of the quarters presented. Therefore, the sum of quarterly basic and diluted earnings per share amounts may not equal annual basic and diluted earnings per share amounts.

(3) The quarterly results are shown under ASC 605, as the Company was required to show the impact of the changes in revenue recognition on a full-year basis for 2019.

(4) Basic and diluted earnings per share for the first quarter of 2018 are shown on a pro-forma basis, as there was no Class A or Class B common stock outstanding as of March 31, 2018.

Item 9. Changes in and disagreements with accountants on accounting and financial statement disclosure

None.

Item 9A. Controls and procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2020.

Changes in Internal Controls Over Financial Reporting

There were no changes to our internal control over financial reporting that occurred during the year ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2020, based on the framework in Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on the results of our evaluation, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2020.

Our independent registered public accounting firm, Deloitte & Touche LLP, has audited the effectiveness of our internal control over financial reporting as of December 31, 2020, as stated in their report herein.

/s/ Mark E. Jones

Mark E. Jones

Chairman, Director and Chief Executive Officer
(Principal Executive Officer)

/s/ Mark S. Colby

Mark S. Colby

Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Goosehead Insurance, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Goosehead Insurance, Inc. and subsidiaries (the "Company") as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated February 26, 2021, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Controls over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Dallas, Texas
February 26, 2021

Item 9B. Other information

Not applicable.

PART III

Item 10. Directors, executive officers, and corporate governance

The information required by this item is incorporated by reference to the Company's Proxy Statement for its 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2020.

Item 11. Executive compensation

The information required by this item is incorporated by reference to the Company's Proxy Statement for its 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2020.

Item 12. Security ownership of certain beneficial owners and management and related stockholder matters

The information required by this item with respect to securities authorized for issuance under equity compensation plans is set forth under "Item 5. Securities Authorized for Issuance under Equity Compensation Plans."

The information required by Item 403 of Regulation S-K is incorporated by reference to the Company's Proxy Statement for its 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2020.

Item 13. Certain relationships and related transactions, and director independence

The information required by this item is incorporated by reference to the Company's Proxy Statement for its 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2020.

Item 14. Principal accountant fees and services

The information required by this item is incorporated by reference to the Company's Proxy Statement for its 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2020.

PART IV

Item 15. Exhibits and financial statement schedules

The following documents are filed as part of this Annual Report on Form 10-K.

- (1) Consolidated financial statements: See “Index to consolidated financial statements” at “Item 8. Financial statements and supplementary data” herein.
- (2) Consolidated financial statement schedules. All schedules are omitted for the reason that the information is included in the consolidated financial statements or the notes thereto or that they are not required or are not applicable.
- (3) Exhibits: The exhibits listed in the accompanying index are filed or incorporated by reference as part of this Annual Report on Form 10-K.

| Exhibit Number | Description |
|-----------------------|--|
| 3.1 | Amended and Restated Certificate of Incorporation of Goosehead Insurance, Inc. (incorporated by reference to exhibit 3.1 to Goosehead Insurance Inc.'s Current Report on Form 8-K filed with the Commission on May 2, 2018) |
| 3.2 | By-Laws of Goosehead Insurance, Inc. (incorporated by reference to exhibit 3.2 to Goosehead Insurance Inc.'s registration statement on Form S-1 (Registration No. 333-224080)) |
| 4.1 | Description of securities registered under Section 12 of the Securities Exchange Act of 1934 |
| 10.1 | Amended and Restated Limited Liability Company Agreement of Goosehead Financial, LLC, dated as of May 1, 2018, by and among Goosehead Financial, LLC and its members (incorporated by reference to exhibit 10.2 to Goosehead Insurance Inc.'s Current Report on Form 8-K filed with the Commission on May 2, 2018) |
| 10.2 | Registration Rights Agreement, dated as of May 1, 2018, by and among Goosehead Insurance, Inc. and the other persons and entities party thereto (incorporated by reference to exhibit 10.4 to Goosehead Insurance Inc.'s Current Report on Form 8-K filed with the Commission on May 2, 2018) |
| 10.3 | Reorganization Agreement, dated as of April 26, 2018, by and among Goosehead Insurance, Inc., Goosehead Financial, LLC, and each of the other persons and entities party thereto (incorporated by reference to exhibit 10.1 to Goosehead Insurance Inc.'s Current Report on Form 8-K filed with the Commission on May 2, 2018) |
| 10.4 | Tax Receivable Agreement, dated as of May 1, 2018, by and among Goosehead Insurance, Inc., Goosehead Financial, LLC, and each of the other persons and entities party thereto (incorporated by reference to exhibit 10.3 to Goosehead Insurance Inc.'s Current Report on Form 8-K filed with the Commission on May 2, 2018) |
| 10.5 | Stockholders Agreement, dated as of May 1, 2018, by and among Goosehead Insurance, Inc., Goosehead Financial, LLC and the other persons and entities party thereto (incorporated by reference to exhibit 10.5 to Goosehead Insurance Inc.'s Annual Report on Form 10-K filed with the Commission on March 14, 2019) |
| 10.6 | Form of Franchise Agreement (incorporated by reference to exhibit 10.6 to Goosehead Insurance Inc.'s registration statement on Form S-1 (Registration No. 333-224080)) |
| 10.7 | Registrant's Amended and Restated Omnibus Incentive Plan (incorporated by reference from Annex A to the Registrant's Definitive Proxy Statement on Schedule 14A filed on April 12, 2019) |
| 10.8 | Form of Goosehead Insurance, Inc. Omnibus Incentive Plan Stock Option Award Agreement (Employees) (incorporated by reference to exhibit 10.8 to Goosehead Insurance Inc.'s registration statement on Form S-1 (Registration No. 333-224080)) |
| 10.9 | Form of Goosehead Insurance, Inc. Omnibus Incentive Plan Stock Option Award Agreement (Directors) (incorporated by reference to exhibit 10.9 to Goosehead Insurance Inc.'s registration statement on Form S-1 (Registration No. 333-224080)) |
| 10.10 | Goosehead Insurance, Inc. Employee Stock Purchase Plan (incorporated by reference to exhibit 99 to Goosehead Insurance Inc.'s registration statement on Form S-8 (Registration No. 333-224470)) |
| 10.11 | Form of Director Indemnification Agreement (incorporated by reference to exhibit 10.10 to Goosehead Insurance Inc.'s registration statement on Form S-1 (Registration No. 333-224080)) |
| 21 | Subsidiaries of the Registrant |
| 23.1 | Consent of Deloitte & Touche LLP |
| 31.1 | Certifications of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certifications of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Schema Document |
| 101.CAL | XBRL Calculation Linkbase Document |
| 101.DEF | XBRL Definition Linkbase Document |
| 101.LAB | XBRL Label Linkbase Document |
| 101.PRE | XBRL Presentation Linkbase |

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GOOSEHEAD INSURANCE, INC.

Date: February 26, 2021

By: /s/ Mark E. Jones
Mark E. Jones
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: February 26, 2021

By: /s/ Mark S. Colby
Mark S. Colby
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|-------------------|
| <u>/s/ Mark E. Jones</u> Mark E. Jones | Chairman, Director and Chief Executive Officer (Principal Executive Officer) | February 26, 2021 |
| <u>/s/ Robyn Jones</u> Robyn Jones | Vice Chairman and Director | February 26, 2021 |
| <u>/s/ Peter Lane</u> Peter Lane | Director | February 26, 2021 |
| <u>/s/ Mark Miller</u> Mark Miller | Director | February 26, 2021 |
| <u>/s/ James Reid</u> James Reid | Director | February 26, 2021 |
| <u>/s/ Mark S. Colby</u> Mark S. Colby | Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) | February 26, 2021 |

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-238237, 333-232150, 333-224468, and 333-224470 on Form S-8 of our reports dated February 26, 2021, relating to the financial statements of Goosehead Insurance, Inc. and the effectiveness of Goosehead Insurance, Inc.'s internal control over financial reporting appearing in this Annual Report on Form 10-K for the year ended December 31, 2020.

/s/ Deloitte & Touche LLP

Dallas, Texas

February 26, 2021

Exhibit 31.1

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

I, Mark E. Jones, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2020 of Goosehead Insurance, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d- 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

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

Date: February 26, 2021

/s/ Mark E. Jones

Mark E. Jones
Chief Executive Officer

Exhibit 31.2

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

I, Mark S. Colby, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2020 of Goosehead Insurance, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

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

Date: February 26, 2021

/s/ Mark S. Colby

Mark S. Colby
Chief Financial Officer

Exhibit 32

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

The certification set forth below is being submitted in connection with Goosehead Insurance, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2020 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

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

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Goosehead Insurance, Inc.

Date: February 26, 2021

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

Date: February 26, 2021

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