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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2023
OR

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

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

GOOSEHEAD INSURANCE, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

As of July 24, 2023, there were 23,898,757 shares of Class A common stock outstanding and 13,795,166 shares of Class B common stock outstanding.

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Commonly used defined terms

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

- Ancillary Revenue: Revenue that is supplemental to our Core Revenue and Cost Recovery Revenue, Ancillary Revenue is unpredictable and often outside of the Company's control. Included in Ancillary Revenue are Contingent Commissions and other income.
- Agency Fees: Fees separate from commissions charged directly to clients for efforts performed in the issuance of new insurance policies.
- Annual Report on Form 10-K: The Company's annual report on Form 10-K for the fiscal year ended December 31, 2022.
- 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.
- 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.
- Franchisee: An individual or entity who has entered into a Franchise Agreement with us.
- GF: Goosehead Financial, LLC.
- Initial Franchise Fee: Contracted fees paid by Franchisees to compensate Goosehead for the training, onboarding and ongoing support of new franchise locations.
- LLC Unit: a limited liability company unit of Goosehead Financial, LLC.
- New Business Commission: Commissions received from Carriers relating to policies in their first term.
- New Business Revenue: New Business Commissions, Agency Fees, and New Business Royalty Fees.
- New Business Royalty Fees: Royalty Fees received from Franchisees relating to policies in their first term
- NPS: Net Promoter Score is calculated based on a single question: “How likely are you to refer Goosehead Insurance to a friend, family member or colleague?” Clients that respond with a 6 or below are Detractors, a score of 7 or 8 are called Passives, and a 9 or 10 are Promoters. NPS is calculated by subtracting the percentage of Detractors from the percentage of Promoters.
- Policies in Force: As of any reported date, the total count of current (non-cancelled) policies placed by us with our Carriers.
- Pre-IPO LLC Members: owners of LLC Units of GF prior to the Offering.
- Renewal Revenue: Renewal Commissions and Renewal Royalty Fees.
- Royalty Fees: Fees paid by Franchisees to the Company that are tied to the gross commissions paid by the Carriers related to policies sold or renewed by a franchisee.
- The Offering: The initial public offering completed by Goosehead Insurance, Inc. on May 1, 2018.
- Total Written Premium: As of any reported date, the total amount of current (non-cancelled) gross premium that is placed with Goosehead’s portfolio of Carriers.

Special note regarding forward-looking statements

We have made statements in this Form 10-Q that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as “may,” “might,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential” or “continue,” the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include projections of our future financial performance, our anticipated growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements, including those factors discussed under the caption entitled “Item 1A. Risk factors” in the Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

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

PART I

Item 1. Condensed Consolidated Financial Statements (Unaudited)

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

(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenues:				
Commissions and agency fees	$ 31,173	$ 26,265	$ 56,657	$ 46,274
Franchise revenues	37,687	26,427	69,761	47,377
Interest income	417	330	814	649
Total revenues	69,277	53,022	127,232	94,300
Operating Expenses:				
Employee compensation and benefits	37,483	31,659	74,365	63,143
General and administrative expenses	17,332	12,378	33,188	25,902
Bad debts	900	1,660	2,555	2,456
Depreciation and amortization	2,372	1,658	4,465	3,234
Total operating expenses	58,087	47,355	114,573	94,735
Income (loss) from operations	11,190	5,667	12,659	(435)
Other Income (Expense):				
Interest expense	(1,709)	(1,114)	(3,440)	(1,997)
Income (loss) before taxes	9,481	4,553	9,219	(2,432)
Tax expense	2,301	2,164	2,220	562
Net income (loss)	7,180	2,389	6,999	(2,994)
Less: net income (loss) attributable to non-controlling interests	3,514	2,047	3,414	(1,050)
Net income (loss) attributable to Goosehead Insurance, Inc.	$ 3,666	$ 342	$ 3,585	$ (1,944)
Earnings per share:				
Basic	$ 0.15	$ 0.02	$ 0.15	$ (0.10)
Diluted	$ 0.15	$ 0.02	$ 0.15	$ (0.10)
Weighted average shares of Class A common stock outstanding				
Basic	23,689	20,454	23,448	20,348
Diluted	24,333	21,245	23,981	20,348

See Notes to the Condensed Consolidated Financial Statements

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

(In thousands, except per share amounts)

	June 30, 2023	December 31, 2022
Assets		
Current Assets:		
Cash and cash equivalents	$ 19,131	$ 28,743
Restricted cash	1,790	1,644
Commissions and agency fees receivable, net	10,459	14,440
Receivable from franchisees, net	9,489	4,932
Prepaid expenses	12,046	4,334
Total current assets	52,915	54,093
Receivable from franchisees, net of current portion	15,446	23,835
Property and equipment, net of accumulated depreciation	33,176	35,347
Right-of-use asset	41,177	44,080
Intangible assets, net of accumulated amortization	12,384	4,487
Deferred income taxes, net	164,549	155,318
Other assets	3,532	4,193
Total assets	$ 323,179	$ 321,353
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable and accrued expenses	$ 14,238	$ 15,958
Premiums payable	1,790	1,644
Lease liability	8,468	6,627
Contract liabilities	5,207	6,031
Note payable	8,125	6,875
Total current liabilities	37,828	37,135
Lease liability, net of current portion	61,662	64,947
Note payable, net of current portion	72,449	86,711
Contract liabilities, net of current portion	30,992	40,522
Liabilities under tax receivable agreement	133,696	125,662
Total liabilities	336,627	354,977
Class A common stock, $0.01 par value per share - 300,000 shares authorized, 23,900 shares issued and outstanding as of June 30, 2023, 23,034 shares issued and outstanding as of December 31, 2022	237	228
Class B common stock, $0.01 par value per share - 50,000 shares authorized, 13,795 issued and outstanding as of June 30, 2023, 14,471 shares issued and outstanding as of December 31, 2022	139	146
Additional paid in capital	86,859	70,866
Accumulated deficit	(57,565)	(60,570)
Total stockholders' equity	29,670	10,670
Non-controlling interests	(43,118)	(44,294)
Total equity	(13,448)	(33,624)
Total liabilities and equity	$ 323,179	$ 321,353

See Notes to the Condensed Consolidated Financial Statements

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

(In thousands)

	Issued shares of Class A common stock	Issued shares of Class B common stock	Class A Common stock	Class B Common Stock	Additional paid in capital	Accumulated deficit	Total stockholders' equity	Non-controlling interest	Total equity
Balance January 1, 2023	23,034	14,471	$ 228	$ 146	$ 70,866	$ (60,570)	$ 10,670	$ (44,294)	$(33,624)
Net loss	—	—	—	—	—	(81)	(81)	(100)	(181)
Exercise of stock options	17	—	—	—	173	—	173	—	173
Equity-based compensation	—	—	—	—	6,620	—	6,620	—	6,620
Activity under employee stock purchase plan	4	—	—	—	201	—	201	—	201
Redemption of LLC Units	323	(323)	3	(3)	(990)	—	(990)	990	—
Deferred tax adjustments related to Tax Receivable Agreement	—	—	—	—	699	—	699	129	828
Reallocation of Non-controlling interest	—	—	—	—	—	(103)	(103)	103	—
Balance March 31, 2023	23,379	14,147	$ 231	$ 143	$ 77,569	$ (60,754)	$ 17,189	$ (43,173)	$(25,984)
Distributions	—	—	—	—	—	—	—	(5,206)	(5,206)
Net income	—	—	—	—	—	3,666	3,666	3,514	7,180
Exercise of stock options	167	—	2	—	3,516	—	3,518	—	3,518
Equity-based compensation	—	—	—	—	5,872	—	5,872	—	5,872
Activity under employee stock purchase plan	2	—	—	—	144	—	144	—	144
Redemption of LLC Units	352	(352)	4	(4)	(1,112)	—	(1,112)	1,112	—
Deferred tax adjustments related to Tax Receivable Agreement	—	—	—	—	870	—	870	157	1,027
Reallocation of Non-controlling interest	—	—	—	—	—	(477)	(477)	477	—
Balance June 30, 2023	23,900	13,795	$ 237	$ 139	$ 86,859	$ (57,565)	$ 29,670	$ (43,118)	$(13,448)

	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, 2022	20,198	16,909	$ 200	$ 170	$ 46,281	$ (60,671)	$ (14,020)	$ (55,168)	$(69,188)
Net loss	—	—	—	—	—	(2,257)	(2,257)	(3,126)	(5,383)
Exercise of stock options	19	—	—	—	256	—	256		256
Equity-based compensation	—	—	—	—	5,788	—	5,788	—	5,788
Activity under employee stock purchase plan	3	—	—	—	214	—	214	—	214
Redemption of LLC Units	101	(101)	1	(1)	(344)	—	(344)	344	—
Deferred tax adjustments related to Tax Receivable Agreement	—	—	—	—	394	—	394	22	416
Reallocation of Non-controlling interest	—	—	—	—	—	(478)	(478)	478	—
Balance March 31, 2022	20,321	16,808	$ 201	$ 169	$ 52,589	$ (63,406)	$ (10,447)	$ (57,450)	$(67,897)
Net income	—	—	—	—	—	342	342	2,047	2,389
Exercise of stock options	94	—	1	—	1,007	—	1,008	—	1,008
Equity-based compensation	—	—	—	—	5,173	—	5,173	—	5,173
Activity under employee stock purchase plan	4	—	—	—	177	—	177	—	177
Redemption of LLC Units	115	(115)	1	(1)	(377)	—	(377)	377	—
Deferred tax adjustments related to Tax Receivable Agreement	—	—	—	—	373	—	373	30	403
Reallocation of Non-controlling interest	—	—	—	—	—	(226)	(226)	226	—
Balance June 30, 2022	20,534	16,693	$ 203	$ 168	$ 58,942	$ (63,290)	$ (3,977)	$ (54,770)	$(58,747)

See Notes to the Condensed Consolidated Financial Statements

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

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Cash flows from operating activities:		
Net income (loss)	$ 6,999	$ (2,994)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	4,578	3,347
Impairment expense	3,628	—
Bad debt expense	2,555	2,456
Equity-based compensation	12,492	10,961
Impacts of Tax Receivable Agreement	8,497	4,353
Deferred income taxes	(7,376)	(4,670)
Noncash lease activity	332	2,205
Changes in operating assets and liabilities:		
Receivable from franchisees	2,494	(3,584)
Commissions and agency fees receivable	3,022	1,780
Prepaid expenses	(7,712)	(2,410)
Other assets	661	(839)
Accounts payable and accrued expenses	(3,595)	(4,751)
Contract liabilities	(10,354)	3,764
Premiums payable	(107)	474
Net cash provided by operating activities	16,114	10,092
Cash flows from investing activities:		
Proceeds from notes receivable	12	21
Purchase of software	(2,496)	(1,292)
Cash consideration paid for asset acquisitions	(5,270)	—
Purchase of property and equipment	(3,532)	(5,531)
Net cash used for investing activities	(11,286)	(6,802)
Cash flows from financing activities:		
Repayment of note payable	(13,125)	(1,875)
Proceeds from the issuance of Class A common stock	4,037	1,654
Member distributions and dividends	(5,206)	—
Net cash used for financing activities	(14,294)	(221)
Net increase (decrease) in cash and restricted cash	(9,466)	3,069
Cash and cash equivalents, and restricted cash, beginning of period	30,387	30,479
Cash and cash equivalents, and restricted cash, end of period	$ 20,921	$ 33,548
Supplemental disclosures of cash flow data:		
Cash paid during the period for interest	$ 3,282	$ 2,143
Cash paid for income taxes	534	398

See Notes to the Condensed Consolidated Financial Statements

1. Organization

Goosehead Insurance, Inc. (“GSHD”) is the sole managing member of Goosehead Financial, LLC (“GF”) and has the sole voting power and control of management of GF. Accordingly, GSHD consolidates the financial results of GF and reports non-controlling interest in GSHD’s condensed consolidated financial statements.

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

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

The Company had 12 and 15 corporate-owned locations in operation at June 30, 2023 and 2022, respectively. Franchisees are provided access to Carrier Appointments, product training, technology infrastructure, client service centers and back office services. During the three months ended June 30, 2023 and 2022, the Company onboarded 72 and 141 franchise locations, respectively, and had 1,344 and 1,344 operating franchise locations as of June 30, 2023 and 2022, respectively. No franchises were purchased during the three and six months ended June 30, 2023 and 2022.

All intercompany accounts and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q. Therefore, they do not include all of the annual disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). However, in the opinion of management, these statements include all adjustments, consisting of normal recurring adjustments, which are necessary for a fair presentation of the condensed consolidated financial positions at June 30, 2023 and December 31, 2022, the condensed consolidated results of operations, stockholders' equity and statements of cash flows for the three and six months ended June 30, 2023 and 2022. The interim period condensed consolidated financial statements should be read in conjunction with the *Consolidated Financial Statements* that are included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

The results of operations for the three and six months ended June 30, 2023 are not necessarily indicative of the results that can be expected for the entire year. The Company experiences seasonal fluctuations of its revenue due to the timing of contingent commission revenue recognition and trends in housing market activity.

Reclassification

Certain amounts in the prior period financial statements have been reclassified to conform to the presentation of the current period financial statements.

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.

Intangible Assets

Intangible assets are stated at cost less accumulated amortization and reflect amounts paid for the Company’s web domain, computer software costs, and purchased books of business (customer accounts). The web domain is amortized over a useful life of fifteen years, computer software costs are amortized over a useful life of three years, and books of business (customer accounts) are amortized over a useful life of eight years. During the three and six months ended June 30, 2023, the Company purchased books of business (customer accounts) totaling $6.4 million and $6.5 million, respectively.

Asset Impairment

The Company reviews all of its identifiable assets for impairment periodically and whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. In reviewing identifiable assets, if the undiscounted future cash flows were less than the carrying amount of the respective assets, an indicator of impairment would exist, and further analysis would be required to determine whether or not a loss would need to be charged against current period earnings as a component of general and administrative expenses.

Based on a review of intangible assets during the second quarter ended June 30, 2023, the Company identified a group of internally-developed software assets that had not been placed into service and would not be completed. As a result, the Company determined the assets had no fair value and recorded an impairment expense of $1.1 million related to the asset group.

Based on a review of tangible assets during the second quarter ended June 30, 2023, the Company identified two office leases that will be subleased and completed a recoverability assessment for assets at those locations. Based on the results of the recoverability assessment, the Company determined that the undiscounted cash flows of the assets were below their carrying values. As a result, the Company compared the fair values of the assets to their carrying values and recorded an impairment expense of $1.4 million of property and equipment and $1.1 million of right-of-use asset for the amount the carrying values exceeded the fair values. The Company determined the fair values by estimating sublease cash flows based on market rates for similar properties and discounted them using the Company's internal borrowing rate.

Income Taxes

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

Restricted Cash

The Company holds premiums received from the insured, but not yet remitted to the Carrier, in a fiduciary capacity. Premiums received but not yet remitted included in restricted cash were $1.8 million and $2.4 million as of June 30, 2023 and 2022, respectively.

The following is a reconciliation of our cash and restricted cash balances as presented in the condensed consolidated statements of cash flows for the six months ended June 30, 2023 and 2022 *(in thousands)*:

	June 30,	
	2023	**2022**
Cash and cash equivalents	$ 19,131	$ 31,121
Restricted cash	1,790	2,427
Cash and cash equivalents, and restricted cash	$ 20,921	$ 33,548

Recently adopted 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 from March 12, 2020 through December 31, 2022. In December 2022, ASU 2022-06 extended the effective period through December 31, 2024. A substantial portion of our indebtedness bears interest at variable interest rates, primarily based on USD-LIBOR. The adoption of ASU 2020-04 did not have a material impact on our condensed consolidated financial statements. The standard will ease, if warranted, the administrative requirements for accounting for the future effects of the rate reform. Our debt agreement contains a provision to move to the Secured Overnight Financing Rate ("SOFR") if or when LIBOR is phased out. On April 26, 2023, the Company entered into an Amendment No.1 to the Second Amended and Restated Credit Agreement executing the provision to move to SOFR from LIBOR. Under the allowable expedients, a modification of a debt contract that is only a replacement of the reference rate is accounted for as a non-substantial modification.

3. Revenue

Commissions and fees

The Company earns new and renewal commissions paid by Carriers and fees paid by its clients for the binding of insurance coverage. The transaction 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.

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

Contingent commission revenue is generated from contracts between the Company and 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 Carrier. The transaction price for contingent commissions is estimated based on all available information and is recognized over time as the Company completes its performance obligations, as the underlying policies are placed, net of a constraint.

Franchise revenues

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

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

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

Contract costs

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 for the franchise sales team, in which the Company pays an incremental amount of compensation on new Franchise Agreements. These incremental costs are deferred and amortized over a 10-year period, which is consistent with the term of the contract.

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

Disaggregation of Revenue

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Type of revenue stream:				
Commissions and agency fees				
Renewal Commissions	$ 18,541	$ 14,541	$ 34,359	$ 24,748
New Business Commissions	6,257	6,730	11,774	12,097
Agency Fees	2,404	3,114	4,634	5,751
Contingent Commissions	3,971	1,880	5,890	3,678
Franchise revenues				
Renewal Royalty Fees	27,552	18,870	50,304	32,872
New Business Royalty Fees	6,267	4,821	11,909	9,113
Initial Franchise Fees	3,287	2,591	6,350	4,887
Other Franchise Revenues	581	145	1,198	505
Interest Income	417	330	814	649
Total Revenues	$ 69,277	$ 53,022	$ 127,232	$ 94,300
Timing of revenue recognition:				
Transferred at a point in time	$ 27,202	$ 24,385	$ 50,767	$ 42,596
Transferred over time	42,075	28,637	76,465	51,704
Total Revenues	$ 69,277	$ 53,022	$ 127,232	$ 94,300

Contract Balances

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

	June 30, 2023	December 31, 2022	Increase/(decrease)
Cost to obtain franchise contracts[1]	$ 2,904	$ 3,255	$ (351)
Commissions and agency fees receivable, net[2]	10,459	14,440	(3,981)
Receivable from franchisees[2]	24,935	28,767	(3,832)
Contract liabilities[2][3]	36,199	46,553	(10,354)

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

The Company records Franchise Fees as contract liabilities on the Condensed Consolidated Balance Sheets when the agreement is executed. Contract liabilities are reduced as fees are recognized in revenue over the expected life of the franchise license. As the term of the franchise license is typically ten years, substantially all of the franchise fee revenue recognized in the period ended June 30, 2023 was included in the contract liabilities balance as of December 31, 2022.

The weighted average remaining amortization period for contract liabilities related to open franchises is 7.5 years.

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

Contract liabilities at December 31, 2022	$	46,553
Revenue recognized during the period		(6,350)
New deferrals[1]		2,780
Write offs[2]		(6,784)
Contract liabilities at June 30, 2023	$	36,199

(1) Initial Franchise Fees where the consideration is received from the franchisee for services which are to be transferred to the Franchisee over the expected life of the Franchise Agreement.
(2) Franchise Fees, net of recognized revenue, no longer deferred due to the termination of the Franchise Agreement.

4. Franchise Fees Receivable

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

	June 30, 2023		December 31, 2022	
Franchise fees receivable[1]	$	24,324	$	35,606
Less: Unamortized discount[1]		(7,067)		(9,896)
Less: Allowance for uncollectible franchise fees[1]		(421)		(487)
Net franchise fees receivable[1]	$	16,836	$	25,223

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

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

Balance at December 31, 2022	$	487
Charges to bad debts		823
Write offs		(889)
Balance at June 30, 2023	$	421
Balance at December 31, 2021	$	303
Charges to bad debts		1,341
Write offs		(1,217)
Balance at June 30, 2022	$	427

5. Allowance for Uncollectible Agency Fees

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

Balance at December 31, 2022	$	450
Charges to bad debts		876
Write offs		(673)
Balance at June 30, 2023	$	653
Balance at December 31, 2021	$	489
Charges to bad debts		1,115
Write offs		(1,052)
Balance at June 30, 2022	$	552

6. Property and equipment

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

	June 30, 2023	December 31, 2022
Furniture & fixtures	$ 11,090	$ 9,772
Computer equipment	4,069	4,041
Network equipment	426	423
Phone system	326	326
Leasehold improvements	36,297	36,009
Total	52,208	50,571
Less accumulated depreciation	(19,032)	(15,224)
Property and equipment, net	$ 33,176	$ 35,347

Depreciation expense was $3.8 million and $2.9 million for six months ended June 30, 2023 and 2022, respectively.

7. Debt

On July 21, 2021, the Company refinanced its $25.0 million revolving credit facility and $80.0 million term note payable to a $50.0 million revolving credit facility and $100.0 million term note payable in order to obtain a more favorable interest rate on the outstanding debt. The Company also has the right, subject to approval by the administrative agent and each issuing bank, to increase the commitments under the credit facilities by an additional $25.0 million.

On April 26, 2023, the Company entered into Amendment No.1 ("Amendment") of the Second Amended and Restated Credit Agreement, which provided that LIBOR should be replaced with SOFR.

The $50.0 million revolving credit facility accrues interest on amounts drawn at an initial interest rate of LIBOR plus 250 basis points, then at an interest rate determined by the Company's leverage ratio for the preceding period. At June 30, 2023 the Company was accruing interest at SOFR plus 200 basis points. At June 30, 2023, the Company had nothing drawn against the revolving credit facility and had a letter of credit of $0.2 million applied against the maximum borrowing availability, payable on July 21, 2026. Thus, amounts available to draw totaled $49.8 million. The revolving credit facility is collateralized by substantially all the Company’s assets, which includes rights to future commissions and royalties.

The term note is payable in quarterly installments of $0.6 million the first twelve months, $1.3 million the next twelve months, $1.9 million the next twelve months, and $2.5 million the last twenty-four months, with a balloon payment of $65.6 million on July 21, 2026. On May 31, 2023, the Company paid an additional $10.0 million toward the term note, reducing the final balloon payment to $55.6 million. The note is collateralized by substantially all of the Company’s assets, which includes rights to future commissions and royalties. Interest is calculated initially at LIBOR plus 225 basis points, then at an interest rate based on the Company's leverage ratio for the preceding period. At June 30, 2023 the Company was accruing interest at SOFR plus 200 basis points.

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

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

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

	Amount
2023	$ 3,750
2024	9,375
2025	10,000
2026	58,125
2027	—
Total	$ 81,250

The Company’s note payable agreement contains certain restrictions and covenants. Under these restrictions, the Company is limited in the amount of debt incurred and distributions payable. As of June 30, 2023, the Company's maximum allowable trailing twelve months debt-to-EBITDA ratio, as defined by the credit agreement, was 4x. In addition, the credit agreement contains certain change of control provisions that, if broken, would trigger a default. Finally, the Company must maintain certain financial ratios. As of June 30, 2023, the Company was in compliance with these covenants.

Because of both instruments’ variable interest rate, the note payable balance at June 30, 2023 and December 31, 2022, approximates fair value using Level 2 inputs, described below.

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

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

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

8. Income Taxes

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

Income tax expense (benefit)
Provision expense from income taxes for the three and six months ended June 30, 2023 was $2.3 million and $2.2 million compared to $2.2 million and $0.6 million for the three and six months ended June 30, 2022. The effective tax rate was 24% and 24% for the three and six months ended June 30, 2023 and 48% and (23)% for the three and six months ended June 30, 2022. The decrease in the effective tax rate for the three months ended June 30, 2023 compared to the three months ended June 30, 2022 was primarily due to an increase in exercises of employee stock options. The increase in the effective tax rate for the six months ended June 30, 2023 compared to the six months ended June 30, 2022 was primarily due to an increase in pre-tax income between periods.

Deferred taxes

Deferred tax assets at June 30, 2023 were $164.5 million compared to $155.3 million at December 31, 2022. The primary contributing factor to the increase in deferred tax assets is additional redemptions of LLC Units of GF for shares of Class A common stock of GSHD during the six months ended June 30, 2023.

Tax Receivable Agreement

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

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

During the three and six months ended June 30, 2023, an aggregate of 351,972 and 675,457 LLC Units were redeemed by the Pre-IPO LLC Members for newly issued shares of Class A common stock. In connection with these redemptions, GSHD received 351,972 and 675,457 LLC Units, which resulted in an increase in the tax basis of its investment in GF subject to the provisions of the tax receivable agreement. The Company recognized a liability for the TRA Payments due to the Pre-IPO LLC Members, representing 85% of the aggregate tax benefits the Company expects to realize from the tax basis increases related to the redemptions of LLC Units, after concluding it was probable that such TRA Payments would be paid based on its estimates of future taxable income. As of June 30, 2023, the total amount of TRA Payments due to the Pre-IPO LLC Members under the tax receivable agreement was $134.2 million, of which $0.5 million was current and included in Accounts payables and accrued expenses on the Condensed Consolidated Balance Sheet. Future exchanges of LLC Units for Class A common stock will result in additional TRA payments.

Uncertain tax positions

GSHD has determined there are no material uncertain tax positions as of June 30, 2023.

9. Stockholders' Equity

Class A Common Stock

GSHD has a total of 23,900 thousand shares of its Class A common stock outstanding at June 30, 2023. 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 13,795 thousand shares of its Class B common stock outstanding at June 30, 2023. Each share of Class B common stock has no economic rights but entitles its holder to one vote per share on all matters submitted to a vote of the stockholders of GSHD.

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

Earnings Per Share

The following table sets forth the calculation of basic earnings per share ("EPS") based on net income attributable to GSHD for the three and six months ended June 30, 2023 and 2022, divided by the basic weighted average number of Class A common stock as of June 30, 2023 and 2022 *(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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Numerator:				
Income (loss) before taxes	$ 9,481	$ 4,553	$ 9,219	$ (2,432)
Less: income (loss) before taxes attributable to non-controlling interests	3,514	2,047	3,414	(1,050)
Income (loss) before taxes attributable to GSHD	5,967	2,506	5,805	(1,382)
Less: income tax expense attributable to GSHD	2,301	2,164	2,220	562
Net income (loss) attributable to GSHD	$ 3,666	$ 342	$ 3,585	$ (1,944)
Denominator:				
Weighted average shares of Class A common stock outstanding - basic	23,689	20,454	23,448	20,348
Effect of dilutive securities:				
Stock options(1)	644	791	533	—
Weighted average shares of Class A common stock outstanding - diluted	24,333	21,245	23,981	20,348
Earnings per share of Class A common stock - basic	$ 0.15	$ 0.02	$ 0.15	$ (0.10)
Earnings per share of Class A common stock - diluted	$ 0.15	$ 0.02	$ 0.15	$ (0.10)

(1) 1,543 and 2,178 stock options were excluded from the computation of diluted earnings per share of Class A common stock for the three and six months ended June 30, 2023 because the effect would have been anti-dilutive. 2,388 and 3,179 stock options were excluded from the computation of diluted earnings per share of Class A common stock for the three and six months ended June 30, 2022 because the effect would have been anti-dilutive.

10. Non-controlling interest

GSHD is 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.

GF makes distributions to the LLC Unit holders on a pro rata basis to facilitate the LLC Unit holder's quarterly tax payments. For the three and six months ended June 30, 2023, GF made a distribution of $12.6 million, of which $5.2 million was made to Pre-IPO LLC Members. The remaining $7.4 million was made to GSHD and was eliminated in consolidation.

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

During the three and six months ended June 30, 2023, an aggregate of 352 thousand and 675 thousand LLC Units were redeemed by the non-controlling interest holders. Pursuant to the GF LLC Agreement, GSHD issued 352 thousand and 675 thousand shares of Class A common stock in connection with these redemptions and received 352 thousand and 675 thousand LLC Interests, increasing GSHD's ownership interest in GF. Simultaneously, and in connection with these redemptions, 352 thousand and 675 thousand shares of Class B common stock were surrendered and cancelled.

The following table summarizes the ownership interest in GF as of June 30, 2023 *(in thousands)*:

	June 30, 2023	
	LLC Units	**Ownership %**
Number of LLC Units held by GSHD	23,900	63.4%
Number of LLC Units held by non-controlling interest holders	13,795	36.6%
Number of LLC Units outstanding	37,695	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 percentages for the three and six months ended June 30, 2023 were 37.0% and 37.6%, respectively.

The following table summarizes the effects of changes in ownership in GF on the equity of GSHD for the three and six months ended June 30, 2023 and 2022 as follows *(in thousands)*:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2023	**2022**	**2023**	**2022**
Net income (loss) attributable to Goosehead Insurance Inc.	$ 3,666	$ 342	$ 3,585	$ (1,944)
Transfers (to) from non-controlling interests:				
Decrease in additional paid-in capital as a result of the redemption of LLC interests	(1,112)	(377)	(2,102)	(721)
Increase in additional paid-in capital as a result of activity under employee stock purchase plan	144	177	345	391
Total effect of changes in ownership interest on equity attributable to Goosehead Insurance Inc.	**$ 2,698**	**$ 142**	**$ 1,828**	**$ (2,274)**

11. Equity-Based Compensation

Stock option expense was $5.9 million and $12.5 million for the three and six months ended June 30, 2023. Stock option expense was $5.2 million and $11.0 million for the three and six months ended June 30, 2022.

12. Litigation

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

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

OVERVIEW

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes and other financial information included elsewhere in this Form 10-Q. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results and timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under “Risk factors” and elsewhere in this report and in the Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

We are a rapidly growing personal lines independent insurance agency, reinventing the traditional approach to distributing personal lines products and services throughout the United States. We were founded with one vision in mind—to provide consumers with superior insurance coverage at the best available price and in a timely manner. By leveraging our differentiated business model and innovative technology platform, we are able to deliver to consumers a superior insurance experience. Our management team continues to own approximately 42% of the company, representing our commitment to the long-term success of the Company.

Financial Highlights for the Second Quarter of 2023:

- Total revenue increased 31% from the second quarter of 2022 to $69.3 million
- Core Revenue* increased by 27% from the second quarter of 2022 to $61.0 million
- Total Written Premiums placed increased 36% from the prior-year period to $767.3 million
- Net income increased by $4.8 million from the second quarter of 2022 to $7.2 million, or 10% of total revenues
- Adjusted EBITDA* increased 85% from the second quarter of 2022 to $23.1 million, or 33% of total revenues
- Basic and diluted earnings per share were $0.15 and $0.15, respectively, and Adjusted EPS* was $0.41 per share for the three months ended June 30, 2023
- Policies in Force increased 21% from June 30, 2022 to 1,427,000 at June 30, 2023
- Corporate sales headcount decreased 44% from June 30, 2022 to 280 at June 30, 2023
    - As of June 30, 2023, 146 of these Corporate sales agents had less than one year of tenure and 134 had greater than one year of tenure
- Total franchises decreased 26% compared to the prior-year period to 1,728; total operating franchises had no changes from June 30, 2022 to 1,344 at June 30, 2023
    - In Texas as of June 30, 2023, 64 operating Franchisees had less than one year of tenure and 251 operating Franchisees had greater than one year of tenure
    - Outside of Texas as of June 30, 2023, 284 operating Franchisees had less than one year of tenure and 745 had greater than one year of tenure

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

Certain income statement line items

Revenues

For the three months ended June 30, 2023, revenue increased by 31% to $69.3 million from $53.0 million for the three months ended June 30, 2022. For the six months ended June 30, 2023, revenue increased by 35% to $127.2 million from $94.3 million for the six months ended June 30, 2022. Total Written Premium growth, which we believe is the best leading indicator of future revenue, increased 36% to $767 million for the three months ended June 30, 2023 from $566 million for the three months ended June 30, 2022. Total Written Premium growth increased 38% for the six months ended June 30, 2023 to $1,405 million from $1,017 million for the six months ended June 30, 2022. Total Written Premiums drive our current and future Core Revenue and give 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 measure presented in accordance with GAAP, are set forth under "Key performance indicators".

Core Revenue:

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

Cost Recovery Revenue:

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

Ancillary Revenue:

- Contingent Commissions - although high margin, Contingent Commissions are unpredictable and susceptible to weather events and Carrier underwriting results. Management does not rely on Contingent Commissions for operating cash flow or budget planning.
- Other Franchise Revenues - 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:

	Three Months Ended June 30,				Six Months Ended June 30,			
(in thousands)	2023		2022		2023		2022	
Core Revenue:								
Renewal Commissions[1]	$18,541	27 %	$14,541	27 %	$34,359	27 %	$24,748	26 %
Renewal Royalty Fees[2]	27,552	40 %	18,870	36 %	50,304	40 %	32,872	35 %
New Business Commissions[1]	6,257	9 %	6,730	13 %	11,774	9 %	12,097	13 %
New Business Royalty Fees[2]	6,267	9 %	4,821	9 %	11,909	9 %	9,113	10 %
Agency Fees[1]	2,404	3 %	3,114	6 %	4,634	4 %	5,751	6 %
Total Core Revenue	61,021	88 %	48,076	91 %	112,980	89 %	84,581	90 %
Cost Recovery Revenue:								
Initial Franchise Fees[2]	3,287	5 %	2,591	5 %	6,350	5 %	4,887	5 %
Interest Income	417	1 %	330	1 %	814	1 %	649	1 %
Total Cost Recovery Revenue	3,704	5 %	2,921	6 %	7,164	6 %	5,536	6 %
Ancillary Revenue:								
Contingent Commissions[1]	3,971	6 %	1,880	4 %	5,890	5 %	3,678	4 %
Other Franchise Revenues[2]	581	1 %	145	— %	1,198	1 %	505	1 %
Total Ancillary Revenue	4,552	7 %	2,025	4 %	7,088	6 %	4,183	4 %
Total Revenues	**$69,277**	**100 %**	**$53,022**	**100 %**	**$127,232**	**100 %**	**$94,300**	**100 %**

(1) Renewal Commissions, New Business Commissions, Agency Fees, and Contingent Commissions are included in "Commissions and agency fees" as shown on the Condensed consolidated statements of operations.
(2) Renewal Royalty Fees, New Business Royalty Fees, Initial Franchise Fees, and Other Franchise Revenues are included in "Franchise revenues" as shown on the Condensed consolidated statements of operations.

Consolidated results of operations

The following is a discussion of our consolidated results of operations for each of the three and six months ended June 30, 2023 and 2022. This information is derived from our accompanying condensed consolidated financial statements prepared in accordance with GAAP.

The following table summarizes our results of operations for the three and six months ended June 30, 2023 and 2022 *(in thousands)*:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2023		2022		2023		2022	
Revenues:								
Commissions and agency fees	$ 31,173	45 %	$ 26,265	50 %	$ 56,657	45 %	$ 46,274	49 %
Franchise revenues	37,687	54 %	26,427	50 %	69,761	55 %	47,377	50 %
Interest income	417	1 %	330	1 %	814	1 %	649	1 %
Total revenues	69,277	100 %	53,022	100 %	127,232	100 %	94,300	100 %
Operating Expenses:								
Employee compensation and benefits	37,483	65 %	31,659	67 %	74,365	65 %	63,143	67 %
General and administrative expenses	17,332	30 %	12,378	26 %	33,188	29 %	25,902	27 %
Bad debts	900	2 %	1,660	4 %	2,555	2 %	2,456	3 %
Depreciation and amortization	2,372	4 %	1,658	4 %	4,465	4 %	3,234	3 %
Total operating expenses	58,087	100 %	47,355	100 %	114,573	100 %	94,735	100 %
Income (loss) from operations	11,190		5,667		12,659		(435)	
Other Income (Expense):								
Interest expense	(1,709)		(1,114)		(3,440)		(1,997)	
Income (loss) before taxes	9,481		4,553		9,219		(2,432)	
Tax expense	2,301		2,164		2,220		562	
Net income (loss)	7,180		2,389		6,999		(2,994)	
Less: net income (loss) attributable to non-controlling interests	3,514		2,047		3,414		(1,050)	
Net income (loss) attributable to Goosehead Insurance Inc.	$ 3,666		$ 342		$ 3,585		$ (1,944)	

Revenues

For the three months ended June 30, 2023 revenue increased 31% to $69.3 million from $53.0 million for the three months ended June 30, 2022. For the six months ended June 30, 2023 revenue increased 35% to $127.2 million from $94.3 million for the six months ended June 30, 2022.

Commissions and agency fees

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

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2023		2022		2023		2022	
Core Revenue:								
Renewal Commissions	$ 18,541	59 %	$ 14,541	55 %	$ 34,359	61 %	$ 24,748	54 %
New Business Commissions	6,257	20 %	6,730	26 %	11,774	21 %	12,097	26 %
Agency Fees	2,404	8 %	3,114	12 %	4,634	8 %	5,751	12 %
Total Core Revenue:	27,202	87 %	24,385	93 %	50,767	90 %	42,596	92 %
Ancillary Revenue:								
Contingent Commissions	3,971	13 %	1,880	7 %	5,890	10 %	3,678	8 %
Commissions and agency fees	**$ 31,173**	**100 %**	**$ 26,265**	100 %	**$ 56,657**	**100 %**	**$ 46,274**	100 %

Renewal Commissions increased by $4.0 million or 28%, to $18.5 million for the three months ended June 30, 2023 from $14.5 million for the three months ended June 30, 2022. Renewal Commissions increased by $9.6 million or 39%, to $34.4 million for the six months ended June 30, 2023 from $24.7 million for the six months ended June 30, 2022. This increase was primarily attributable to an increase in the number of policies in the renewal term from June 30, 2022 to June 30, 2023 and premium rate increases, offset by a slight decline in client retention to 88% as of June 30, 2023 from 89% as of June 30, 2022.

New Business Commissions decreased by $0.5 million, or 7%, to $6.3 million for the three months ended June 30, 2023 from $6.7 million for the three months ended June 30, 2022. New Business Commissions decreased by $0.3 million or 3%, to $11.8 million for the six months ended June 30, 2023 from $12.1 million for the six months ended June 30, 2022. The decrease in New Business Commissions was primarily driven by decrease in number of Corporate Sales agents during the six months ended June 30, 2023. Revenue from Agency Fees decreased by $0.7 million or 23% to $2.4 million for the three months ended June 30, 2023 from $3.1 million for the three months ended June 30, 2022. Revenue from Agency Fees decreased by $1.1 million or 19%, to $4.6 million for the six months ended June 30, 2023 from $5.8 million for the six months ended June 30, 2022. The decrease in Agency Fees was primarily attributable to a decrease in the percentage of policies written where an Agency Fee was charged.

Revenue from Contingent Commissions increased by $2.1 million, to $4.0 million for the three months ended June 30, 2023 from $1.9 million for the three months ended June 30, 2022. Revenue from Contingent Commissions increased by $2.2 million, to $5.9 million for the six months ended June 30, 2023 from $3.7 million for the six months ended June 30, 2022. The increase during the three and six months ended June 30, 2023 was primarily attributable to an increase in Total Written Premium.

Franchise revenues

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

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2023		2022		2023		2022	
Core Revenues:								
Renewal Royalty Fees	$ 27,552	73 %	$ 18,870	71 %	$ 50,304	72 %	$ 32,872	69 %
New Business Royalty Fees	6,267	17 %	4,821	18 %	11,909	17 %	9,113	19 %
Total Core Revenues:	33,819	90 %	23,691	90 %	62,213	89 %	41,985	89 %
Cost Recovery Revenues:								
Initial Franchise Fees	3,287	9 %	2,591	10 %	6,350	9 %	4,887	10 %
Ancillary Revenues:								
Other Franchise Revenues	581	2 %	145	1 %	1,198	3 %	505	1 %
Franchise revenues	$ 37,687	100 %	$ 26,427	100 %	$ 69,761	100 %	$ 47,377	100 %

Revenue from Renewal Royalty Fees increased by $8.7 million, or 46%, to $27.6 million for the three months ended June 30, 2023 from $18.9 million for the three months ended June 30, 2022. Revenue from Renewal Royalty Fees increased by $17.4 million, or 53%, to $50.3 million for the six months ended June 30, 2023 from $32.9 million for the six months ended June 30, 2022. The increase in revenue from Renewal Royalty Fees was primarily attributable to an increase in the number of policies in the renewal term and offset by a slight decline in client retention to 88% as of June 30, 2023 from 89% as of June 30, 2022.

Revenue from New Business Royalty Fees increased by $1.4 million, or 30%, to $6.3 million for the three months ended June 30, 2023 from $4.8 million for the three months ended June 30, 2022. Revenue from New Business Royalty Fees increased by $2.8 million, or 31%, to $11.9 million for the six months ended June 30, 2023 from $9.1 million for the six months ended June 30, 2022. The increase in revenue from New Business Royalty Fees was primarily attributable to an increase in total franchise producers and rising premium rates.

Revenue from Initial Franchise Fees increased by $0.7 million, or 27%, to $3.3 million for the three months ended June 30, 2023 from $2.6 million for the three months ended June 30, 2022. Revenue from Initial Franchise Fees increased by $1.5 million, or 30%, to $6.4 million for the six months ended June 30, 2023 from $4.9 million for the six months ended June 30, 2022. The primary reason for this increase is higher turnover of franchises during the year, which accelerates recognition of Initial Franchise Fees for terminated franchises.

Interest income

Interest income increased by $0.1 million, or 26%, to $0.4 million for the three months ended June 30, 2023 from $0.3 million for the three months ended June 30, 2022. Interest income increased by $0.2 million, or 25%, to $0.8 million for the six months ended June 30, 2023 from $0.6 million for the six months ended June 30, 2022. This increase was primarily attributable to additional Franchise Agreements signed under the payment plan option.

Expenses

Employee compensation and benefits

Employee compensation and benefits expenses increased by $5.8 million, or 18%, to $37.5 million for the three months ended June 30, 2023 from $31.7 million for the three months ended June 30, 2022. Employee compensation and benefits expenses increased by $11.2 million, or 18%, to $74.4 million for the six months ended June 30, 2023 from $63.1 million for the six months ended June 30, 2022. The 18% increase was primarily related to an increase in equity-based compensation of 14% related to stock option awards during the year.

General and administrative expenses

General and administrative expenses increased by $5.0 million, or 40%, to $17.3 million for the three months ended June 30, 2023 from $12.4 million for the three months ended June 30, 2022. General and administrative expenses increased by $7.3 million, or 28%, to $33.2 million for the six months ended June 30, 2023 from $25.9 million for the six months ended June 30, 2022. This increase was primarily attributable to $3.6 million asset impairment charges related to internally developed software and impairment of two office locations the Company determined to sublease.

Bad debts

Bad debts decreased by $0.8 million, or 46%, to $0.9 million for the three months ended June 30, 2023 from $1.7 million for the three months ended June 30, 2022. The decrease is primarily attributable to a decrease in franchise turnover during the three months ended June 30, 2023 compared to the three months ended June 30, 2022. Bad debts increased by $0.1 million, or 4%, to $2.6 million for the six months ended June 30, 2023 from $2.5 million for the six months ended June 30, 2022. The increase was primarily attributable to higher franchise turnover during the six months ended June 30, 2023 from the six months ended June 30, 2022.

Depreciation and amortization

Depreciation and amortization increased by $0.7 million, or 43%, to $2.4 million for the three months ended June 30, 2023 from $1.7 million for the three months ended June 30, 2022. Depreciation and amortization increased by $1.2 million, or 38%, to $4.5 million for the six months ended June 30, 2023 from $3.2 million for the six months ended June 30, 2022. This increase was primarily attributable to the increase in fixed assets since June 30, 2022, including the expansion of existing corporate offices and computer equipment for additional employees hired.

Interest expense

Interest expenses increased by $0.6 million for the three months ended June 30, 2023, to $1.7 million from $1.1 million for the three months ended June 30, 2022. Interest expenses increased by $1.4 million for the six months ended June 30, 2023, to $3.4 million from $2.0 million for the six months ended June 30, 2022. The primary driver of this increase was the rising interest rate environment, partially offset by a decrease in total borrowings outstanding.

Key performance indicators

Our key operating metrics are discussed below:

Total Written Premium

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

The following tables show Total Written Premium placed by corporate agents and franchisees for the three and six months ended 2023 and 2022 *(in thousands)*.

	Three Months Ended June 30,		% Change
	2023	2022	
Corporate sales Total Written Premium	$ 179,638	$ 146,844	22 %
Franchise sales Total Written Premium	587,614	419,117	40 %
Total Written Premium	$ 767,252	$ 565,961	36 %

	Six Months Ended June 30,		% Change
	2023	2022	
Corporate sales Total Written Premium	$ 326,467	$ 257,239	27 %
Franchise sales Total Written Premium	1,078,496	759,634	42 %
Total Written Premium	$ 1,404,963	$ 1,016,873	38 %

Policies in Force

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

As of June 30, 2023, we had 1.4 million Policies in Force compared to 1.3 million as of December 31, 2022 and 1.2 million as of June 30, 2022, representing an 11% and 21% increase, respectively.

NPS

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

NPS has increased to 91 as of June 30, 2023, from 90 as of June 30, 2022.

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 remained constant at 88% at June 30, 2023 when compared to 88% at December 31, 2022. For the trailing twelve months ended June 30, 2023, we retained 103% of the premiums we distributed in the trailing twelve months ended June 30, 2022, which increased from the 100% premium retention at December 31, 2022. Our premium retention rate is higher than our Client Retention rate as a result of both premiums increasing year over year and additional coverages sold by our sales and service teams.

New Business Revenue

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

For the three months ended June 30, 2023, New Business Revenue grew 2% to $14.9 million, from $14.7 million for the three months ended June 30, 2022. For the six months ended June 30, 2023, New Business Revenue grew 5% to $28.3 million, from $27.0 million for the six months ended June 30, 2022. Growth in New Business Revenue is primarily driven by growth in agent productivity and rising premium rates.

Renewal Revenue

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

For the three months ended June 30, 2023, Renewal Revenue grew 38% to $46.1 million, from $33.4 million for the three months ended June 30, 2022. For the six months ended June 30, 2023, Renewal Revenue grew 47% to $84.7 million, from $57.6 million for the six months ended June 30, 2022. Growth in Renewal Revenue was primarily driven by Client Retention of 88% at June 30, 2023, and rising premium rates. As our agent force matures, the policies they wrote in prior years begins to convert from New Business Revenue to more profitable Renewal Revenue.

Non-GAAP Measures

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

Core Revenue

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

Core Revenue increased by $12.9 million, or 27%, to $61.0 million for the three months ended June 30, 2023 from $48.1 million for the three months ended June 30, 2022. Core Revenue increased by $28.4 million, or 34%, to $113.0 million for the six months ended June 30, 2023 from $84.6 million for the six months ended June 30, 2022. The primary drivers of the increase were the higher number of policies in the renewal term from June 30, 2022 to June 30, 2023 as well as premium retention of 103% as of June 30, 2023.

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 $0.8 million, or 27%, to $3.7 million for the three months ended June 30, 2023 from $2.9 million for the three months ended June 30, 2022. Cost Recovery Revenue increased by $1.6 million, or 29%, to $7.2 million for the six months ended June 30, 2023 from $5.5 million for the six months ended June 30, 2022. The primary driver of the increase was an increase in terminations of franchises, which accelerates recognition of initial franchise fee revenue.

Ancillary Revenue

Ancillary Revenue is a supplemental measure of our performance and includes Contingent Commissions and Other Franchise Revenues. 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 $2.5 million to $4.6 million for the three months ended June 30, 2023 from $2.0 million for the three months ended June 30, 2022. Ancillary Revenue increased by $2.9 million to $7.1 million for the six months ended June 30, 2023 from $4.2 million for the six months ended June 30, 2022.

Adjusted EBITDA

Adjusted EBITDA is a supplemental measure of our performance. We believe that Adjusted EBITDA is an appropriate measure of operating performance because it eliminates the impact of items that do not relate to business performance. Adjusted EBITDA is defined as net income (the most directly comparable GAAP measure) before interest, income taxes, depreciation and amortization, adjusted to exclude equity-based compensation, impairment expense, 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 $10.6 million, or 85%, to $23.1 million for the three months ended June 30, 2023 from $12.5 million for the three months ended June 30, 2022. Adjusted EBITDA increased by $19.5 million, or 142%, to $33.2 million for the six months ended June 30, 2023 from $13.8 million for the six months ended June 30, 2022. The primary drivers of the increase in Adjusted EBITDA were growing higher margin Renewal Revenue, decreases in Corporate agent headcount, and slower growth in General and Administrative expenses.

Adjusted EBITDA Margin

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

For the three months ended June 30, 2023, Adjusted EBITDA Margin was 33% compared to 24% for the three months ended June 30, 2022. For the six months ended June 30, 2023, Adjusted EBITDA Margin was 26% compared to 15% for the six months ended June 30, 2022. The primary drivers of the increase in Adjusted EBITDA Margin were growing higher margin Renewal Revenue, decreases in Corporate agent headcount, and slower growth in General and Administrative expenses.

Adjusted EPS

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

GAAP to Non-GAAP Reconciliations

The following tables show a reconciliation from Total Revenues to Core Revenue, Cost Recovery Revenue, and Ancillary Revenue for the three and six months ended June 30, 2023 and 2022 *(in thousands)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Total Revenues	$ 69,277	$ 53,022	$ 127,232	$ 94,300
Core Revenue:				
Renewal Commissions[1]	$ 18,541	$ 14,541	$ 34,359	$ 24,748
Renewal Royalty Fees[2]	27,552	18,870	50,304	32,872
New Business Commissions[1]	6,257	6,730	11,774	12,097
New Business Royalty Fees[2]	6,267	4,821	11,909	9,113
Agency Fees[1]	2,404	3,114	4,634	5,751
Total Core Revenue	61,021	48,076	112,980	84,581
Cost Recovery Revenue:				
Initial Franchise Fees[2]	3,287	2,591	6,350	4,887
Interest Income	417	330	814	649
Total Cost Recovery Revenue	3,704	2,921	7,164	5,536
Ancillary Revenue:				
Contingent Commissions[1]	3,971	1,880	5,890	3,678
Other Franchise Revenues[2]	581	145	1,198	505
Total Ancillary Revenue	4,552	2,025	7,088	4,183
Total Revenues	$ 69,277	$ 53,022	$ 127,232	$ 94,300

(1) Renewal Commissions, New Business Commissions, Agency Fees, and Contingent Commissions are included in "Commissions and agency fees" as shown on the condensed consolidated statements of operations.
(2) Renewal Royalty Fees, New Business Royalty Fees, Initial Franchise Fees, and Other Franchise Revenues are included in "Franchise revenues" as shown on the condensed consolidated statements of operations.

The following tables show a reconciliation from net income to Adjusted EBITDA and Adjusted EBITDA margin for the three and six months ended June 30, 2023 and 2022 *(in thousands)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net Income (Loss)	$ 7,180	$ 2,389	$ 6,999	$ (2,994)
Interest expense	1,709	1,114	3,440	1,997
Depreciation and amortization	2,372	1,658	4,465	3,234
Tax expense	2,301	2,164	2,220	562
Equity-based compensation	5,872	5,173	12,492	10,961
Impairment expense	3,628	—	3,628	—
Adjusted EBITDA	$ 23,062	$ 12,498	$ 33,244	$ 13,760
Adjusted EBITDA Margin[1]	33 %	24 %	26 %	15 %

(1) Adjusted EBITDA Margin is calculated as Adjusted EBITDA divided by Total Revenue ($23,062/$69,277), and ($12,498/$53,022) for the three months ended June 30, 2023 and 2022, respectively and ($33,244/$127,232), and ($13,760/$94,300) for the six months ended June 30, 2023 and 2022, respectively.

The following tables show a reconciliation from basic earnings per share to Adjusted EPS (non-GAAP basis) for the three and six months ended June 30, 2023 and 2022. Note that totals may not sum due to rounding:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Earnings per share - basic (GAAP)	$ 0.15	$ 0.02	$ 0.15	$ (0.10)
Add: equity-based compensation[1]	0.16	0.14	0.33	0.30
Add: impairment expense[2]	0.10	—	0.10	—
Adjusted EPS (non-GAAP)	$ 0.41	$ 0.16	$ 0.58	$ 0.20

(1) Calculated as equity-based compensation divided by sum of weighted average Class A and Class B shares [$5.9 million/(23.7 million + 13.9 million)] for the three months ended June 30, 2023 and [$5.2 million/ (20.5 million + 16.7 million)] for the three months ended June 30, 2022. Calculated as equity-based compensation divided by sum of weighted average Class A and Class B shares [$12.5 million/(23.4 million + 14.1 million)] for the six months ended June 30, 2023 and [$11.0 million/ (20.3 million + 16.8 million)] for the six months ended June 30, 2022.

(2) Calculated as impairment expense divided by sum of weighted average Class A and Class B shares [$3.6 million/(23.7 million + 13.9 million)] for the three months ended June 30, 2023. Calculated as impairment expense divided by sum of weighted average Class A and Class B shares [$3.6 million/(23.4 million + 14.1 million)] for the six months ended June 30, 2023.

Liquidity and capital resources

Liquidity and capital resources

We have managed our historical liquidity and capital requirements primarily through the receipt of revenues. Our primary cash flow activities involve: (1) generating cash flow from Commissions and Fees, which largely includes New Business Revenue, Renewal Revenue, and Agency Fees; (2) generating cash flow from Franchise Revenues operations, which largely includes Initial Franchise Fees and Royalty Fees; (3) borrowings, interest payments and repayments under our credit agreement; and (4) issuing shares of Class A common stock. As of June 30, 2023, our cash and cash equivalents balance was $19.1 million. We have used cash flow from operations primarily to pay compensation and related expenses, general, administrative and other expenses, debt service, special dividends and distributions to our owners.

Credit agreement

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

Comparative cash flows

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

	Six Months Ended June 30,		
	2023	**2022**	**Change**
Net cash provided by operating activities	$ 16,114	$ 10,092	$ 6,022
Net cash used for investing activities	(11,286)	(6,802)	(4,484)
Net cash used for financing activities	(14,294)	(221)	(14,073)
Net increase (decrease) in cash and cash equivalents	(9,466)	3,069	(12,535)
Cash and cash equivalents, and restricted cash, beginning of period	30,387	30,479	(92)
Cash and cash equivalents, and restricted cash, end of period	$ 20,921	$ 33,548	$ (12,627)

Operating activities

Net cash provided by operating activities was $16.1 million for the six months ended June 30, 2023 as compared to net cash provided by operating activities of $10.1 million for the six months ended June 30, 2022. This increase in net cash provided by operating activities was primarily attributable to an increase in net income of $10.0 million, a decrease in receivables from franchisees of $6.1 million, partially offset by a decrease of $14.1 million in contract liabilities.

Investing activities

Net cash used for investing activities was $11.3 million for the six months ended June 30, 2023, compared to net cash used for investing activities of $6.8 million for the six months ended June 30, 2022. This increase was primarily driven by $5.3 million in cash paid for purchases of books of business partially offset by a $2.0 million decrease in the purchase of property and equipment.

*Financing activitie*s

Net cash used for financing activities was $14.3 million for the six months ended June 30, 2023 as compared to net cash used for financing activities of $0.2 million for the six months ended June 30, 2022. This increase in net cash used for financing activities was primarily driven by an additional $10.0 million payment of notes payable and a $5.2 million member distribution.

Future sources and uses of liquidity

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

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

Dividend policy

There have been no material changes to our dividend policy as described in the Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Tax receivable agreement

We entered into a tax receivable agreement with the Pre-IPO LLC Members on May 1, 2018 that provides for the payment by us to the Pre-IPO LLC Members of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that we actually realize as a result of (i) any increase in tax basis in Goosehead Insurance, Inc.'s assets and (ii) tax benefits related to imputed interest deemed arising as a result of payments made under the tax receivable agreement. See "Item 13. Certain relationships and related transactions, and director independence" of the Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

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

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

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

Contractual obligations, commitments and contingencies

The following table represents our contractual obligations as of June 30, 2023, 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)]	$ 80,528	$ 10,843	$ 23,054	$ 22,846	$ 23,785
Debt obligations payable[(2)]	81,250	8,125	17,500	55,625	—
Interest expense[(3)]	14,923	5,649	8,272	1,002	—
Liabilities under the tax receivable agreement[(4)]	134,159	463	32,806	16,076	84,814
Total	$ 310,860	$ 25,080	$ 81,632	$ 95,549	$ 108,599

(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 $2.0 million and $1.9 million for the three months ended June 30, 2023 and 2022.
(2) The Company refinanced its credit facilities on July 21, 2021 in the form of a $100 million term loan, and $50 million revolving credit facility, of which nothing was drawn as of June 30, 2023.
(3) Interest expense includes interest payments on our outstanding debt obligations under our credit agreement. Our debt obligations have variable interest rates. We have calculated future interest obligations based on the interest rate for our debt obligations as of June 30, 2023.
(4) See "Item 2. Management's discussion and analysis of financial condition and results of operation - Tax receivable agreement."

Off-balance sheet arrangements

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

Critical accounting policies

Our discussion and analysis of our consolidated financial condition and results of operations is based upon the accompanying condensed consolidated financial statements and notes thereto, which have been prepared in accordance with GAAP. The preparation of the condensed consolidated financial statements requires us to make estimates, judgments and assumptions, which we believe to be reasonable, based on the information available. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. Variances in the estimates or assumptions used to actual experience could yield materially different accounting results. On an ongoing basis, we evaluate the continued appropriateness of our accounting policies and resulting estimates to make adjustments we consider appropriate under the facts and circumstances. During the period ended June 30, 2023, we adjusted the techniques we use for estimating revenues, which had an insignificant effect on reported financial results. There have been no significant changes to our critical accounting policies as disclosed in the Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Recent accounting pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to our exposure to market risks as described in "Item 7A. Quantitative and qualitative disclosure of market risks" in the Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Item 4. Controls and Procedures

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2023. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There were no changes to our internal control over financial reporting that occurred during the quarter ended June 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

The information required by this Item is incorporated by reference to "Part I, Item I, Note 12. Litigation" in the condensed consolidated financial statements included herein.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

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

None.

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

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit 10.1	Agreement, dated April 26, 2023, between Goosehead Insurance and P. Ryan Langston (incorporated by reference to exhibit 10.1 to Goosehead Insurance Inc.'s Quarterly Report on Form 10-Q filed with the Commission on April 28, 2023)
Exhibit 31.1	Certifications of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certifications of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase

Signatures

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

GOOSEHEAD INSURANCE, INC.

Date: July 26, 2023 By: /s/ Mark E. Jones
Mark E. Jones
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: July 26, 2023 By: /s/ Mark E. Jones, Jr.
Mark E. Jones, Jr.
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

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

I, Mark E. Jones, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Goosehead Insurance, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d- 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

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

Date: July 26, 2023

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

Exhibit 31.2

Certification of Principal Financial 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, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Goosehead Insurance, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

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

Date: July 26, 2023

/s/ Mark E. Jones, Jr.
Mark E. Jones, Jr.
Chief Financial Officer

Exhibit 32

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

The certification set forth below is being submitted in connection with Goosehead Insurance, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 (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 E. Jones, Jr., the Chief Financial Officer of Goosehead Insurance, Inc., each certifies that, to the best of his knowledge:

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

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

Date: July 26, 2023

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

Date: July 26, 2023

/s/ Mark E. Jones, Jr.
Mark E. Jones, Jr.
Chief Financial Officer