UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

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: 001-38151

YogaWorks, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**47-1219105**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

5780 Uplander Way
Culver City, CA 90230
(Address of principal executive offices)

Registrant's telephone number, including area code: (310) 664-6470

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Small 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 Exchange Act). Yes ☐ No ☑

As of November 12, 2018, the registrant had 16,628,808 shares of common stock, $0.001 par value per share, outstanding.

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YogaWorks, Inc.

Condensed Consolidated Balance Sheets (Unaudited)

	As of September 30, 2018	As of December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 13,179,294	$ 22,095,216
Inventories	1,212,104	1,212,608
Prepaid expenses and other current assets	947,460	1,145,067
Total current assets	15,338,858	24,452,891
Property and equipment, net	9,150,733	10,418,203
Intangible assets, net	14,408,349	22,142,275
Goodwill	5,429,063	12,768,773
Other non-current assets	1,262,530	1,224,179
Total assets	$ 45,589,533	$ 71,006,321
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued expenses	$ 3,123,797	$ 3,794,569
Accrued compensation	1,203,241	1,947,134
Deferred revenue	6,387,875	7,187,948
Current portion of deferred rent	120,010	122,607
Total current liabilities	10,834,923	13,052,258
Deferred rent, net of current portion	3,540,956	3,418,886
Deferred tax liability	2,402	—
Total liabilities	14,378,281	16,471,144
Commitments and Contingencies (Note 14)		
Stockholders' equity		
Common stock $0.001 par value; 50,000,000 shares authorized, 16,620,284 issued and 16,477,675 outstanding at September 30, 2018 and 50,000,000 shares authorized, 16,435,505 issued and 16,332,510 outstanding at December 31, 2017	16,478	16,333
Additional paid in capital	112,837,218	111,650,415
Accumulated deficit	(81,642,444)	(57,131,571)
Total stockholders' equity	31,211,252	54,535,177
Total liabilities and stockholders' equity	$ 45,589,533	$ 71,006,321

See accompanying notes to condensed consolidated financial statements.

YogaWorks, Inc.

Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net revenues	$ 15,150,692	$ 13,518,513	$ 45,550,867	$ 40,002,033
Cost of revenues and operating expenses				
Cost of revenues	6,212,640	5,153,324	17,892,463	15,087,713
Center operations	7,179,487	5,732,994	21,012,976	17,002,858
General and administrative expenses	4,158,868	4,556,887	12,617,813	11,661,716
Depreciation and amortization	1,874,008	2,161,126	6,471,036	6,530,589
Goodwill impairment	5,550,000	—	8,024,819	—
Asset impairment	4,118,939	—	4,118,939	—
Total cost of revenues and operating expenses	29,093,942	17,604,331	70,138,046	50,282,876
Loss from operations	(13,943,250)	(4,085,818)	(24,587,179)	(10,280,843)
Interest (income) expense, net	(46,613)	532,939	(96,886)	1,343,445
Net loss before provision for income taxes	(13,896,637)	(4,618,757)	(24,490,293)	(11,624,288)
Provision for (benefit from) income taxes	2,667	(27,933)	20,580	31,074
Net loss	(13,899,304)	(4,590,824)	(24,510,873)	(11,655,362)
Less preferred rights dividend on redeemable preferred stock	—	—	—	(995,743)
Net loss attributable to common stockholders	$ (13,899,304)	$ (4,590,824)	$ (24,510,873)	$ (12,651,105)
Basic and diluted net loss per share attributable to common stockholders	$ (0.84)	$ (0.37)	$ (1.49)	$ (1.51)
Weighted-average number of shares used in calculating loss per share attributable to common stockholders:				
Basic and diluted common shares	16,468,085	12,574,523	16,401,589	8,363,916

See accompanying notes to condensed consolidated financial statements.

YogaWorks, Inc.

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Par Value	Capital	Deficit	Equity
Balance, December 31, 2017	16,332,510	$ 16,333	$ 111,650,415	$ (57,131,571)	$ 54,535,177
Vesting of restricted stock units	186,102	186	(186)	—	—
Repurchase of shares to satisfy tax withholding	(40,937)	(41)	(97,110)	—	(97,151)
Stock-based compensation	—	—	1,284,099	—	1,284,099
Net loss	—	—	—	(24,510,873)	(24,510,873)
Balance, September 30, 2018	16,477,675	$ 16,478	$ 112,837,218	$ (81,642,444)	$ 31,211,252

See accompanying notes to condensed consolidated financial statements.

YogaWorks, Inc.

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash flows from operating activities		
Net loss	$ (24,510,873)	$ (11,655,362)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,471,036	6,530,589
Goodwill impairment	8,024,819	—
Asset impairment	4,118,939	—
Deferred tax	2,402	13,906
Paid-in-kind interest expense capitalized to convertible note	—	291,585
Beneficial conversion feature	—	147,877
Amortization of debt issuance cost	—	69,164
Debt issuance cost written-off	—	318,016
Stock-based compensation expense	1,284,099	2,119,252
Changes to operating assets and liabilities, net of effects from acquisitions:		
Tenant improvement allowances received	47,530	—
Inventories	4,470	47,575
Prepaid expenses and other current assets	197,607	656,902
Other non-current assets	(919)	(76,689)
Accounts payable and accrued expenses	(186,078)	2,707,751
Accrued compensation	(743,893)	(640)
Deferred revenue	(1,154,686)	391,885
Deferred rent and other non-current liabilities	71,943	94,085
Net cash (used in) provided by operating activities	(6,373,604)	1,655,896
Cash flows from investing activities		
Purchases of property, equipment, and intangible assets	(1,079,543)	(958,602)
Acquisition earnout and holdback payments	(643,694)	(445,400)
Cash paid for acquisitions, net of earnouts	(721,930)	—
Net cash used in investing activities	(2,445,167)	(1,404,002)
Cash flows from financing activities		
Repurchase of shares to satisfy tax withholding	(97,151)	—
Principal payment on term loans	—	(6,956,250)
Principal payment on convertible note	—	(3,300,403)
Principal payment on subordinated notes	—	(200,000)
Proceeds from issuance of convertible note	—	35,083,288
Proceeds from issuance of common stock	—	3,200,000
Net cash (used in) provided by financing activities	(97,151)	27,826,635
Increase (decrease) in cash and cash equivalents	(8,915,922)	28,078,529
Cash and cash equivalents, beginning of period	22,095,216	1,912,421
Cash and cash equivalents, end of period	$ 13,179,294	$ 29,990,950
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest paid	$ —	$ 516,694
Supplemental disclosure of non-cash activities		
Investing activities		
Purchase consideration liabilities related to acquisitions	$ 159,000	$ —
Financing activities		
Dividends on preferred redeemable stock accrued	—	995,743
Paid-in-kind interest expense capitalized convertible note	—	291,585
Purchase consideration liabilities related to acquisitions	—	120,031
Conversion of convertible notes to equity	—	11,825,774
Conversion of preferred redeemable stock to equity	—	62,388,567

See accompanying notes to condensed consolidated financial statements.

YogaWorks, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Organization and Basis of Presentation

General

YogaWorks, Inc., a Delaware corporation, and its wholly-owned subsidiary Yoga Works, Inc., a California corporation (together referred to as "we", "us", "our", and the "Company"), are primarily engaged in operating yoga studios. YogaWorks, Inc. was formerly known as YWX Holdings, Inc. and we changed our name to YogaWorks, Inc. on April 10, 2017. We operate under the brand names YogaWorks, Yoga Tree and certain other local brands for a period of time following the acquisition of studios. We primarily offer yoga classes, workshops, teacher training programs and yoga-related retail merchandise across our studios. In addition to our studio locations, we offer online yoga instruction and programming through our MyYogaWorks.com web platform, which provides subscribers with a highly curated library of over 1,100 yoga classes.

Initial Public Offering

On August 16, 2017, we completed our initial public offering ("IPO") whereby we sold 7,300,000 shares of our common stock ("Common Stock") registered at a price of $5.50 per share. Our shares of our Common Stock are traded on the NASDAQ Global Market. We received proceeds from our IPO of $37.6 million after deducting underwriters' discounts and commissions of $2.5 million, but before deducting offering costs of $2.6 million. Certain IPO-related costs of $5.1 million were recorded as a reduction to additional paid-in capital in 2017.

Markets

We operate in regional markets across the United States ("U.S."). As a result of the clustering of our studios in key geographic markets, and the flexibility offered to students to use different studios in a regional market, we do not report net revenues on an individual studio basis or report same studio sales. We prefer to analyze financial results on a regional market basis. Given the focus on acquisitions, we may acquire studios in an existing regional market to capture more regional market share, which may take some market share from our existing studios.

As of September 30, 2018, we owned and operated 70 yoga studios in nine regional markets. The following table illustrates the studio locations by regional market:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
Regional Market	Number of Studios(1)	Percentage of Net Revenues(2)	Number of Studios(1)	Percentage of Net Revenues(2)	Number of Studios(1)	Percentage of Net Revenues(2)	Number of Studios(1)	Percentage of Net Revenues(2)
Los Angeles	17	33%	17	41%	17	33%	17	42%
Orange County (California)	4	6%	4	8%	4	6%	4	8%
Northern California	13	23%	13	26%	13	22%	13	25%
Houston(3)	7	8%	—	—	7	9%	—	—
Atlanta(3)	4	4%	—	—	4	4%	—	—
Washington, D.C.(4)	6	4%	2	1%	6	5%	2	1%
Baltimore(4)	7	6%	9	8%	7	6%	9	7%
New York City	5	10%	5	12%	5	10%	5	13%
Boston(5)	7	6%	3	4%	7	5%	3	4%
Total Studios	70		53		70		53	

(1) Number of studios as of September 30, 2018 and 2017.
(2) For the three and nine months ended September 30, 2018 and 2017. Assumes that any net revenues for teacher training, workshops and MyYogaWorks.com for such period are allocated to the regional markets on a proportional basis based on the market's share of total studio net revenues for such period.
(3) Reflects seven Houston area studios acquired in October 2017 and four Atlanta area studios acquired in November 2017.
(4) Reflects five Washington, D.C./Baltimore-area studios acquired in the second half of 2017. The regions were then split into two separate areas as a result of the acquisitions.
(5) Reflects five Boston area studios acquired in the second quarter of 2018 and one Boston area studio that closed in the third quarter of 2018.

We operate in a number of regional operating segments; however, we meet the aggregation criteria of Accounting Standards Codification ("ASC") 280, Segment Reporting, and therefore report as one reportable segment. Our chief executive officer, who is our chief operating decision maker, determines our strategy and makes operating decisions for our regional operating segments, and assesses performance and allocates resources based on performance of our regional operating segments. We derive revenue from the sale of yoga classes, workshops, teacher training programs and yoga-related retail merchandise.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements included herein have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of management, normal recurring adjustments considered necessary for a fair presentation have been reflected in these condensed consolidated financial statements.

The consolidated balance sheet as of December 31, 2017 has been derived from the audited financial statements for the fiscal year then ended included in our Annual Report on Form 10-K filed with the SEC pursuant to Rule 424(b) under the Securities Act of 1933, as amended, on April 3, 2018 (the "10-K"), but does not include all of the information and notes required by GAAP for complete financial statements. The financial information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements as of and for the fiscal year ended December 31, 2017 and the related notes thereto included in the 10-K.

There have been no significant changes in our accounting policies from those disclosed in the 10-K.

2. Recent Accounting Pronouncements

Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have availed ourselves of this exemption from new or revised accounting standards. The effective dates of the recent accounting pronouncements noted below reflect the private company transition date.

In July 2018, the FASB issued ASU 2018-10, Leases (Topic 842), Codification Improvements and ASU 2018-11 Leases (Topic 842), Targeted Improvements, to provide additional guidance for the adoption of Topic 842. ASU 2018-10 clarifies certain provisions and correct unintended applications of the guidance such as the application of implicit rate, lessee reassessment of lease classification, and certain transition adjustments that should be recognized to earnings rather than to stockholders' equity. ASU 2018-11 provides an alternative transition method and practical expedient for separating contract components for the adoption of Topic 842. In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2018-11, ASU 2018-10, and ASU 2016-02 (collectively, "the new lease standards") is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Although early adoption is permitted, we anticipate adopting these provisions in the first quarter of 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We had $51.2 million of operating lease obligations as of December 31, 2017, and upon adoption of this standard we will record a ROU asset and lease liability equal to the present value of these leases, which will have a material impact on the consolidated balance sheet. However, the recognition of lease expense in the consolidated statement of operations is not expected to change from the current methodology.

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The amendments in this ASU provide guidance on accounting for share-based payment transactions for acquiring goods and services from nonemployees. This ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. We are evaluating the impact of implementing this update on our consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update), ("ASU 2018-05"), which included amendments to SEC paragraphs pursuant to SEC Staff Accounting Bulletin No. 118 ("SAB 118"). The pronouncement addresses certain circumstances that may arise for registrants in accounting for the income tax effects of the Tax Cuts and Jobs Act ("the Act"), including when certain income tax effects of the Act are incomplete by the time financial statements are issued. The Company has complied with the amendments related to SAB 118, as discussed further in Note 13, Income Taxes.

In May 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting. The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This ASU was effective for fiscal years beginning after December 15, 2017. We adopted this ASU as of January 1, 2018 noting no material impact to the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments in this ASU provide a robust framework to use in determining when a set of assets and activities is a business. This ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted and the standard should be applied prospectively. We early adopted this ASU as of January 1, 2018 and this standard was applied on all acquisitions during the second quarter of 2018 (See Note 3).

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The update provides guidance on classification for cash receipts and payments related to eight specific issues. The update is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. We are evaluating the impact of implementing this update on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-04, Liabilities – Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products. This update addresses the current and potential future diversity in practice related to the derecognition of a prepaid stored-value product liability. This ASU was effective for fiscal years beginning after December 15, 2017. We adopted this ASU as of January 1, 2018 noting no material impact to the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU supersedes the revenue recognition requirements in ASU Topic 605, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Subsequently, the FASB issued several standards related to ASU 2014-09 (collectively, the "New Revenue Standard"), including the most recent ASU, ASU 2017-14, Income Statement - Reporting Comprehensive Income (Topic 220), and Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), which was issued in November 2017. The New Revenue Standard is effective for our Company in fiscal years beginning after December 15, 2018, with early adoption permitted. The standard permits the use of either the retrospective or modified retrospective (cumulative effect) transition method. Our Company primarily generates revenues by selling yoga classes in the form of memberships or class packages. Our implementation efforts included the identification of revenue streams within the scope of the guidance, evaluation of the revenue contracts and existing revenue recognition policies. We anticipate that we will adopt the new standard on January 1, 2019 and our evaluation remains preliminary because we are still in the process of evaluating the impact.

3. Acquisitions

Our Company uses acquisitions as our primary strategy to grow our market share, quickly gain students and build on the operating momentum of the acquired businesses. We completed two acquisitions during the nine months ended September 30, 2018, paying total consideration of $721,930, excluding earnouts of $159,000. On April 30, 2018, we acquired Prana Power Yoga (three studios) and on May 24, 2018, we acquired Inner Strength Yoga Studios (two studios) all in the Boston area. The acquisitions were accounted for as a business acquisition in accordance with ASC 805, Business Combinations ("ASC 805"). Under the acquisition method of accounting, the total purchase price was allocated to the net tangible and intangible assets acquired and liabilities assumed, based on their estimated fair values. Any excess amount paid over identifiable assets is recorded as goodwill. The associated goodwill is deductible for tax purposes. The process for estimating the fair values of the acquired studios involves the use of significant estimates and assumptions, including estimating average industry purchase price multiple and estimating future cash flows.

The condensed consolidated statement of operations since the date of each acquisition through September 30, 2018 and the condensed consolidated balance sheet as of September 30, 2018 include the results of operations and the acquired assets and assumed liabilities related to all 2018 acquisitions. For the nine months ended September 30, 2018, these acquisitions contributed $468,583 to our Company's revenues. Net income contributed by these acquisitions was not separately identifiable due to our integration activities and the impact of corporate-level expenses and is impracticable to provide. Acquisition-related costs, including legal fees and all related professional fees, were expensed.

The total purchase price consideration was allocated to the acquired assets and liabilities as follows:

	Amount
Inventories	$ 3,966
Property and equipment	410,060
Intangible assets	295,976
Goodwill	488,109
Other non-current assets	37,432
Total assets acquired	1,235,543
Deferred revenue	354,613
Total liabilities assumed	354,613
Net assets acquired	$ 880,930

ASC 805 requires adjustments to the provisional amounts recognized at the acquisition dates to reflect new information obtained about facts and circumstances that existed as of the acquisition dates that, if known, would have affected the measurement of the amounts recognized as of that date. During the third quarter of 2018, we completed the valuations and allocations on the 2017 acquisitions that resulted in a $197,000 reduction in intangible assets and a corresponding increase to Goodwill.

4. Property and Equipment

The major classes of property and equipment are as follows:

	As of September 30, 2018	As of December 31, 2017
Computer equipment and purchased software	$ 544,850	$ 1,130,653
Furniture and fixtures	2,700,769	3,633,677
Leasehold improvements	25,854,001	25,367,841
Other equipment	210,955	174,885
Construction-in-progress	339,936	—
Total property and equipment	29,650,511	30,307,056
Less accumulated depreciation and amortization	(20,499,778)	(19,888,853)
	$ 9,150,733	$ 10,418,203

We incurred depreciation expense of $835,432 and $648,820 for the three months ended September 30, 2018 and 2017, respectively, and $2,421,159 and $1,921,025 for the nine months ended September 30, 2018 and 2017, respectively, which is included in depreciation and amortization expense in the Statement of Operations.

During the third quarter of 2018, we recorded an impairment charge of $267,498 to the property and equipment for one of our studios because it was no longer recoverable as a result of the studio's continuing negative cash contribution.

5. Goodwill

The changes in the carrying amount of goodwill are as follows:

	As of September 30, 2018	As of December 31, 2017
Goodwill, beginning of period	$ 12,768,773	$ 17,746,570
Goodwill acquired in 2018 (See Note 3)	488,109	—
Goodwill acquired in 2017 (See Note 3)	197,000	2,510,602
Total goodwill	13,453,882	20,257,172
Less impairment	(8,024,819)	(7,488,399)
Goodwill, end of period	$ 5,429,063	$ 12,768,773

We performed an interim goodwill impairment test during the second and third quarters of 2018 triggered by the continued decrease in the Company's market capitalization. Due to the continued decrease in Company's market capitalization, we recorded an impairment to goodwill of $8.0 million during the nine month period ended September 30, 2018. During the fourth quarter of 2017, we recorded an impairment to goodwill of $7.5 million.

In the second quarter of 2018, we completed two acquisitions which resulted in the addition of $0.5 million in goodwill (See Note 3).

6. Deferred Revenue

The following is a reconciliation of the changes in deferred revenue for the three months and nine months ended September 30, 2018 and 2017:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Deferred revenue at beginning of period	$ 7,545,300	$ 5,101,146	$ 7,187,948	$ 4,593,076
Cash receipts before deferred revenue	14,039,750	13,507,587	44,514,949	40,532,850
Net revenue for the period	(15,150,692)	(13,518,513)	(45,550,867)	(40,002,033)
Deferred revenue from acquisitions	—	171,277	354,613	171,277
Change in gift card liabilities	(46,483)	84,276	(118,768)	50,603
Deferred revenue at end of period	$ 6,387,875	$ 5,345,773	$ 6,387,875	$ 5,345,773

7. Related Party

We paid expense reimbursement fees to an affiliate of Great Hill Equity Partners V, L.P. and Great Hill Investors, LLC (collectively, "Great Hill Partners" or "GHP"), the owners of a majority of our Common Stock, in the amount of $25,000 for the three months ended September 30, 2017 and $75,000 for the nine months ended September 30, 2017. In connection with our IPO, the Expense Reimbursement Agreement that we entered into with Great Hill Partners was terminated.

On March 27, 2017, we issued new convertible notes (the "New Convertible Notes") to Great Hill Partners, in the aggregate principal amount of $3.2 million, which were convertible, at the option of the holder, into shares of our Common Stock at a conversion price of $8.40 per share (see Note 8). In connection with the IPO, the New Convertible Notes were repaid in full.

8. Debt

Long-term Debt

In July 2015, we obtained a 5-year $20 million senior secured term loan facility with Deerpath Funding LP (the "Deerpath Facility"). We borrowed $5 million in July 2015 (the "Initial Term Loan"), and had the ability, upon meeting certain conditions, to borrow up to an additional $15 million. Borrowings under the Deerpath Facility carried an annual interest rate of LIBOR + 7%. The proceeds from the Initial Term Loan were used to pay all of the outstanding indebtedness under our credit facility with a previous lender.

In December 2015, we borrowed an additional $2 million under the Deerpath Facility for general corporate purposes, thereby increasing the principal amount of the loans and reducing the incremental borrowing availability under the Deerpath Facility, in each case, by an equivalent amount. Average interest rate on the loan was 9.1% for 2017. Interest expense for the three months and nine months ended September 30, 2017 related to the aggregate amount of outstanding indebtedness under the Deerpath Facility was $168,698 and $516,694, respectively. On August 16, 2017, in connection with the consummation of our IPO, the Deerpath Facility was repaid in full and immediately cancelled thereafter.

Convertible Note Due to Related Party

On March 27, 2017, we issued the New Convertible Notes to Great Hill Partners, in the aggregate principal amount of $3.2 million, which were convertible, at the option of the holder, into shares of our Common Stock at a conversion rate of $8.40 per share. The New Convertible Notes consisted of a Subordinated Convertible Promissory Note, dated March 27, 2017, made by us in favor of Great Hill Equity Partners V, L.P., in the principal amount of $3,189,350, and a Subordinated Convertible Promissory Note, dated March 27, 2017, made by us in favor of Great Hill Investors, LLC, in the principal amount of $10,650. Each New Convertible Note had a maturity date of March 27, 2018 and bore interest at an annual rate of 8%. Interest expense for the three months and nine months ended September 30, 2017 was $32,498 and $439,572, respectively. On August 16, 2017, in connection with the consummation of our IPO, the New Convertible Notes were repaid in full.

9. Common Stock

Initial Public Offering

On August 16, 2017, we completed our IPO whereby we sold 7,300,000 shares of our Common Stock registered at a price of $5.50 per share. We received proceeds from our IPO of $37.6 million after deducting underwriters' discounts and commissions of $2.5 million, but before deducting offering costs of $2.6 million.

Conversion of Amended and Restated 2015 GHP convertible promissory notes and redeemable preferred stock

On March 24, 2017, we engaged in a series of transactions to convert certain of our outstanding indebtedness and all of the Company's outstanding redeemable preferred stock into shares of Common Stock.

The aggregate amount of principal and accrued interest under that certain Second Amended and Restated Subordinated Convertible Promissory Note made by us in favor of Great Hill Equity Partners V, L.P., dated March 24, 2017, and that certain Second Amended and Restated Subordinated Convertible Promissory Note made by us in favor of Great Hill Investors, LLC, dated March 24, 2017 (collectively, the "Amended and Restated 2015 GHP Convertible Promissory Notes"), was converted into 1,407,632 shares of Common Stock based on the conversion price per share of Common Stock as set forth in such notes of $8.40. Concurrently, all of the outstanding shares of redeemable preferred stock were converted into shares of Common Stock, with the number of shares of Common Stock issuable upon such conversion computed by dividing the Preferred Share Liquidation Preference per share by a conversion price per share of Common Stock of $8.40, resulting in 7,426,169 newly issued shares of Common Stock. Immediately after the conversion of the Amended and Restated 2015 GHP Convertible Promissory Notes and the redeemable preferred stock into shares of Common Stock, we effected a 1-for-10 reverse stock split of the Common Stock. Accordingly, except as otherwise indicated, all share and per share amounts have been adjusted to reflect the 1-for-10 reverse stock split as though it had occurred at the beginning of the initial period presented. In connection with the foregoing transactions, we also increased our total number of shares of authorized Common Stock to 14,131,017 shares.

Following the 1-for-10 reverse stock split, our Board of Directors ("Board") amended our 2014 Stock Option and Grant Plan to increase the shares of Common Stock reserved for issuance thereunder to 1,695,484. In addition, our Board approved the grant of options to purchase 1,425,641 shares of Common Stock to certain employees and consultants.

On July 14, 2017, we effectuated a 1-for-1.333520 reverse stock split (the "1-for- 1.333520 Reverse Split"). Under the terms of the 1-for-1.333520 Reverse Split, each share of Common Stock, issued and outstanding as of such effective date, was automatically reclassified and split into 0.749895 shares of Common Stock, without any further action by the stockholders. Fractional shares were rounded down to the nearest whole share. Accordingly, except as otherwise indicated, all share and per share amounts have been adjusted to reflect the 1-for-1.333520 Reverse Split for all periods presented in this quarterly report.

10. Preferred Stock

Redeemable Preferred Stock

On March 24, 2017, we engaged in a series of transactions to convert certain of our outstanding indebtedness and all of the outstanding redeemable preferred stock into shares of Common Stock. Because Great Hill Equity Partners V, L.P. and Great Hill Investors, LLC held all of the redeemable preferred stock and owned a substantial majority of the Common Stock both before and after the conversion of the redeemable preferred stock on March 24, 2017, there is no impact on earnings per share as a result of this conversion.

11. Loss per Share Attributable to Common Stockholders

The components of basic and diluted loss per share attributable to common stockholders are as follows (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator for basic and diluted loss per share attributable to common stockholders:				
Net loss	$ (13,899,304)	$ (4,590,824)	$ (24,510,873)	$ (11,655,362)
Dividend attributable to participating securities	—	—	—	(995,743)
Net loss attributable to YogaWorks, Inc. common stockholders	$ (13,899,304)	$ (4,590,824)	$ (24,510,873)	$ (12,651,105)
Denominator:				
Weighted-average outstanding shares of common stock	16,468,085	12,574,523	16,401,589	8,363,916
Net loss per share attributable to common stockholders:				
Basic and diluted	$ (0.84)	$ (0.37)	$ (1.49)	$ (1.51)

For the period ended September 30, 2018, and 2017, there were outstanding options to purchase 1,404,704 and 1,527,768 shares of Common Stock outstanding, respectively, which were excluded from the computation of diluted loss per share because it would be anti-dilutive.

12. Accounting for Stock-Based Compensation

2014 Plan

In July 2014, our Company adopted the 2014 Stock Option and Grant Plan (the "2014 Plan"). Upon adoption of the 2014 Plan, the maximum aggregate number of shares issuable thereunder was 7,499 shares post-reverse split. In March 12, 2017, our Board amended the 2014 Plan to increase the shares of Common Stock reserved for issuance thereunder to 1,695,484. As of September 30, 2018, no shares were issuable under the 2014 Plan.

2017 Plan

In connection with our IPO, we adopted the 2017 Incentive Award Plan (the "2017 Plan"), effective as of August 9, 2017. The aggregate number of shares of Common Stock reserved for issuance pursuant to awards granted under the 2017 Plan equals: (i) 2,263,213, plus (ii) any shares which, as of the effective date of the 2017 Plan, subject to awards under the 2014 Plan which forfeited or lapsed unexercised following the effective date of the 2017 Plan, plus (iii) an annual increase on the first day of each calendar year beginning on January 1, 2018 and ending on and including January 1, 2027 equal to the lesser of (a) 5% of the shares outstanding (on an as-converted basis) on the final day of the immediately preceding calendar year, or (b) such smaller number of shares as determined by our Board.

The 2017 Plan permits the grant of incentive stock options, restricted stock, restricted stock units, stock appreciation rights, performance-based awards to our employees, directors and consultants. Shares issued pursuant to awards under the 2017 Plan that are settled for cash by our Company or that expire or are forfeited will become available for future grant or sale. Shares used to pay the exercise price of an award or to satisfy the minimum tax withholding obligations related to an award will not be available for future grants under the 2017 Plan. As of September 30, 2018, 1,903,329 shares remained available for issuance under the 2017 Plan.

With the exception of accelerated options, our typical options vest over four years from the grant date, with 25% of the award vesting on the first anniversary of the grant date and the remainder vesting over the next 36 months. Stock compensation expense related to these equity awards was recorded based upon the estimated fair value of the shares amortized over the vesting period.

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (1)
Outstanding at December 31, 2017	1,527,768	$ 7.74	9.29	$ —
Granted	192,063	3.34	—	—
Exercised	—	—	—	—
Cancelled	(315,127)	7.79	—	—
Outstanding at September 30, 2018	1,404,704	7.13	8.64	—
Exercisable at September 30, 2018	868,740	7.73	8.55	—

(1) Based on our Company's closing stock price of $1.20 on September 28, 2018.

Unamortized stock-based compensation expense relating to stock options was $0.8 million at September 30, 2018, which is expected to be recognized over a weighted-average period of 2.3 years.

Valuation

We use the Black-Scholes option pricing model to calculate the fair value of each option grant. The expected volatility is based on historical volatility of the stock price of comparable public companies. We estimate the expected term based upon the historical exercise behavior of employees. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a term equal to the expected term of the option assumed at the date of grant. We estimated a zero-forfeiture rate for these stock option grants as the awards have short vesting terms and have a low probability of forfeiture based on the recipients of the stock options.

The fair values of stock options granted have been estimated utilizing the following assumptions:

	Nine Months Ended September 30,	
	2018	2017
Fair value of common stock	$ 2.78	$4.41 - $8.40
Exercise price of common stock option	2.78	$4.41 - $8.40
Risk-free interest rate	2.73%	1.90% - 2.10%
Expected term (in years)	5.97 - 6.07	5.91 - 5.95
Dividend yield	0.00%	0.00%
Expected volatility	45%	40%

Restricted Stock Units

Our Company granted 605,235 Restricted Stock Units ("RSU") to our Company's officers during the nine months ended September 30, 2018. All RSU grants vest on the satisfaction of only a service-based condition. As of September 30, 2018, there were 650,539 shares of our Common Stock issuable upon the vesting of outstanding RSU. Unrecognized compensation expenses related to shares of our Common Stock subject to unvested RSU was $1.6 million at September 30, 2018, which is expected to be recognized as expense over the weighted-average period of 2.2 years. The service conditions are generally satisfied for the RSU granted to our officers and Board over four years starting from such person's hiring or grant date and the earlier to occur of the first anniversary of the grant date or the annual meeting of stockholders, respectively.

For the nine months ended September 30, 2018, our Company withheld 40,937 shares of Common Stock ("Net Settlement") and remitted $97,110 in cash to meet the related tax withholding requirements on behalf of our officers. We will continue to evaluate the Net Settlement of RSU that vest in the future.

Stock-Based Compensation Expense

Our Company recognized stock-based compensation expense related to stock options and RSU, included in general and administrative expenses as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Stock-based compensation	$ 334,490	$ 1,294,107	$ 1,284,099	$ 2,119,252

13. Income Taxes

Our effective income tax rate for the nine months ended September 30, 2018 and 2017 was (0.08)% and (0.26)%, respectively. Our effective income tax rate is evaluated and adjusted at each interim period as facts and circumstances warrant. The difference between federal income taxes computed at the federal statutory rate and reported income taxes for the nine months ended September 30, 2018 and 2017 was primarily related to the impact of the valuation allowance and state income taxes.

The FASB issued ASU 2018-05, Income Taxes (Topic 740): "Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin ("SAB") No. 118" to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act.

The Act was enacted on December 22, 2017. Among other changes for tax years beginning January 1, 2018, the Act reduced the U.S. federal corporate tax rate from 34% to 21%, the deductibility of entertainment expenses and fringe benefits, and the limitations on excessive employee remuneration under Internal Revenue Code ("IRC") Section 162(m). At September 30, 2018, the Company has not completed its accounting for all of the tax effects of the Act and has not made an adjustment to the provisional tax benefit recorded under SAB 118 at December 31, 2017. We have estimated our provision for income taxes in accordance with the Act and guidance available as of the date of this filing. Our estimated annual effective tax rate may be adjusted in subsequent interim periods, due to, among other things, additional analysis, changes in interpretations and assumptions we have made, and additional regulatory guidance that may be issued.

At September 30, 2018, we had no unrecognized tax benefits. We believe that there are no uncertain tax positions for which it is reasonably possible that will produce a material effect to the financial statements over the next 12 months. We recognize interest and penalties on taxes, if any, related to unrecognized tax benefits as income tax expense. As of September 30, 2018 and 2017, we had no material uncertain tax positions to be accounted for in the financial statements; accordingly, no interest or penalties on taxes were recognized for the nine months ended September 30, 2018 and for the same period in 2017.

Pursuant to IRC Sections 382 and 383, annual use of our net operating loss carryforwards may be limited in the event a cumulative change in ownership of more than 50% occurred within a three-year period. We have not completed an IRC Section 382 and 383 analysis regarding the limitation of net operating loss carryforwards. As there is a full valuation allowance applied to the deferred taxes, a Section 382 limitation will not have an effect on the deferred taxes or the income tax rate.

During the second quarter of 2018, the Company completed the examination of the federal income tax return filed for the 2015 tax year by the Internal Revenue Service, which resulted in no change. We are currently not under examination by federal, state and local tax authorities.

14. Commitments and Contingencies

Legal Matters

On June 5, 2017, a letter was sent to the California Labor & Workforce Development Agency alleging our itemized wage statements did not comply with the California Labor Code, which we refer to herein as the Wage Statement Claim. On August 7, 2017, we agreed to a class wide settlement for a maximum amount of $865,000 with respect to the Wage Statement Claim, which would include settlement of all penalties under the Private Attorneys General Act of 2004 and California Labor Code section 226, attorneys' fees and costs, class representative enhancements and claims administration fees. The class wide settlement, including the maximum settlement amount of $865,000, has been approved by the court. As of September 30, 2018, we have reserved for the entire amount under accrued expenses.

On July 2, 2018, a former California employee ("Plaintiff") filed a complaint against us in the Superior Court of the State of California for the County of Los Angeles (the "Complaint"). Plaintiff's Complaint is filed pursuant to the California Labor Code purportedly on behalf of all Pilates instructors, yoga instructors and other employees who worked for us in California on a piece-rate basis within the four years preceding the date of the Complaint. The Complaint alleges that certain of our payroll-related practices with respect to California-based employees paid on a piece-rate did not comply with the California Labor Code. The Complaint seeks penalties under the Private Attorneys General Act of 2004 and relevant sections of the California Labor Code on behalf of the State of California and allegedly aggrieved employees. Mediation is being scheduled in this matter for early 2019. Neither the outcome of the alleged claims, nor the amount and range of potential damages or exposure associated with the allegations can be assessed with certainty, and any damage award could be substantial

In addition to the aforementioned legal matters, from time to time, we may become involved in legal proceedings arising in the ordinary course of business. There can be no assurance with respect to the outcome of any legal proceeding, and we could suffer monetary liability from the outcome of the legal matters described above or other claims that may be made in the future that could be material to our results of operations.

Other than the aforementioned legal matters, we believe there are no pending lawsuits or claims that may have a material adverse effect on our business, capital resources or results of operations.

15. Subsequent Events

None.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This quarterly report on Form 10-Q contains forward-looking statements, including statements based upon or relating to our expectations, estimates, and projections. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. These statements are not guarantees of future performance; they reflect our current views with respect to future events and are based on assumptions and are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from expectations or results projected or implied by forward-looking statements.

These forward-looking statements represent our estimates and assumptions only as of the date of this quarterly report on Form 10-Q. Unless required by federal securities laws, we assume no obligation to update any of these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated, to reflect circumstances or events that occur after the statements are made. Given these uncertainties, investors should not place undue reliance on these forward-looking statements.

Investors should read this quarterly report on Form 10-Q and the documents we reference in this report and have filed with the SEC, including our 10-K, completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

The following discussion should be read in conjunction with our consolidated financial statements and the related notes, included elsewhere in this Form 10-Q. Unless otherwise indicated, all references in this Form 10-Q to YogaWorks, we, us, our, and the Company refer to YogaWorks, Inc. and our consolidated subsidiary, Yoga Works, Inc.

Company Overview

YogaWorks is a healthy lifestyle brand focused on enriching and transforming lives through yoga. We strive to honor and empower our students' journey toward personal growth and well-being, no matter their age or physical ability, in an inclusive and community-oriented environment. We offer a broad range of yoga disciplines and levels from fast-paced flow to soothing restorative and integrated fitness classes in order to meet the needs of our broad student base. We operate in a number of regional operating segments with similar economic characteristics and report as one reportable segment.

Key Metrics

Our financial results are primarily driven by the number of yoga studios we operate, the number of student visits to our studios and the number of classes that we conduct at our studios. The following table sets forth our key operating metrics for the periods indicated.

	At or For Three Months Ended September 30,		At or For Nine Months Ended September 30,	
Metric	**2018**	**2017**	**2018**	**2017**
Studios (period end)	70	53	70	53
Student visits(1)	846,353	710,256	2,633,596	2,176,808
Studio classes(2)	60,975	46,183	177,615	136,728

(1) Student visits include each student's attendance at a class in such period in which a teacher fee was paid for such class.
(2) Studio classes include each completed class held at a studio in such period.

Components of Our Financial Performance

In assessing the financial performance of our business, we consider a variety of financial and operating metrics, including the following:

Net revenues. We derive revenues primarily from conducting yoga classes, both in our studios and through MyYogaWorks.com. We also derive additional revenues from teacher training programs, workshops and the sale of yoga-related retail merchandise. We expect net revenues from teacher training programs, workshops and the sale of yoga-related retail merchandise to generally be consistent as a percentage of our total net revenues year-to-year because net revenue from teacher trainings, workshops and retail sales are primarily driven by the same key metrics that drive our yoga class revenue, namely, the number of studios we operate, the number of student visits to our studios and the number of classes we conduct at our studios. Our students generally pay for their visits through membership fees (unlimited classes), multi-class packages (fixed number of classes) and drop-in (single class) purchases. Membership, class package, workshop and teacher training revenues are generally paid in advance. There are primarily two types of memberships, monthly memberships and paid-in-full memberships (for six or twelve months), and revenue is recognized over the membership period. Class package revenue is recognized based on aggregate usage patterns as required by GAAP. Workshop and teacher training revenue is deferred until the date of the event or is recognized over the period the event takes place.

Cost of revenues. Cost of revenues consists of direct costs associated with delivering our classes and services, which mainly includes teacher payroll and related expenses, and cost of physical goods sold, such as yoga clothing and accessories. We review our inventory levels of physical goods on an ongoing basis to identify slow-moving yoga merchandise and use retail product markdowns to efficiently sell those retail products. We expect that our newer studios will have higher cost of revenues as a percentage of net revenues as they ramp to maturity.

Center operations. Center operations consists of costs for studio rent, utilities, compensation and benefits for studio staff, sales support staff and management, sales and marketing expenses and certain studio-level general and administrative expenses. We recognize these costs as an expense when incurred.

General and administrative expenses. General and administrative expenses include corporate rent, marketing, office expenses and compensation and benefits costs for regional management and other regional support staff, executive, finance and accounting, human resources, information technology, administration, business development, legal and other support-function personnel. General and administrative expenses also include fees for professional services, insurance and licenses, as well as acquisition-related costs. As we grow our studio operations, we expect our aggregate general and administrative expenses to increase as we hire additional personnel in finance and accounting, human resources and administration to help manage our larger operations.

In connection with studio acquisitions, we incur transaction costs. These transaction costs include expenses incurred prior to owning a new studio and primarily consist of legal fees, due diligence expenses, travel and consulting fees. The transaction costs are included in general and administrative expenses and are expensed as incurred.

Pre-Opening Costs. In connection with opening new yoga studios, we incur pre-opening costs. Pre-opening costs include expenses incurred prior to the opening of a new yoga studio and primarily consist of payroll, travel, marketing, teacher training, initial opening supplies and costs of transporting initial retail apparel inventory and fixtures for our studios, as well as occupancy costs incurred from the time of possession of a yoga studio site to the opening of that studio. These pre-opening costs are included in cost of revenues, center operations and general and administrative expenses and are expensed as incurred.

Depreciation and amortization. Depreciation and amortization includes the depreciation of property and equipment, and the amortization expense of leasehold improvements and intangible assets.

Asset impairments. Asset impairments includes an asset impairment of our long-lived assets, finite-lived intangible assets or goodwill recognized in the applicable period. We test for such impairments at least annually, or whenever events or changes in circumstances indicate that an impairment of the applicable asset has occurred.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the dollar variance and percentages of certain items included in our Condensed Consolidated Statements of Operations:

Quarter Ended September 30, 2018 Compared to Quarter Ended September 30, 2017 (Unaudited)

	Quarter Ended September 30,		Variance	
(in thousands)	2018	2017	Dollar	Percent
Net revenues	$ 15,151	$ 13,519	$ 1,632	12%
Cost of revenues and operating expenses:				
Cost of revenues	6,213	5,153	1,060	21%
Center operations	7,179	5,733	1,446	25%
General and administrative expenses	4,159	4,557	(398)	(9%)
Depreciation and amortization	1,874	2,161	(287)	(13%)
Goodwill impairment	5,550	—	5,550	N/A
Asset impairment	4,119	—	4,119	N/A
Total cost of revenues and operating expenses	29,094	17,604	11,490	65%
Loss from operations	(13,943)	(4,085)	(9,858)	241%
Interest (income) expense, net	(47)	533	(580)	(109%)
Net loss before income taxes	(13,896)	(4,618)	(9,278)	201%
Provision for (benefit from) income taxes	3	(28)	31	(111%)
Net loss	$ (13,899)	$ (4,590)	$ (9,309)	203%

Net revenues

The $1.6 million or 12% increase in net revenues for the quarter ended September 30, 2018, as compared to the same period in 2017, was primarily due to an increase in the number of studios. Membership sales increased by $1.2 million, sales from multi-class packages increased by $0.3 million for the quarter ended September 30, 2018, compared to the same period in 2017, due to revenue from acquired studios. In addition, social commerce sales increased by $0.2 million and retail sales increased by $0.1 million. These increases were offset by a $0.2 million decrease in net revenues from teacher trainings and workshops due to a lower number of teacher trainings and workshop events held in the quarter ended September 30, 2018, compared to the same period in 2017.

Cost of revenues

The $1.1 million or 21% increase in cost of revenues for the quarter ended September 30, 2018, as compared to the same period in 2017, was primarily due to $0.9 million higher payroll related costs from the acquired studios and $0.1 million higher retail sales costs.

Center operations

The $1.4 million or 25% increase in center operations for the quarter ended September 30, 2018, as compared to the same period in 2017, which included $0.6 million higher rent expense and $0.4 million higher payroll expenses, primarily due to the impact of acquired studios. In addition, other expenses increased by $0.4 million which included repairs and maintenance, utilities and supplies.

General and administrative

The $0.4 million or 9% decrease in general and administrative expenses for the quarter ended September 30, 2018, as compared to the same period in 2017, was primarily due to decrease in Deferred Compensation Expense by $0.9 million related to lower stock-based compensation expense recognized on RSU and Options issued to employees and directors during the rolling 12 months ended September 30, 2018. This decrease is offset by (i) $0.4 million increase in salaries for regional management, Company staff and payroll taxes due to the impact of the acquired studios and (ii) $0.2 million increase in other expenses which included software licenses fees, insurance, taxes and licensing fees.

Depreciation and amortization

The $0.3 million or 13% decrease in depreciation and amortization expense between the quarters ended September 30, 2018 and September 30, 2017 was due to lower depreciation and amortization from assets that were fully amortized during the period offset by the depreciation and amortization from the acquired studios.

Goodwill impairment

We recognized an impairment to goodwill of $5.6 million for the quarter ended September 30, 2018. The impairment was primarily due to the continued decrease in the Company's market capitalization. We did not record any impairment losses related to goodwill for the quarter ended September 30, 2017.

Asset impairment

We recognized an impairment to long-lived assets of $4.1 million for the quarter ended September 30, 2018. We recorded the impairment charges of $3.8 million to intangibles assets and $0.3 million to property and equipment that were no longer recoverable and were therefore fully written-off. We did not record any asset impairment losses for the quarter ended September 30, 2017.

Interest (income) expense, net

The $0.6 million or 109% decrease in interest (income) expense, net for the quarter ended September 30, 2018, as compared to the same period in 2017, was due to the interest income recorded from depository accounts for the quarter ended September 30, 2018 compared to interest expense recorded for the quarter ended September 30, 2017 related to the convertible note due to GHP, New Convertible Notes, and the Deerpath Facility.

Provision for (benefit from) income taxes

There was no material change in the provision for income taxes between the three months ended September 30, 2018 and 2017. Our effective income tax rate was (0.02)% for the three months ended September 30, 2018 and 0.61% for the three months ended September 30, 2017.

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017 (Unaudited)

	Nine Months Ended September 30,		Variance	
(in thousands)	**2018**	**2017**	**Dollar**	**Percent**
Net revenues	$ 45,551	$ 40,002	$ 5,549	14%
Cost of revenues and operating expenses:				
Cost of revenues	17,892	15,088	2,804	19%
Center operations	21,013	17,003	4,010	24%
General and administrative expenses	12,618	11,662	956	8%
Depreciation and amortization	6,471	6,531	(60)	(1%)
Goodwill impairment	8,025	—	8,025	N/A
Asset impairment	4,119	—	4,119	N/A
Total cost of revenues and operating expenses	70,138	50,284	19,854	39%
Loss from operations	(24,587)	(10,282)	(14,305)	139%
Interest (income) expense, net	(97)	1,343	(1,440)	(107%)
Net loss before income taxes	(24,490)	(11,625)	(12,865)	111%
Provision for income taxes	21	31	(10)	(32%)
Net loss	$ (24,511)	$ (11,656)	$ (12,855)	110%

Net revenues

The $5.5 million or 14% increase in net revenues for the nine months ended September 30, 2018, as compared to the same period in 2017, was primarily due to an increase in the number of studios. Sales from multi-class packages increased by $3.5 million and memberships increased by $0.7 million for the nine months ended September 30, 2018, compared to the same period in 2017, due to revenue from acquired studios that have predominantly sold multi-class packages and our flexible pricing strategy. In addition, retail sales increased by $0.7 million and social commerce increased by $0.5 million during the nine months ended September 30, 2018, as compared to the same period in 2017.

Cost of revenues

The $2.8 million or 19% increase in cost of revenues for the nine months ended September 30, 2018, as compared to the same period in 2017, was primarily due to $2.1 million higher payroll costs related to the acquired studios and $0.4 million higher retail sales costs.

Center operations

The $4.0 million or 24% increase in center operations for the nine months ended September 30, 2018, as compared to the same period in 2017, which included $1.7 million higher rent expense and $1.4 million higher payroll expenses, primarily due to the impact of acquired studios. In addition, other expenses increased by $0.8 million which included repairs and maintenance, utilities and supplies.

General and administrative

General and administrative expenses for the nine months ended September 30, 2018, as compared to the same period in 2017, increased by $1.0 million or 8% primarily due to (i) $1.5 million increase in salaries for regional management, Company staff and payroll taxes due to the impact of the acquired studios, (ii) $0.2 million higher studio marketing expense for the new studios as well as more promotional campaigns and web advertisements, and (iii) $0.7 million in other expenses which included insurance, maintenance and taxes and licenses.

These increases were offset by (i) $0.7 million decrease in Deferred Compensation Expense related to lower stock-based compensation expense recognized on RSU and Options issued to employees and directors during the rolling 12 months ended September 30, 2018 and (ii) $0.5 million decrease in professional fees for audit, legal and consulting services.

Depreciation and amortization

The slight decrease in depreciation and amortization expense for the nine months ended September 30, 2018, as compared to the same period in 2017, was due to lower depreciation and amortization from assets that were fully amortized during the period offset by the depreciation and amortization from the acquired studios.

Goodwill impairment

We recognized an impairment to goodwill of $8.0 million for the nine months ended September 30, 2018. The impairment was primarily due to the continued decrease in the Company's market capitalization. We did not record any impairment losses related to goodwill for the nine months ended September 30, 2017.

Asset impairment

We recognized an impairment to long-lived assets of $4.1 million for the nine months ended September 30, 2018. We recorded the impairment charges of $3.8 million to intangibles assets and $0.3 million to property and equipment that were no longer recoverable and were therefore fully written-off. We did not record any asset impairment losses for the nine months ended September 30, 2017.

Interest (income) expense, net

The $1.4 million or 107% decrease in interest (income) expense, net for the nine months ended September 30, 2018, as compared to the same period in 2017, was due to the interest income recorded from depository accounts for the nine months ended September 30, 2018 compared to interest expense recorded for the nine months ended September 30, 2017 related to the convertible note due to GHP, New Convertible Notes, and the Deerpath Facility.

Provision for income taxes

There was no material change in the provision for income taxes between the nine months ended September 30, 2018 and 2017. Our effective income tax rate was (0.08)% for the nine months ended September 30, 2018 and (0.26)% for the nine months ended September 30, 2017.

Non-GAAP financial measures

In addition to our results determined in accordance with GAAP, we use Adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA"), Studio-Level EBITDA, Adjusted free cash flow, Studio-Level free cash flow and Adjusted net loss which are not calculated in accordance with GAAP. We use these financial measures to understand and evaluate our business. Adjusted EBITDA is a supplemental measure of the operating performance of our core business operations. Studio-Level EBITDA is a supplemental measure of our operating performance of our studios. Adjusted free cash flow is a supplemental measure of the operating performance of our core business operations excluding deferred revenue. Studio-Level free cash flow is a supplemental measure of our operating performance of our studios excluding deferred revenue. Adjusted net loss is a supplemental measure of operating performance that is adjusted for certain non-recurring items that we do not believe directly reflect our core business operations. Accordingly, we believe Adjusted EBITDA, Studio-Level EBITDA, Adjusted free cash flow, Studio-Level free cash flow and Adjusted net loss provide useful information to investors and others in understanding and evaluating our Company's operating results in the same manner as management and the Board. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP.

Our use of Adjusted EBITDA, Studio-Level EBITDA, Adjusted free cash flow, Studio-Level free cash flow and Adjusted net loss has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under GAAP. Some of these limitations are as follows:

- although depreciation and amortization expense are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA, Studio-Level EBITDA, Adjusted free cash flow and Studio-Level free cash flow do not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA, Studio-Level EBITDA, Adjusted free cash flow and Studio-Level free cash flow do not reflect: (i) changes in, or cash requirements for, our working capital needs, (ii) debt service requirements, (iii) tax payments that may represent a reduction in cash available to us, and (iv) other cash costs that may recur in the future;
- Studio-Level EBITDA and Studio-Level free cash flow are not measures of our overall profitability but supplemental measures of the operating performance of our studios. While Studio-Level EBITDA and Studio-Level free cash flow exclude regional and corporate general and administrative expenses that are not necessary to operate our studios, these excluded expenses are essential to support the operation and development of our studios; and
- other companies, including companies in our industry, may calculate Adjusted EBITDA, Studio-Level EBITDA, Adjusted free cash flow, Studio-Level free cash flow and Adjusted net loss or similarly titled measures differently, which reduces their usefulness as a comparative measure.

Adjusted EBITDA, Studio-Level EBITDA, Adjusted free cash flow and Studio-Level free cash flow

The following table presents a reconciliation of Adjusted EBITDA and Studio-Level EBITDA to Net loss. In addition, Adjusted free cash flow and Studio-Level free cash flow are presented for each of the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(in thousands)		**(Unaudited)**		
Net loss	$ (13,899)	$ (4,591)	$ (24,511)	$ (11,655)
Interest (income) expense, net	(47)	533	(97)	1,343
Provision for (benefit from) income taxes	3	(28)	21	31
Depreciation and amortization	1,874	2,161	6,471	6,531
Goodwill impairment	5,550	—	8,025	—
Asset impairment	4,119	—	4,119	—
Deferred rent(a)	36	(6)	72	94
Stock based compensation(b)	334	1,294	1,284	2,119
Legal settlement(c)	75	37	75	902
Severance(d)	108	2	176	87
Executive recruiting(e)	45	49	45	79
Professional fees(f)	—	92	71	253
Great Hill Partners expense reimbursement fees(g)	—	25	—	75
Studio closure expenses (h)	17	—	17	—
Other	32	—	32	—
Adjusted EBITDA	(1,753)	(432)	(4,200)	(141)
Change in deferred revenue(i)	(1,111)	(11)	(1,036)	531
Adjusted free cash flow	(2,864)	(443)	(5,236)	390
Other general and administrative expenses(j)	3,597	3,059	10,967	8,147
Studio-Level free cash flow	733	2,616	5,731	8,537
Change in deferred revenue(i)	1,111	11	1,036	(531)
Studio-Level EBITDA	$ 1,844	$ 2,627	$ 6,767	$ 8,006

(a) Reflects the extent to which our rent expense for the period has been above or below our cash rent payments.

(b) Non-cash charges related to equity-based compensation programs, which vary from period to period depending on timing of awards and forfeitures.

(c) Legal settlement expenses incurred in the period to settle claims.
(d) Severance expenses incurred in the period related to the termination of studio and non-studio employees.
(e) Executive recruiting expenses incurred in connection with the recruitment and hiring of members of our executive management team.
(f) Professional fees related to certain accounting, tax and consulting services that were expensed in connection with our acquisitions.
(g) Represents expense reimbursement fees incurred in connection with our Expense Reimbursement Agreement with affiliates of Great Hill Partners, which was terminated upon completion of our IPO.
(h) Represents closure expenses of one Boston area studio that closed in the third quarter of 2018.
(i) Represents change in deferred revenue that is reflected in the consolidated statements of operations, excluding the change in gift card liabilities and deferred revenue from acquisitions.
(j) Represents general and administrative expenses that are corporate and regional expenses and not incurred by our studios, and which are primarily comprised of expenses related to (i) wages and benefits of corporate and regional employees, (ii) non-studio rent, utilities and maintenance, (iii) corporate and regional marketing and advertising, and (iv) corporate professional fees. Other general and administrative expenses exclude any general and administrative expenses related to deferred rent, stock-based compensation, legal settlement, severance, executive recruiting, professional fees, the Great Hill Partners expense reimbursement fees or any other general and administrative expenses that are included in the reconciliation of net loss to Adjusted EBITDA.

Adjusted net loss

The following table presents a reconciliation of Adjusted net loss to Net loss for each of the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(in thousands)	**(Unaudited)**			
Net loss	$ (13,899)	$ (4,591)	$ (24,511)	$ (11,655)
Goodwill impairment	5,550	—	8,025	—
Asset impairment	4,119	—	4,119	—
Stock based compensation(a)	334	1,294	1,284	2,119
Legal settlement(b)	75	37	75	902
Severance(c)	108	2	176	87
Executive recruiting(d)	45	49	45	79
Professional fees(e)	—	92	71	253
Great Hill Partners expense reimbursement fees(f)	—	25	—	75
Studio closure expenses (g)	17	—	17	—
Other	32	—	32	—
Adjusted net loss	$ (3,619)	$ (3,092)	$ (10,667)	$ (8,140)

(a) Non-cash charges related to equity-based compensation programs, which vary from period to period depending on timing of awards and forfeitures.
(b) Legal settlement expenses incurred in the period to settle claims.
(c) Severance expenses incurred in the period related to the termination of studio and non-studio employees.
(d) Executive recruiting expenses incurred in connection with the recruitment and hiring of members of our executive management team.
(e) Professional fees related to certain accounting, tax and consulting services that were expensed in connection with our acquisitions.
(f) Represents expense reimbursement fees incurred in connection with our Expense Reimbursement Agreement with Great Hill Partners, which was terminated upon completion of our IPO.
(g) Represents closure expenses of one Boston area studio that closed in the third quarter of 2018.

Liquidity and Capital Resources

We have a history of operating losses and an accumulated deficit of $81.6 million as of September 30, 2018. In addition, we had working capital of $4.5 and $11.4 million at September 30, 2018 and December 31, 2017, respectively. Historically, we have satisfied our liquidity needs primarily through cash generated from financing activities, including cash generated from Deerpath Funding, LP, or our Loan Agreement and convertible notes issued from time to time to Great Hill Partners. Our principal liquidity needs include cash used for operations (such as rent and labor costs), acquisitions, capital expenditures for the development of new studios and other capital expenditures necessary to improve existing studios, primarily leasehold improvements and additional furniture and fixtures.

Based upon our current level of operations, we believe that our cash balance on hand, including the net proceeds received from our IPO, together with our cash flow from operations is adequate to meet our short- and long-term liquidity requirements for at least the next twelve months from the date of this report.

We utilize operating lease arrangements for all of our studios. We believe that our operating lease arrangements continue to provide the appropriate leverage for our capital structure in a financially efficient manner. Because we lease all of the properties related to our studios, as well as our corporate office, we do not have any debt that is secured by real property.

Selected Cash Flow Data

The following table and discussion presents, for the periods indicated, a summary of net cash flow data from operating, investing and financing activities.

	Nine Months Ended September 30,	
	2018	2017
(in thousands)	(Unaudited)	
(Used in) provided by operating activities	$ (6,374)	$ 1,656
Used in investing activities	(2,445)	(1,404)
(Used in) provided by financing activities	(97)	27,827
(Decrease) increase in cash and cash equivalents	(8,916)	28,079
Cash and cash equivalents, beginning of period	22,095	1,912
Cash and cash equivalents, end of period	13,179	29,991

Net cash (used in) provided by operating activities

Net cash used in operating activities has been driven by marketing initiatives and the enhancement of classes and events we provide to our students as well as the impact of general and administrative expenses related to the infrastructure we added in 2017 to support our expected growth.

For the nine months ended September 30, 2018, $19.9 million or 81% of our net loss of $24.5 million consisted of non-cash items, including goodwill impairment of $8.0 million, depreciation and amortization expense of $6.5 million, asset impairment of $4.1 million and stock-based compensation expense of $1.3 million. Net cash used in operating activities in the nine months ended September 30, 2018 also included a $1.2 million decrease in deferred revenue due to a shift in sales towards memberships from class packages, a $0.7 million decrease in accrued compensation, a $0.2 million decrease in accounts payable and accrued expenses due to the timing of payments and a $0.2 million decrease in prepaid expenses and other current assets primarily due to the timing of rent payments.

For the nine months ended September 30, 2017, $9.8 million or 84% of our net loss of $11.7 million consisted of non-cash items, including depreciation and amortization expense of $6.5 million, stock-based compensation expense of $2.1 million, change in deferred revenue of $0.4 million, $0.3 million in paid-in-kind interest, $0.4 million in amortization and write-off of the unamortized portion of the debt issuance costs, and change in value of the beneficial conversion feature of $0.1 million.

Net cash provided by operating activities in the nine months ended September 30, 2017 also included a $2.7 million increase in accounts payables and accrued expenses primarily due to the timing of accounts payable payments and the accrual for the Wage Statement Claim, a $0.7 million decrease in prepaid expenses and other current assets due to a decrease in prepaid rent, a $0.4 million increase in deferred revenue, and a $0.1 million decrease in deferred rent and other non-current liabilities. The increase in deferred revenue was a result of the shift in sales toward class packages which require recognition of revenue over a longer time period than other sales options.

Net cash used in investing activities

For the nine months ended September 30, 2018, our net cash used in investing activities was primarily due to the purchases of property and equipment for $1.1 million, acquisition of five studios amounting to $0.7 million and subsequent acquisition-related payments of $0.6 million.

For the nine months ended September 30, 2017, our net cash used in investing activities was primarily due to the purchases of property and equipment for $1.0 million and acquisition of three studios amounting to $0.4 million.

Net cash (used in) provided by financing activities

For the nine months ended September 30, 2018, our net cash used in financing activities resulted from $0.1 million for repurchase of shares to satisfy tax withholding on vested RSU.

For the nine months ended September 30, 2017, our net cash provided by financing activities resulted from our IPO proceeds of $35.1 million and issuance of the New Convertible Notes of $3.2 million, offset by loan payments made on the Deerpath Facility of $7.0 million, New Convertible Notes of $3.3 million and subordinated notes of $0.2 million.

Off-Balance Sheet Arrangements

As of September 30, 2018, our Company did not have any off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, we are not required to provide information required by this Item.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated 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 quarterly report on Form 10-Q.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their control objectives.

As reported in our 10-K, our disclosure controls and procedures for the year ended December 31, 2017 were not effective, due to a material weakness in internal controls over management review and financial reporting related to year end process level controls over certain reconciliations and effective review. As a result of the material weakness, management concluded that, at September 30, 2018, our internal control over financial reporting was also ineffective, as the remediation was in process. Management initiated additional procedures during the quarter ended September 30, 2018 to address the material weakness. We continue to review and develop additional controls and procedures to improve our control environment, including implementing procedures and enhancing controls to assure that management reviews are documented and performed timely and accurately. We believe that the foregoing steps have improved our controls and we are working to remediate the material weakness identified above. We will be assessing the effectiveness of the changes made and make additional modifications as required during the remainder of 2018.

Based upon the above procedures, notwithstanding the material weakness, management believes that the financial statements included in this report fairly represent in all material aspects our Company’s financial position, results of operations and cash flows for the periods presented.

Changes in internal control over financial reporting

As noted above, changes have been made to controls and procedures to improve our control environment to address the material weakness identified in the fourth quarter of 2017 and we will continue to review and develop additional controls and procedures to improve our control environment. Other than the changes noted above, there have been no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On June 5, 2017, a letter was sent to the California Labor & Workforce Development Agency alleging our itemized wage statements did not comply with the California Labor Code, which we refer to herein as the Wage Statement Claim. On August 7, 2017, we agreed to a class wide settlement for a maximum amount of $865,000 with respect to the Wage Statement Claim, which would include settlement of all penalties under the Private Attorneys General Act of 2004 and California Labor Code section 226, attorneys' fees and costs, class representative enhancements and claims administration fees. The class wide settlement, including the maximum settlement amount of $865,000, has been approved by the court. As of September 30, 2018, we have reserved for the entire amount under accrued expenses.

On July 2, 2018, a former California employee ("Plaintiff") filed a complaint against us in the Superior Court of the State of California for the County of Los Angeles (the "Complaint"). Plaintiff's Complaint is filed pursuant to the California Labor Code purportedly on behalf of all Pilates instructors, yoga instructors and other employees who worked for us in California on a piece-rate basis within the four years preceding the date of the Complaint. The Complaint alleges that certain of our payroll-related practices with respect to California-based employees paid on a piece-rate did not comply with the California Labor Code. The Complaint seeks penalties under the Private Attorneys General Act of 2004 and relevant sections of the California Labor Code on behalf of the State of California and allegedly aggrieved employees. Mediation is being scheduled in this matter for early 2019. Neither the outcome of the alleged claims, nor the amount and range of potential damages or exposure associated with the allegations can be assessed with certainty, and any damage award could be substantial.

In addition to the aforementioned legal matters, from time to time, we may become involved in legal proceedings arising in the ordinary course of business. There can be no assurance with respect to the outcome of any legal proceeding, and we could suffer monetary liability from the outcome of the legal matters described above or other claims that may be made in the future that could be material to our results of operations.

Other than the aforementioned legal matters, we believe there are no pending lawsuits or claims that may have a material adverse effect on our business, capital resources or results of operations.

Item 1A. Risk Factors

Our business faces many risks. Any of the risks discussed in this quarterly report or our other SEC filings could have a material impact on our business, financial position or results of operations. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations. For a detailed discussion of the risk factors that should be understood by any investor contemplating investment in our securities, please refer to Part I, Item 1A, Risk Factors, in our 2017 Annual Report on Form 10-K. There have been no material changes to the risk factors set forth in our 2017 Annual Report on Form 10-K.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

On August 10, 2017, our Registration Statement on Form S-1 (File No. 333-218950) was declared effective by the SEC for our IPO. There has been no material change in the use of proceeds as described in the final prospectus filed on August 11, 2017.

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
31.1*	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of the Principal Executive Officer and Principal Financial Officer pursuant to the 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**101.INS	XBRL Instance Document
**101.SCH	XBRL Taxonomy Extension Schema Document
**101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
**101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
**101.LAB	XBRL Taxonomy Extension Label Linkbase Document
**101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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* Filed herewith.

** Submitted electronically with this Report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		YogaWorks, Inc.
Date: November 14, 2018	By:	/s/ Rosanna McCollough **Rosanna McCollough** **President and Chief Executive Officer**
Date: November 14, 2018	By:	/s/ Vance Chang **Vance Chang** **Chief Financial Officer**

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Rosanna McCollough, certify that:

1. I have reviewed this quarterly report on Form 10-Q of YogaWorks, 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 registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer 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 registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (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 registrant'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: November 14, 2018

By: /s/ Rosanna McCollough
Rosanna McCollough
President & Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Vance Chang, certify that:

1. I have reviewed this quarterly report on Form 10-Q of YogaWorks, 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 registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer 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 registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

    (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 registrant'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: November 14, 2018

By: /s/ Vance Chang
Vance Chang
Chief Financial Officer

Exhibit 32.1

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

The undersigned, as Principal Executive Officer and as Principal Financial Officer of YogaWorks, Inc. (the "Company"), respectively, certify that, to the best of their knowledge and belief, the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2018, which accompanies this certification fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934 and the information contained in the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2018 fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated therein. The foregoing certifications are made pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) and shall not be relied upon for any other purpose.

/s/ Rosanna McCullough
Rosanna McCullough
President and Chief Executive Officer
(Principal Executive Officer)
November 14, 2018

/s/ Vance Chang
Vance Chang
Chief Financial Officer
(Principal Financial Officer)
November 14, 2018

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to YogaWorks, Inc. and will be retained by YogaWorks, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.