

---

**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, 2019**

**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  
(State or other jurisdiction of  
incorporation or organization)**

**47-1219105  
(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   
Non-accelerated filer   
Emerging growth company

Accelerated filer   
Small reporting 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

Securities registered pursuant to Section 12(b) of the Act: None <sup>(1)</sup>

- (1) On July 25, 2019, YogaWorks, Inc. (the "Company") filed a Form 25, Notification of Removal From Listing and/or Registration Under Section 12(b) of the Securities and Exchange Act of 1934, with the Securities and Exchange Commission to delist the Company's common stock, par value \$0.001 per share ("Common Stock"), from The NASDAQ Stock Market ("NASDAQ"). On August 5, 2019, the Company filed a Form 15 with the Securities and Exchange Commission to deregister the Common Stock under Section 12(g) of the Securities Exchange Act of 1934. The Company intends to continue to use efforts to suspend and cease its reporting obligations under the Securities Exchange Act of 1934 as soon as reasonably practicable.

As of November 13, 2019, the registrant had 17,063,972 shares of common stock, \$0.001 par value per share, outstanding.

---

---

## Table of Contents

	<u>Page</u>
<b>PART I.</b>	
	<a href="#"><u>FINANCIAL INFORMATION</u></a>
Item 1.	<a href="#"><u>Financial Statements (Unaudited)</u></a>
	<a href="#"><u>Condensed Consolidated Balance Sheets</u></a>
	<a href="#"><u>Condensed Consolidated Statements of Operations</u></a>
	<a href="#"><u>Condensed Consolidated Statements of Stockholders' Equity</u></a>
	<a href="#"><u>Condensed Consolidated Statements of Cash Flows</u></a>
	<a href="#"><u>Notes to Condensed Consolidated Financial Statements</u></a>
Item 2.	<a href="#"><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a>
Item 3.	<a href="#"><u>Quantitative and Qualitative Disclosures About Market Risk</u></a>
Item 4.	<a href="#"><u>Controls and Procedures</u></a>
<b>PART II.</b>	
	<a href="#"><u>OTHER INFORMATION</u></a>
Item 1.	<a href="#"><u>Legal Proceedings</u></a>
Item 2.	<a href="#"><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></a>
Item 3.	<a href="#"><u>Defaults Upon Senior Securities</u></a>
Item 4.	<a href="#"><u>Mine Safety Disclosures</u></a>
Item 5.	<a href="#"><u>Other Information</u></a>
Item 6.	<a href="#"><u>Exhibits</u></a>
	<a href="#"><u>Exhibit Index</u></a>
	<a href="#"><u>Signatures</u></a>

---

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**YogaWorks, Inc.**

**Condensed Consolidated Balance Sheets (Unaudited)**

	As of September 30, 2019	As of December 31, 2018
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 4,282,182	\$ 11,447,318
Inventories	734,711	1,148,449
Prepaid expenses and other current assets	773,842	936,757
Total current assets	5,790,735	13,532,524
Property and equipment, net	9,124,246	10,225,944
Intangible assets, net	11,444,453	13,291,502
Goodwill	—	663,954
Other non-current assets	999,655	1,327,775
Total assets	<u>\$ 27,359,089</u>	<u>\$ 39,041,699</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 3,128,439	\$ 4,905,204
Accrued compensation	1,533,685	1,802,047
Deferred revenue	6,705,808	7,276,578
Related party convertible note - net of debt issuance costs	4,986,815	—
Current portion of deferred rent	166,191	124,319
Total current liabilities	16,520,938	14,108,148
Deferred rent, net of current portion	3,032,712	3,975,391
Total liabilities	<u>19,553,650</u>	<u>18,083,539</u>
Commitments and Contingencies (Note 11)		
<b>Stockholders' equity</b>		
Common stock \$0.001 par value; 50,000,000 shares authorized, 17,052,340 issued and 16,832,593 outstanding at September 30, 2019 and 50,000,000 shares authorized, 16,639,586 issued and 16,494,838 outstanding at December 31, 2018	16,833	16,496
Additional paid in capital	114,124,195	113,260,161
Accumulated deficit	(106,335,589)	(92,318,497)
Total stockholders' equity	7,805,439	20,958,160
Total liabilities and stockholders' equity	<u>\$ 27,359,089</u>	<u>\$ 39,041,699</u>

*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,	
	2019	2018	2019	2018
<b>Net revenues</b>	\$ 16,528,694	\$ 15,150,692	\$ 46,133,728	\$ 45,550,867
<b>Cost of revenues and operating expenses</b>				
Cost of revenues	5,800,070	6,212,640	17,290,385	17,892,463
Center operations	6,802,923	7,179,487	20,552,361	21,012,976
General and administrative expenses	5,586,593	4,158,868	14,456,557	12,617,813
Depreciation and amortization	969,348	1,874,008	4,018,048	6,471,036
Goodwill impairment	663,954	5,550,000	663,954	8,024,819
Asset impairment	1,363,822	4,118,939	1,538,547	4,118,939
<b>Total cost of revenues and operating expenses</b>	<u>21,186,710</u>	<u>29,093,942</u>	<u>58,519,852</u>	<u>70,138,046</u>
<b>Loss from operations</b>	<u>(4,658,016)</u>	<u>(13,943,250)</u>	<u>(12,386,124)</u>	<u>(24,587,179)</u>
Interest income	(4,970)	(46,613)	(67,317)	(96,886)
<b>Net loss before income taxes</b>	<u>(4,653,046)</u>	<u>(13,896,637)</u>	<u>(12,318,807)</u>	<u>(24,490,293)</u>
(Benefit)/provision for income taxes	(1,419)	2,667	10,375	20,580
<b>Net loss</b>	<u>\$ (4,651,627)</u>	<u>\$ (13,899,304)</u>	<u>\$ (12,329,182)</u>	<u>\$ (24,510,873)</u>
<b>Basic and diluted net loss per share attributable to common stockholders</b>	\$ (0.28)	\$ (0.84)	\$ (0.74)	\$ (1.49)
Weighted-average number of shares used in calculating loss per share attributable to common stockholders:				
Basic and diluted common shares	<u>16,807,366</u>	<u>16,468,085</u>	<u>16,649,375</u>	<u>16,401,589</u>

See accompanying notes to condensed consolidated financial statements.

YogaWorks, Inc.

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

Three Months Ended September 30, 2018

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Par Value			
<b>Balance as of July 1, 2018</b>	16,460,501	\$ 16,461	\$ 112,516,233	\$ (67,743,140)	\$ 44,789,554
Vesting of restricted stock units	25,569	26	(26)	—	—
Repurchase of shares to satisfy tax withholding	(8,395)	(9)	(13,479)	—	(13,488)
Stock-based compensation	—	—	334,490	—	334,490
Net loss	—	—	—	(13,899,304)	(13,899,304)
<b>Balance as of September 30, 2018</b>	<u>16,477,675</u>	<u>\$ 16,478</u>	<u>\$ 112,837,218</u>	<u>\$ (81,642,444)</u>	<u>\$ 31,211,252</u>

Nine Months Ended September 30, 2018

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Par Value			
<b>Balance as of January 1, 2018</b>	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)
<b>Balance as of September 30, 2018</b>	<u>16,477,675</u>	<u>\$ 16,478</u>	<u>\$ 112,837,218</u>	<u>\$ (81,642,444)</u>	<u>\$ 31,211,252</u>

Three Months Ended September 30, 2019

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Par Value			
<b>Balance as of July 1, 2019</b>	16,774,440	\$ 16,775	\$ 113,898,297	\$ (101,683,962)	\$ 12,231,110
Vesting of restricted stock units	65,222	65	(65)	—	—
Repurchase of shares to satisfy tax withholding	(7,069)	(7)	(1,562)	—	(1,569)
Stock-based compensation	—	—	227,525	—	227,525
Net loss	—	—	—	(4,651,627)	(4,651,627)
<b>Balance as of September 30, 2019</b>	<u>16,832,593</u>	<u>\$ 16,833</u>	<u>\$ 114,124,195</u>	<u>\$ (106,335,589)</u>	<u>\$ 7,805,439</u>

Nine Months Ended September 30, 2019

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Par Value			
<b>Balance as of January 1, 2019</b>	16,494,838	\$ 16,496	\$ 113,260,161	\$ (92,318,497)	\$ 20,958,160
Vesting of restricted stock units	406,486	406	(406)	—	—
Repurchase of shares to satisfy tax withholding	(68,731)	(69)	(39,992)	—	(40,061)
Stock-based compensation	—	—	904,432	—	904,432
Impact of Adopting Topic 606	—	—	—	(1,687,910)	(1,687,910)
Net loss	—	—	—	(12,329,182)	(12,329,182)
<b>Balance as of September 30, 2019</b>	<u>16,832,593</u>	<u>\$ 16,833</u>	<u>\$ 114,124,195</u>	<u>\$ (106,335,589)</u>	<u>\$ 7,805,439</u>

See accompanying notes to condensed consolidated financial statements.

YogaWorks, Inc.

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2019	2018
<b>Cash flows from operating activities</b>		
Net loss	\$ (12,329,182)	\$ (24,510,873)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,018,048	6,471,036
Goodwill impairment	663,954	8,024,819
Asset impairment	1,538,547	4,118,939
Deferred tax	—	2,402
Interest expense on convertible note	6,667	—
Stock-based compensation expense	904,432	1,284,099
Changes to operating assets and liabilities, net of effects from acquisitions:		
Tenant improvement allowances received	—	—
Inventories	413,738	4,470
Prepaid expenses and other current assets	162,915	245,137
Other non-current assets	328,120	(919)
Accounts payable and accrued expenses	(1,951,142)	(186,078)
Accrued compensation	(268,362)	(743,893)
Deferred revenue	(2,258,680)	(1,154,686)
Deferred rent and other non-current liabilities	(900,807)	71,943
Net cash used in operating activities	<u>(9,671,752)</u>	<u>(6,373,604)</u>
<b>Cash flows from investing activities</b>		
Purchases of property, equipment, and intangible assets	(2,440,138)	(1,079,543)
Acquisition earnout and holdback payments	—	(643,694)
Cash paid for acquisitions, net of earnouts	—	(721,930)
Net cash used in investing activities	<u>(2,440,138)</u>	<u>(2,445,167)</u>
<b>Cash flows from financing activities</b>		
Repurchase of shares to satisfy tax withholding	(40,061)	(97,151)
Proceeds from issuance of related party convertible note	4,986,815	—
Net cash from (used in) financing activities	<u>4,946,754</u>	<u>(97,151)</u>
<b>Decrease in cash and cash equivalents</b>	<u>(7,165,136)</u>	<u>(8,915,922)</u>
<b>Cash and cash equivalents, beginning of period</b>	<u>11,447,318</u>	<u>22,095,216</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 4,282,182</u>	<u>\$ 13,179,294</u>
<b>Supplemental cash flow information</b>		
Effect of the adoption of Topic 606 on deferred revenue	\$ 1,687,910	\$ —
<b>Non-cash investing activities:</b>		
Purchases of property and equipment financed by accounts payable and accrued expenses	167,710	—
Purchase consideration liabilities related to acquisitions	<u>—</u>	<u>159,000</u>

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 subsidiaries (collectively referred to as “we”, “us”, “our”, and the “Company”) are primarily engaged in operating yoga studios. Our Company 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 1,200 yoga classes.

**NASDAQ Listing**

The Company’s 7,300,000 shares of common stock (“Common Stock”) sold on our initial public offering (“IPO”) were traded on the Nasdaq Global Market. On May 3, 2019, our Company’s securities were transferred from the Nasdaq Global Market to the Nasdaq Capital Market (“NASDAQ”).

On July 25, 2019, we filed a Form 25, Notification of Removal From Listing and/or Registration Under Section 12(b) of the Securities Exchange Act of 1934, with the Securities and Exchange Commission to delist the Company’s common stock from NASDAQ. On August 1, 2019, NASDAQ permanently suspended the trading of our common stock.

On August 5, 2019, we filed a Form 15, Certification and Notice of Termination of Registration Under Section 12(g) of the Securities Exchange Act of 1934 or Suspension of Duty to File Reports Under Sections 13 and 15(d) of the Securities Exchange Act of 1934.

**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, 2019, we owned and operated 63 yoga studios in nine regional markets. The following table illustrates the studio locations by regional market:

Regional Market	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	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	16	34%	17	33%	16	34%	17	33%
Northern California	13	24%	13	23%	13	23%	13	22%
Houston	7	8%	7	8%	7	8%	7	9%
New York City	3	7%	5	10%	3	8%	5	10%
Baltimore	7	6%	7	6%	7	7%	7	6%
Boston	5	6%	7	6%	5	6%	7	5%
Orange County (California)	4	6%	4	6%	4	6%	4	6%
Washington, D.C.	4	5%	6	4%	4	5%	6	5%
Atlanta	4	4%	4	4%	4	3%	4	4%
<b>Total Studios</b>	<b>63</b>		<b>70</b>		<b>63</b>		<b>70</b>	

- (1) Number of studios as of September 30, 2019 and 2018.
- (2) For the three and nine months ended September 30, 2019 and 2018, 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.

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.

### ***Liquidity and Going Concern***

We have a history of operating losses and an accumulated deficit of \$106.3 million as of September 30, 2019. In addition, we had negative working capital of \$10.7 million and \$0.6 million at September 30, 2019 and December 31, 2018, respectively. As disclosed in our most recent Annual Report on Form 10-K, the Company needs additional financing to fund its operations. These conditions raise substantial doubt about our ability to continue as a going concern. Historically, we have satisfied our liquidity needs primarily through cash generated from financing activities, which includes proceeds from debt. Our principal liquidity needs include cash used for operations (such as rent and labor costs), acquisitions, capital expenditures necessary to improve existing studios, primarily leasehold improvements and additional furniture and fixtures. We have suspended acquiring or developing new studios to reduce our liquidity needs.

The accompanying interim unaudited financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business, and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or amounts and classification of liabilities that may result from the outcome of this uncertainty. As of November 14, 2019, the Company is in the process of seeking additional financing. The Company may sell additional equity, issue debt securities or obtain a credit facility. However, the Company may not be able to secure such financing in a timely manner or on favorable terms. The Company is delaying and reducing its operating and investing expenditures, and negotiated rent reductions or lease buyouts with its landlords and will continue to do so, which may have a material adverse effect on operations.

### ***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, 2018 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 March 27, 2019 (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, 2018 and the related notes thereto included in the 10-K.

Effective January 1, 2019, the Company adopted the requirements of Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, as discussed further in Note 2. All amounts and disclosures set forth in this Quarterly Report on Form 10-Q have been updated to comply with this new standard with results for reporting periods beginning after January 1, 2019 presented under ASU No. 2014-09, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period.

The Company has corrected an immaterial misstatement in the September 30, 2018 Statement of Cash Flows. The Company has reclassified \$643,694 of cash paid related to acquisition holdback and earnouts from investing activities to financing activities. There was no impact on the cash flow from operating activities or net change in total cash flows.

## **2. Summary of Significant Accounting Policies**

Except for changes to the Company’s revenue recognition policy, there have been no changes to the Company’s significant accounting policies described in the Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 27, 2019. See below for additional accounting policy and transition disclosures.

In June 2018, the Financial Accounting Standards Board (“FASB”) issued 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 was effective for fiscal years beginning after December 15, 2018. We adopted this ASU as of January 1, 2019 noting no material impact to the consolidated financial statements.



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. This ASU was effective for fiscal years beginning after December 15, 2018. We adopted this ASU as of January 1, 2019 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”), Revenue Recognition (“Topic 605”), and Topic 606, which was issued in November 2017.

We adopted the requirements of Topic 606 utilizing the modified retrospective method of transition to contracts as of January 1, 2019. The accumulated deficit balance was increased; thus, stockholders’ equity was decreased by \$1.7 million as of January 1, 2019 due to the cumulative impact of adopting Topic 606. The impact was primarily related to:

- \$1.7 million increase in deferred revenue related to the Company’s loyalty program. Topic 606 requires us to allocate and defer a portion of revenue attributable to loyalty points earned. The deferred revenue on the loyalty program is recognized as revenue upon redemption of the points or upon breakage. Previously, the Company was recognizing loyalty points under the incremental cost method.
- \$0.1 million reduction in deferred revenue related to class packages. Topic 606 requires us to recognize revenue upon redemption of the class packages for a class or upon breakage. The expected breakage amount is recognized as revenue in proportion to the pattern of rights exercised by the customer. Previously, class packages were recognized as revenue based on aggregate use pattern and breakage was recognized upon expiration of the class packages.
- \$0.1 million increase in deferred revenue related to paid in full memberships. Due to the Company’s general cancellation policy in its membership agreement, under Topic 606 the contract duration ends when the stand-ready obligation is revoked, regardless of the contract’s stated contractual term. As such, revenue is recognized on a daily basis over the membership period. Previously, revenue was recognized ratably over the contract duration.
- The adoption had no impact to net cash provided by or used in operating, investing or financing activities in the Company’s Condensed Consolidated Statements of Cash Flows.

**Impact of New Standard on Financial Statement Line Items**

The following tables summarize the effect of the adoption of Topic 606 on the Company’s select line items, included in the unaudited condensed consolidated financial statements as of and for the quarter ended September 30, 2019, as if the previous accounting was in effect.

**Condensed Consolidated Balance Sheets**

	As of September 30, 2019		
	As Reported (ASC 606)	Impacts of Adoption	Without Adoption (ASC 605)
<b>Liabilities</b>			
Deferred revenue	\$ 6,705,808	\$ 320,786	\$ 7,026,594
<b>Stockholders’ Equity</b>			
Accumulated deficit	(106,335,589)	(320,786)	(106,656,375)

## Condensed Consolidated Statements of Operations

	Three Months Ended September 30, 2019		
	As Reported (ASC 606)	Impacts of Adoption	Without Adoption (ASC 605)
<b>Net revenues</b>	\$ 16,528,694	\$ (1,804,352)	\$ 14,724,342
<b>Cost of revenues and operating expenses</b>	21,186,710	—	21,186,710
<b>Loss from Operations</b>	(4,658,016)	(1,804,352)	(6,462,368)
Interest income, net	4,970	—	4,970
<b>Net loss before income taxes</b>	(4,653,046)	(1,804,352)	(6,457,398)
Provision for income taxes	(1,419)	—	(1,419)
<b>Net Loss</b>	<u>\$ (4,651,627)</u>	<u>\$ (1,804,352)</u>	<u>\$ (6,455,979)</u>
<b>Net loss per share, basic and diluted</b>	<u>\$ (0.28)</u>		<u>\$ (0.38)</u>
Weighted average common stock outstanding, basic and diluted	<u>16,807,366</u>		<u>16,807,366</u>
	Nine Months Ended September 30, 2019		
	As Reported (ASC 606)	Impacts of Adoption	Without Adoption (ASC 605)
<b>Net revenues</b>	\$ 46,133,728	\$ (2,100,339)	\$ 44,033,389
<b>Cost of revenues and operating expenses</b>	58,519,852	—	58,519,852
<b>Loss from Operations</b>	(12,386,124)	(2,100,339)	(14,486,463)
Interest income, net	67,317	—	67,317
<b>Net loss before income taxes</b>	(12,318,807)	(2,100,339)	(14,419,146)
Provision for income taxes	10,375	—	10,375
<b>Net Loss</b>	<u>\$ (12,329,182)</u>	<u>\$ (2,100,339)</u>	<u>\$ (14,429,521)</u>
<b>Net loss per share, basic and diluted</b>	<u>\$ (0.74)</u>		<u>\$ (0.87)</u>
Weighted average common stock outstanding, basic and diluted	<u>16,649,375</u>		<u>16,649,375</u>

### Summary of Significant Accounting Policies

#### Revenue Recognition after the adoption of Topic 606 beginning January 1, 2019

Our Company generates revenues primarily from the sale of yoga classes, workshops, teacher training programs and yoga-related retail merchandise, net of discounts, refunds and returns at the time they are granted. Membership, class package, workshop and teacher training revenues are generally paid in advance.

#### Classes and workshops

Classes are principally sold in two formats—class packages and memberships. Workshops are sold as a single class or as a class pack. Class packages are based on a fixed number of classes, while memberships provide unlimited classes over a certain time period. Class package revenue is recognized when the performance obligation is satisfied upon transfer of a promised service to a student or upon the redemption of a class pack for a class or upon breakage. The expected breakage amount is recognized as revenue in proportion to the pattern of rights exercised by the student. Memberships are offered to students in varying lengths. Membership revenue is recognized on a daily basis during the membership period.

#### Teacher Training and Workshops

Customers are offered teacher training and workshops in varying program formats and lengths. Revenue is recognized on a straight-line basis over the event period.

#### *MyYogaworks.com Subscription*

Subscription Revenue is recognized on a straight-line basis during the subscription period.

#### *Loyalty Program*

Revenue on its loyalty program is recognized when the performance obligation is satisfied upon the redemption of the loyalty points for retail products or classes, or upon breakage. Loyalty Points earned are valued at their relative standalone selling price that is calculated using the redemption value method adjusted to reflect the likelihood that some points will not be redeemed or breakage. The Company discontinued the loyalty program after September 30, 2019.

#### *Retail*

Revenue for retail merchandise is recognized at the time of sale when the customer receives and pays for the merchandise at the stores. Taxes collected from the customer are recorded on a net basis. Sales returns by customers for yoga-related retail merchandise sales have historically not been material. Our Company sells gift cards to our customers. The gift cards sold to customers have no stated expiration dates and are subject to actual and/or potential escheatment rights in several of the jurisdictions in which we operate. We recognize income from gift cards when redeemed by the customer or upon breakage.

#### *Practical Expedients*

For each revenue stream, excluding revenue from retail merchandise, the Company has elected the practical expedient to apply Topic 606 to a portfolio of similar contracts on each revenue stream, as it is not reasonably expected to result in materially different outcomes compared to individually accounting for the contracts. The services promised by the Company in exchange for consideration are identical with the only variability being the number of the memberships, number of class packs, and length or format of the training, respectively.

In addition, the Company has elected the practical expedient that allows an entity to recognize revenue in the amount for which it has the right to invoice. The Company's stand-ready obligation to provide access to its facilities for members to attend any class during the duration of their membership is a performance obligation satisfied over time, which can be measured using a time-based measurement. The Company bills the monthly membership fees and recognizes the revenue on a daily basis, which corresponds to the identified contractual period.

#### ***Revenue Recognition prior to the adoption of Topic 606 on January 1, 2019***

Our Company generates revenues primarily from the sale of yoga classes, workshops, teacher training programs and yoga-related retail merchandise, net of discounts, refunds and returns at the time they are granted. Yoga classes are principally sold in two formats—class packages and memberships. Class packages are based on a fixed number of classes, while memberships provide unlimited classes over a certain time period. 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. Workshop and teacher training revenue is deferred until the date of the event or is recognized over the period the event takes place. The deferred revenue balance is reduced by refunds in the reporting period which results in less revenue recognized over the service term than originally anticipated.

Revenue for retail merchandise is recognized at the time of sale when the customer receives and pays for the merchandise at the stores. Taxes collected from the customer are recorded on a net basis. Sales returns by customers for yoga-related retail merchandise sales have historically not been material. Our Company sells gift cards to our customers. The gift cards sold to customers have no stated expiration dates and are subject to actual and/or potential escheatment rights in several of the jurisdictions in which we operate. We recognize income from gift cards when redeemed by the customer or upon breakage. Gift cards that do not have activity for 2 years have a remote probability of being redeemed and are considered breakage.

#### ***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 August 2018, the FASB issued ASU 2018-15 Intangibles – Goodwill and Other – Internal – Use Software (Subtopic 350-40). The amendments in this ASU provide guidance on the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This ASU is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. We are evaluating the impact of implementing this update on our consolidated financial statements.

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. On October 16, 2019, the FASB amended the effective date of the new lease standards for private companies. The new lease standard is effective for private companies for annual reporting periods beginning after December 15, 2020. This is a one-year deferral of the original effective date. Although early adoption is permitted, we anticipate adopting these provisions in the first quarter of 2021. 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 \$40.4 million of operating lease obligations as of September 30, 2019, 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.

### **3. Acquisitions**

Our Company uses acquisitions as one of our strategies to grow our market share, quickly gain students and build on the operating momentum of the acquired businesses. No acquisitions were made during the three and nine months ended September 30, 2019. We completed two acquisitions in 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.

In addition, 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. In 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.

The condensed consolidated statement of operations through September 30, 2019 and the condensed consolidated balance sheet as of September 30, 2019 include the results of operations and the acquired assets and assumed liabilities related to our acquisitions and measurement period adjustments recorded during the period. For the nine months ended September 30, 2019, these acquisitions contributed \$1,244,259 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:

	<b>Amount</b>
Inventories	\$ 3,966
Property and equipment	670,060
Intangible assets	52,976
Goodwill	549,000
Other non-current assets	37,432
Total assets acquired	1,313,434
Accounts payable and accrued expenses	159,000
Deferred revenue	354,613
Deferred rent	77,891
Total liabilities assumed	591,504
Net assets acquired	<u>\$ 721,930</u>

#### 4. Property and Equipment

The major classes of property and equipment are as follows:

	<b>As of September 30, 2019</b>	<b>As of December 31, 2018</b>
Computer equipment and purchased software	\$ 678,666	\$ 670,022
Furniture and fixtures	2,860,428	2,744,580
Leasehold improvements	28,568,865	26,792,887
Other equipment	225,239	213,546
Construction-in-progress	203,509	1,075,634
Total property and equipment	32,536,707	31,496,669
Less accumulated depreciation and amortization	(23,412,461)	(21,270,725)
	<u>\$ 9,124,246</u>	<u>\$ 10,225,944</u>

Depreciation and amortization expenses include property and equipment, leasehold improvements and purchased software. We incurred depreciation expense of \$499,097 and \$835,432 for the three months ended September 30, 2019 and 2018 and \$2,144,453 and 2,421,159 for the nine months ended September 30, 2019 and 2018, respectively.

During the three and nine months ended September 30, 2019, we recorded an impairment charge of \$1,359,414 and \$1,534,139, respectively, to the property and equipment for our studios that were either closed or the assets were no longer recoverable.

#### 5. Goodwill

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

	<b>As of September 30, 2019</b>	<b>As of December 31, 2018</b>
Goodwill, beginning of period	\$ 663,954	\$ 12,768,773
Goodwill acquired in 2018 (See Note 3)	—	352,000
Goodwill acquired in 2017 (See Note 3)	—	197,000
Total goodwill	663,954	13,317,773
Less impairment	(663,954)	(12,653,819)
Goodwill, end of period	<u>\$ —</u>	<u>\$ 663,954</u>

We performed a goodwill impairment test during 2018 that was triggered by the continued decrease in the Company's market capitalization. We recorded an impairment to goodwill of \$12.7 million in 2018, including \$8.0 million for the nine months ended September 30, 2018. We performed an interim goodwill impairment test as of September 30, 2019 and recorded an additional \$ 0.7 million of impairment.

## 6. Deferred Revenue

The following is a reconciliation of the changes in deferred revenue for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Deferred revenue at beginning of period	\$ 8,736,650	\$ 7,545,300	\$ 7,276,578	\$ 7,187,948
Cash receipts before deferred revenue	14,558,161	14,039,750	43,983,194	44,514,949
Net revenue for the period	(16,528,694)	(15,150,692)	(46,133,728)	(45,550,867)
Deferred revenue from Loyalty Program	—	—	1,687,910	—
Deferred revenue from acquisitions	—	—	—	354,613
Change in gift card liabilities	(60,309)	(46,483)	(108,146)	(118,768)
Deferred revenue at end of period	<u>\$ 6,705,808</u>	<u>\$ 6,387,875</u>	<u>\$ 6,705,808</u>	<u>\$ 6,387,875</u>

## 7. Related Party Convertible Note

On September 26, 2019, the Company entered into a Note Purchase Agreement with Great Hill Equity Partners V, L.P. and Great Hill Investors, LLC (the "Noteholders") pursuant to which the Noteholders purchased an aggregate of \$5,000,000 of convertible notes (the "Convertible Notes") from the Company. Great Hill Equity Partners V, L.P. and Great Hill Investors, LLC collectively hold approximately 68% of the Company's outstanding common stock, par value \$0.001 per share ("Common Stock"). The Convertible Notes were acquired by the Noteholders in transactions meeting the requirements of Section 4(2) and/or Regulation D under the Securities Act of 1933, as amended. The Convertible Notes bear interest at the rate of 12% per annum and have a maturity date of September 30, 2020 (the "Maturity Date"). The principal amount of the Convertible Notes, plus any accrued and unpaid interest, will be due on the Maturity Date. The Noteholders will have the option, at any time and from time to time, to convert the principal of and interest accrued on the Convertible Notes into shares of Common Stock at a conversion price equal to \$0.60 per share (subject to appropriate adjustment to reflect any stock split, stock dividend, reverse stock split or similar corporate event affecting the Common Stock). The Note Purchase Agreement and the Convertible Notes contain customary affirmative and negative covenants and events of default relating to the Company. If an event of default occurs, the amounts due under the Convertible Notes may become immediately due and payable. The Convertible Notes are subject to prepayment at the option of the Company, in whole or in part. The proceeds of the Convertible Notes will be used for lease restructuring costs (including lease exits), general corporate restructuring costs and other general corporate purposes.

The Company accounts for the Convertible Notes pursuant to the accounting standards for debt with conversion and other options. The Company has identified that the embedded conversion, redemption, and additional interest features of the Convertible Notes do not meet the definition of a derivative and do not require separate accounting.

The Company incurred transaction costs of approximately \$13,185 related to the issuance of the Convertible Notes. The issuance costs are recognized as a direct reduction to the debt and presented as a reduction to the carrying value of the Convertible Notes. Interest expense recognized and accrued related to the Convertible Notes for the three and nine months ended September 30, 2019 is \$6,667.

## 8. 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,	
	2019	2018	2019	2018
Numerator for basic and diluted loss per share attributable to common stockholders:				
Net loss	\$ (4,651,627)	\$ (13,899,304)	\$ (12,329,182)	\$ (24,510,873)
Dividend attributable to participating securities	—	—	—	—
Net loss attributable to YogaWorks, Inc. common stockholders	<u>\$ (4,651,627)</u>	<u>\$ (13,899,304)</u>	<u>\$ (12,329,182)</u>	<u>\$ (24,510,873)</u>
Denominator:				
Weighted-average outstanding shares of common stock	<u>16,807,366</u>	<u>16,468,085</u>	<u>16,649,375</u>	<u>16,401,589</u>
Net loss per share attributable to common stockholders:				
Basic and diluted	<u>\$ (0.28)</u>	<u>\$ (0.84)</u>	<u>\$ (0.74)</u>	<u>\$ (1.49)</u>

For the period ended September 30, 2019, and 2018, there were outstanding options to purchase 2,882,208 and 1,404,704 shares of Common Stock outstanding, respectively, which were excluded from the computation of diluted loss per share because it would be anti-dilutive.

## 9. 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, 2019, 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) 3,904,580, 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, which increases for 2018 and 2019 are reflected in the amount above, 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, 2019, 1,088,307 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, 2018	1,382,152	\$ 7.28	8.37	\$ —
Granted	1,807,572	0.58	—	—
Exercised	—	—	—	—
Forfeited	(204,056)	4.80	—	—
Expired	(103,460)	8.26	—	—
Outstanding at September 30, 2019	2,882,208	3.15	8.66	—
Exercisable at September 30, 2019	1,545,112	4.89	8.19	—

- (1) The aggregate intrinsic value of the stock options is calculated as the maximum of the difference between the quoted price of the Company's common stock and the exercise price of a stock option, and zero. Accordingly, the aggregate intrinsic value excludes stock options that have exercise prices in excess of the quoted price of the Company's common stock.

Unamortized stock-based compensation expense relating to stock options was \$0.5 million at September 30, 2019, which is expected to be recognized over a weighted-average period of 1.9 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,	
	2019	2018
Risk-free interest rate	2.51%	2.73%
Expected term (in years)	5.55	5.97-6.05
Dividend yield	0.00%	0.00%
Expected volatility	49%	45%

### Restricted Stock Units

Our Company granted 292,500 Restricted Stock Units ("RSU") to our officers and board of directors during nine months ended September 30, 2019. There were no grants during the three months ended September 30, 2019. During the three and nine months ended September 30, 2018, the Company also granted 605,235 RSU to our officers and board of directors. All RSU grants vest on the satisfaction of only a service-based condition. As of September 30, 2019, there were 381,409 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 \$0.6 million at September 30, 2019, which is expected to be recognized as expense over the weighted-average period of 1.3 years. The service conditions for the RSU granted to our officers and Board are generally satisfied 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 three and nine months ended September 30, 2019, our Company withheld 7,069 and 68,731 shares of Common Stock ("Net Settlement"), and remitted \$1,569 and \$40,061, respectively, in cash to meet the related tax withholding requirements on behalf of our officers. For the three and nine months ended September 30, 2018, our Company also withheld 8,395 and 40,937 shares of Common Stock, and remitted \$13,488 and \$97,151, respectively, in cash to meet the related tax withholding requirements on behalf of our officers.



### **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:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Stock-based compensation	\$ 227,525	\$ 334,490	\$ 904,432	\$ 1,284,099

### **10. Income Taxes**

Our effective income tax rate for the three months ended September 30, 2019 and 2018 was 0.03% and (0.02)%, respectively. In addition, our effective income tax rate for the nine months ended September 30, 2019 and 2018 was (0.08) % and (0.08) %, 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 three and nine months ended September 30, 2019 and 2018 was primarily related to the impact of the valuation allowance and state income taxes.

At September 30, 2019, we have 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, 2019, and 2018, 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 three and nine months ended September 30, 2019 and for the same period in 2018.

Pursuant to Internal Revenue Code (“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.

We are currently not under examination by federal, state and local tax authorities.

### **11. 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 entire amount was reserved under accrued expenses as of December 31, 2018. The class wide settlement amount of \$865,000 was approved by the court and paid by the Company on January 2, 2019.

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 was 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 alleged 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. On March 21, 2019, we agreed to a class wide settlement for a maximum amount of \$1.0 million, which would include settlement of all penalties under the Private Attorneys General Act of 2004 and California Labor Code, attorneys’ fees and costs, class representative enhancements and claims administration fees. As of December 31, 2018, we have reserved for the entire amount under accrued expenses.

Four substantially similar putative class action complaints were filed in the Superior Court of the State of California, County of Los Angeles, captioned Salazar v. YogaWorks, Inc., et al. (filed November 26, 2018); Johnson v. YogaWorks, Inc., et al. (filed December 19, 2018); Lowinger v. YogaWorks, Inc. et al. (filed December 21, 2018); and Mirza v. YogaWorks, Inc., et al. (filed January 17, 2019). These four state court actions were consolidated into the Salazar case by the Court on April 17, 2019 and assigned to Judge Maren Nelson for all purposes. (“State Court of Action”). Additionally, two putative class action complaints, substantially similar to the state court securities actions, captioned Cohen v. YogaWorks, Inc., et al. (filed December 27, 2018) and Dellinger v. YogaWorks, Inc., et al. (filed February 8, 2019) were filed in the United States District Court for the District of Central California. On March 21, 2019, the federal court actions were consolidated, and Inter-Local Pension Fund GCC/IBT’s were appointed as Lead Plaintiff (“Federal Court Action”). The State Court Action and Federal Court Action were brought by purported stockholders of YogaWorks alleging violations of the

Securities Act of 1933 for alleged misstatements and omissions in offering documents related to YogaWorks' IPO that took place on August 11, 2017. The lawsuits name as defendants YogaWorks, certain of its current and former officers and directors, YogaWorks' majority shareholder, and certain underwriters of YogaWorks' IPO. On July 31, 2019, the Court conducted a case management conference in the State Court Action in which it denied each of the plaintiffs' dueling motions to appoint lead counsel, and ordered that plaintiffs' counsels work together. A consolidated complaint was filed by those plaintiffs on August 21, 2019. The defendants are currently not obligated to respond to the operative complaint in the State Securities Class Action pursuant to a stipulated order issued on August 27, 2019 by Judge Maren Nelson. Under the ordered stipulation, the State Securities Class Action is stayed until the earlier of the following: (i) the Federal Securities Class Action is dismissed with prejudice as to each defendant, or (ii) the federal court, upon resolving the pending motions to dismiss, finds that the complaint in the Federal Securities Class Action states a claim. In the Federal Court Action, Lead Plaintiff filed an Amended Consolidated Complaint on May 21, 2019 and Defendants filed motions to dismiss on July 23, 2019; Plaintiffs' opposition to the motions to dismiss was filed on September 24, 2019; Defendants filed replies in support of their motion(s) to dismiss on November 12, 2019; and the hearing on Defendants' motion(s) to dismiss is set for December 9, 2019 at 1:30 p.m. The outcomes of the legal proceedings are inherently unpredictable, subject to significant uncertainties, and could be material to YogaWorks' financial condition, results of operations, and cash flows for a particular period. YogaWorks intends to vigorously defend the claims asserted against it.

In addition to the aforementioned legal matters, from time to time, we are 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 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.

## **12. Subsequent Events**

On October 31, 2019, Ms. Rosanna McCollough ("McCollough"), who was previously chief executive officer and president of the Company, departed from the Company. McCollough and the Company entered into a Separation Agreement and Release, (the "Separation Agreement"). Under the Separation Agreement, the Company agrees to provide McCollough with the severance payments and benefits described in her Employment Agreement. The Company also agreed to fully vest any equity awards previously granted to Ms. McCollough that remain outstanding. The Company further agreed that McCollough will receive the full amount of her target bonus for 2019 of \$100,000, to be paid no later than March 1, 2020. The Separation Agreement also includes a general release of claims by McCollough in favor of the Company. The actual terms of the Separation Agreement had been filed as Exhibit 10.1 on Form 8-K dated November 4, 2019.

## **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.

### **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 upon use or as they expire. Workshop and teacher training revenue is deferred until the date of the event or is recognized over the period the event takes place. In addition, social commerce revenue is generated from class package sales through third party channels (i.e. ClassPass and Groupon).

*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 consist 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 transaction 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.

We incur transaction costs in connection with studio acquisitions. 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, as noted above, and are expensed as incurred.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. Compliance with the rules and regulations of the SEC has increased our legal and financial compliance costs and has made some of our corporate and administrative activities more time consuming and costly. In addition, our management and other personnel devote substantial time to these public company requirements. In particular, we incur significant expenses and devote substantial management effort toward ensuring our compliance with the requirements of applicable laws and regulations. In addition, we have hired additional accounting and financial staff with appropriate public company experience and technical accounting knowledge.

*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, 2019 Compared to Quarter Ended September 30, 2018 (Unaudited)

(in thousands)	Quarters Ended September 30,		Variance	
	2019	2018	Dollar	Percent
Net revenues	\$ 16,529	\$ 15,151	\$ 1,378	9%
Cost of revenues and operating expenses:				
Cost of revenues	5,800	6,213	(413)	(7%)
Center operations	6,803	7,179	(376)	(5%)
General and administrative expenses	5,587	4,159	1,428	34%
Depreciation and amortization	969	1,874	(905)	(48%)
Goodwill impairment	664	5,550	(4,886)	(88%)
Asset impairment	1,364	4,119	(2,755)	(67%)
Total cost of revenues and operating expenses	21,187	29,094	(7,907)	(27%)
Loss from operations	(4,658)	(13,943)	9,285	(67%)
Interest income	(5)	(47)	42	(89%)
Net loss before income taxes	(4,653)	(13,896)	9,243	(67%)
(Benefit)/provision for income taxes	(1)	3	(4)	(133%)
Net loss	\$ (4,652)	\$ (13,899)	\$ 9,247	(67%)

#### *Net revenues*

The increase in net revenues for the three months ended September 30, 2019 as compared to the same period in 2018 was primarily due to the Company's marketing initiatives towards monthly memberships resulted to \$1.0 million increase in membership sales and a corresponding decrease of \$0.9 million in multi-class packages as compared to the same period in 2018. In addition, unearned revenue decreased by \$1.7 million due to the adoption of Topic 606, and retail revenue increased by \$0.1 million. The increases were offset by \$0.5 million decrease in teachers' training and workshops revenue due to the timing of the events compared to the same period in 2018.

#### *Cost of revenues*

The \$0.4 million or 7% decrease in cost of revenues for the quarter ended September 30, 2019, as compared to the same period in 2018, was primarily due to the decrease in number of studios that resulted to a decrease in cost by \$0.2 million. In addition, the timing of teachers' training and workshops compared to the same period in 2018 resulted to \$0.2 million decrease in workshop and teachers' training costs.

#### *Center operations*

The decrease in center operations for the quarter ended September 30, 2019, as compared to the same period in 2018, was primarily due to decrease in rent expense of \$0.3 million and \$0.1 million in studio maintenance expenses as a result of the decrease in number of studios.

#### *General and administrative*

The increase in general and administrative expenses for the quarter ended September 30, 2019, as compared to the same period in 2018, was primarily due to \$1.7 million increase in professional, travel, and contract termination fees incurred to close unprofitable studios, and increased costs for social media promotional campaigns and web advertisements by \$0.1 million, to increase traffic at the studios. Legal fees also increased by \$0.1 million due to the Company's financing activities, changes in Company's officers, and union matters. These increases were offset by a decrease in stock-based compensation expense of \$0.5 million because of employee terminations and decrease in the Company's stock price.

#### *Depreciation and amortization*

The \$0.9 million or 48% decrease in depreciation and amortization expense between the quarters ended September 30, 2019 and September 30, 2018 was due to lower depreciation and amortization from assets that were fully impaired during the period.

#### *Goodwill impairment*

For the quarter ended September 30, 2019, we recognized an impairment to goodwill of \$0.7 million. For the quarter ended September 30, 2018, we recognized an impairment to goodwill of \$5.6 million due to the decrease in the Company's market capitalization.

#### *Asset impairment*

For the quarter ended September 30, 2019, we recognized an impairment of long-lived assets of \$1.4 million for the property and equipment associated with the planned closure of certain studios. The assets were no longer recoverable and were therefore fully written-off. 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.

#### *Interest income, net*

The slight decrease in interest income, net for the quarter ended September 30, 2019, as compared to the same period in 2018, was due to decrease in interest income from depository accounts.

#### *Provision for (benefit from) income taxes*

There was no material change in the provision for income taxes between the three months ended September 30, 2019 and 2018. Our effective income tax rate was (0.03) % for the three months ended September 30, 2019 and (0.02) % for the three months ended September 30, 2018.

**Nine months Ended September 30, 2019 Compared to Nine months Ended September 30, 2018 (Unaudited)**

(in thousands)	For the Nine Months Ended		Variance	
	September 30,		Dollar	Percent
	2019	2018		
Net revenues	\$ 46,134	\$ 45,551	\$ 583	1%
Cost of revenues and operating expenses:				
Cost of revenues	17,290	17,892	(602)	(3%)
Center operations	20,552	21,013	(461)	(2%)
General and administrative expenses	14,457	12,618	1,839	15%
Depreciation and amortization	4,018	6,471	(2,453)	(38%)
Goodwill impairment	664	8,025	(7,361)	(92%)
Asset impairment	1,539	4,119	(2,580)	(63%)
Total cost of revenues and operating expenses	58,520	70,138	(11,618)	(17%)
Loss from operations	(12,386)	(24,587)	12,201	(50%)
Interest income	(67)	(97)	30	(31%)
Net loss before income taxes	(12,319)	(24,490)	12,171	(50%)
Provision for income taxes	10	21	(11)	(52%)
Net loss	\$ (12,329)	\$ (24,511)	\$ 12,182	(50%)

*Net revenues*

The increase in net revenues for the nine months ended September 30, 2019 was primarily due to the Company's marketing initiatives towards monthly memberships that resulted to \$3.9 million increase in membership sales and a corresponding decrease of \$3.8 million in multi-class packages as compared to the same period in 2018. In addition, unearned revenue decreased by \$1.7 million due to the adoption of Topic 606, and social commerce revenue increased by \$0.2 million. The increases were offset by \$0.6 million decrease in teachers' training and workshops revenue due to the timing of the events compared to the same period in 2018. Additional revenue contributed by acquisitions also decreased, we have suspended acquiring new studios, and it resulted to a decrease by \$0.6 million compared the same period in 2018. Retail sales and events also decreased by \$0.2 million.

*Cost of revenues*

The \$0.6 million or 3% decrease in cost of revenues for the nine months ended September 30, 2019, as compared to the same period in 2018, was primarily due to the decrease in number of studios.

*Center operations*

The \$0.5 million or 2% decrease in center operations for the nine months ended September 30, 2019, as compared to the same period in 2018, was primarily due to decrease in the number of studios that resulted to a decrease in rent expense by \$0.6 million and payroll costs by \$0.2 million. This was offset by higher payroll costs from existing studios by \$0.3 million. The Company restructured the bonus structure of customer facing employees to facilitate the selling of memberships.

*General and administrative*

The increase in general and administrative expenses for the nine months ended September 30, 2019, as compared to the same period in 2018, was primarily due to \$1.5 million increase in professional and contract termination fees incurred to close unprofitable studios, and increased costs for social media promotional campaigns and web advertisements by \$0.5 million, to increase traffic at the studios. Legal fees also increased by \$0.2 million due to the Company's financing activities, changes in Company's officers, and union matters. These increases were offset by a decrease in stock-based compensation expense of \$0.4 million because of employee terminations and decrease in the Company's stock price.

#### *Depreciation and amortization*

The \$2.5 million or 38% decrease in depreciation and amortization expense between the nine months ended September 30, 2019 and September 30, 2018 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*

For the nine months ended September 30, 2019, we recognized an impairment to goodwill of \$0.7 million. For the nine months ended September 30, 2018, we recognized an impairment to goodwill of \$8.0 million due to the decrease in the Company's market capitalization.

#### *Asset impairment*

For the nine months ended September 30, 2019, we recognized an impairment of long-lived assets of \$1.5 million for the property and equipment associated with the planned closure of certain studios. The assets were no longer recoverable and were therefore fully written-off. 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.

#### *Interest income, net*

The decrease in interest income, net for the nine months ended September 30, 2019, as compared to the same period in 2018, was due to decrease in interest income from depository accounts.

#### *Provision for income taxes*

There was no material change in the provision for income taxes between the nine months ended September 30, 2019 and 2018. Our effective income tax rate was (0.08) % for the nine months ended September 30, 2019 and (0.08) % for the nine months ended September 30, 2018.

### **Liquidity and Capital Resources**

We have a history of operating losses and an accumulated deficit of \$106.0 million as of September 30, 2019. In addition, we had negative working capital of \$10.7 million and \$0.6 million at September 30, 2019 and December 31, 2018, respectively. As disclosed in our most recent Annual Report on Form 10-K, the Company needs additional financing to fund its operations. These conditions raise substantial doubt about our ability to continue as a going concern. Historically, we have satisfied our liquidity needs primarily through cash generated from financing activities. Our principal liquidity needs include cash used for operations (such as rent and labor costs), acquisitions, capital expenditures necessary to improve existing studios, primarily leasehold improvements and additional furniture and fixtures. We have suspended acquiring or developing new studios to reduce our liquidity needs.

The accompanying interim unaudited financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business, and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or amounts and classification of liabilities that may result from the outcome of this uncertainty. As of November 14, 2019, the Company is in the process of seeking additional financing. The Company may sell additional equity, issue debt securities or obtain a credit facility. However, the Company may not be able to secure such financing in a timely manner or on favorable terms. The Company is delaying and reducing its operating and investing expenditures, and negotiating rent reductions or lease buyouts with its landlords and will continue to do so, which may have a material adverse effect on operations.

## Selected Cash Flow Data

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

(in thousands)	Nine Months Ended September 30,	
	2019	2018
	(Unaudited)	
Used in operating activities	\$ (9,672)	\$ (6,374)
Used in investing activities	(2,440)	(2,445)
From (used in) financing activities	4,947	(97)
Decrease in cash and cash equivalents	(7,165)	(8,916)
Cash and cash equivalents, beginning of period	11,447	22,095
Cash and cash equivalents, end of period	4,282	13,179

### *Net cash used in 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 to support our expected growth.

For the nine months ended September 30, 2019, \$7.1 million or 58% of our net loss of \$12.3 million consisted of non-cash items, including depreciation and amortization expense of \$4.0 million, goodwill and asset impairment of \$2.2 million, and stock-based compensation expense of \$0.9 million. Net cash used in operating activities in the nine months ended September 30, 2019 also included a \$2.3 million decrease in deferred revenue due to the timing of when memberships and class packages had been sold and when the corresponding revenue recognized for such sales occurred, a \$1.9 million decrease in accounts payable and accrued expenses due to the timing of payments, a \$0.9 million decrease in deferred rent due to early termination of certain leases, a \$0.3 million decrease in accrued compensation, a \$0.5 million decrease in prepaid expenses and other assets primarily due to the timing of rent payments, a \$0.4 million decrease in inventories due to the closing of studios.

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 depreciation and amortization expense of \$6.5 million, goodwill and asset impairment of \$12.1 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 and due to the timing of payments, and a \$0.3 million decrease in prepaid expenses and other current assets primarily due to the timing of rent payments.

### *Net cash used in investing activities*

For the nine months ended September 30, 2019, our net cash used in investing activities was primarily due to the purchases of property and equipment for \$2.4 million.

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.

### *Net cash used in financing activities*

For the nine months ended September 30, 2019, our net cash provided by financing activities was from the issuance of \$5.0 million related party convertibles notes.

For the nine months ended September 30, 2018, our net cash used in financing activities was for repurchases of vested RSUs to satisfy tax withholding obligations of \$0.1 million.

## Off-Balance Sheet Arrangements

As of September 30, 2019, 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 the Company’s Chief Executive Officer and Principal 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.

Based on that evaluation, the Company’s Chief Executive Officer and Principal Financial Officer concluded that as of September 30, 2019, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by our Company in the reports it files or submits with the SEC is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to our management, including the principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

#### **Changes in internal control over financial reporting**

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 entire amount was reserved under accrued expenses as of December 31, 2018. The class wide settlement amount of \$865,000 was approved by the court and paid by the Company on January 2, 2019.

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 was 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 alleged 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. On March 21, 2019, we agreed to a class wide settlement for a maximum amount of \$1.0 million, which would include settlement of all penalties under the Private Attorneys General Act of 2004 and California Labor Code, attorneys' fees and costs, class representative enhancements and claims administration fees. As of December 31, 2018, we have reserved for the entire amount under accrued expenses.

Four substantially similar putative class action complaints were filed in the Superior Court of the State of California, County of Los Angeles, captioned *Salazar v. YogaWorks, Inc., et al.* (filed November 26, 2018); *Johnson v. YogaWorks, Inc., et al.* (filed December 19, 2018); *Lowinger v. YogaWorks, Inc. et al.* (filed December 21, 2018); and *Mirza v. YogaWorks, Inc., et al.* (filed January 17, 2019). These four state court actions were consolidated into the *Salazar* case by the Court on April 17, 2019 and assigned to Judge Maren Nelson for all purposes. ("State Court Action"). Additionally, two putative class action complaints, substantially similar to the state court securities actions, captioned *Cohen v. YogaWorks, Inc., et al.* (filed December 27, 2018) and *Dellinger v. YogaWorks, Inc., et al.* (filed February 8, 2019) were filed in the United States District Court for the District of Central California. On March 21, 2019, the federal court actions were consolidated, and Inter-Local Pension Fund GCC/IBT's were appointed as Lead Plaintiff ("Federal Court Action"). The State Court Action and Federal Court Action were brought by purported stockholders of YogaWorks alleging violations of the Securities Act of 1933 for alleged misstatements and omissions in offering documents related to YogaWorks' IPO that took place on August 11, 2017. The lawsuits name as defendants YogaWorks, certain of its current and former officers and directors, YogaWorks' majority shareholder, and certain underwriters of YogaWorks' IPO. On July 31, 2019, the Court conducted a case management conference in the State Court Action in which it denied each of the plaintiffs' dueling motions to appoint lead counsel, and ordered that plaintiffs' counsels work together. A consolidated complaint was filed by those plaintiffs on August 21, 2019. The defendants are currently not obligated to respond to the operative complaint in the State Securities Class Action pursuant to a stipulated order issued on August 27, 2019 by Judge Maren Nelson. Under the ordered stipulation, the State Securities Class Action is stayed until the earlier of the following: (i) the Federal Securities Class Action is dismissed with prejudice as to each defendant, or (ii) the federal court, upon resolving the pending motions to dismiss, finds that the complaint in the Federal Securities Class Action states a claim. In the Federal Court Action, Lead Plaintiff filed an Amended Consolidated Complaint on May 21, 2019 and Defendants filed motions to dismiss on July 23, 2019. Plaintiffs' opposition to the motions to dismiss was filed on September 24, 2019; Defendants filed replies in support of their motion(s) to dismiss on November 12, 2019; and the hearing on Defendants' motion(s) to dismiss is set for December 9, 2019 at 1:30 p.m. The outcomes of the legal proceedings are inherently unpredictable, subject to significant uncertainties, and could be material to YogaWorks' financial condition, results of operations, and cash flows for a particular period. YogaWorks intends to vigorously defend the claims asserted against it.

In addition to the aforementioned legal matters, from time to time, we are 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 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

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
10.1	<a href="#">Note Purchase Agreement dated September 26, 2019 (including form of convertible promissory note)</a>
10.1.A	<a href="#">Form of convertible promissory note.</a>
31.1*	<a href="#">Certification of the Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1*	<a href="#">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</a>
**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

---

\* 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, 2019

By: \_\_\_\_\_  
/s/ Brian T. Cooper  
**Brian T. Cooper**  
**Chief Executive Officer and Principal Financial Officer**

**NOTE PURCHASE AGREEMENT**

**By and Among**

**YogaWorks, Inc.**

**and**

**The Lenders**

**as defined herein**

**Dated as of September 26, 2019**

---

## TABLE OF CONTENTS

	Page
<b>SECTION I - PURCHASE AND SALE OF NOTES</b>	1
1.1. Purchase and Sale of Notes	1
1.2. Closing	1
1.3. Use of Proceeds	1
<b>SECTION II - REPRESENTATIONS AND WARRANTIES OF THE COMPANY</b>	1
2.1. Organization and Corporate Power	1
2.2. Authorization and Non-Contravention	2
2.3. No Brokers or Finders	2
<b>SECTION III - REPRESENTATIONS AND WARRANTIES OF THE LENDERS</b>	2
3.1. Authorization	2
3.2. Purchase Entirely for Own Account	3
3.3. Accredited Lender	3
3.4. Restricted Securities	3
3.5. Authority and Non-Contravention	3
<b>SECTION IV - COMPANY CLOSING DELIVERIES</b>	4
4.1. Delivery of Documents	4
4.2. Approvals and Consents	4
<b>SECTION V - LENDER CLOSING DELIVERIES</b>	4
5.1. Payment of Purchase Price	4
<b>SECTION VI - COVENANTS OF THE COMPANY</b>	4
6.1. Corporate Existence	4
6.2. Properties, Business Insurance	5
6.3. Appraisals	5
6.4. Inspection, Consultation and Advice	5
6.5. Restrictive Agreements Prohibited	5
6.6. Compliance with Laws and Taxes	6
6.7. Liens	6
6.8. Expenses	7
6.9. Indemnification	7
6.10. Right of Refusal	8
6.11. Term	9
<b>SECTION VII - MISCELLANEOUS</b>	9
7.1. Survival of Representations and Warranties	9
7.2. Entire Agreement	9
7.3. Amendments Waivers and Consents	10
7.4. Notices and Demands	10
7.5. Severability	11
7.6. Expenses	11
7.7. Counterparts	11
7.8. Effect of Headings; Construction	11
7.9. Governing Law	11

**EXHIBITS**

A Form of Convertible Promissory Note

Schedule A List of Lenders

Schedule B Wire Transfer Instructions



## NOTE PURCHASE AGREEMENT

**THIS NOTE PURCHASE AGREEMENT** (this “Agreement”) is made as of September 26, 2019, by and among YogaWorks, Inc., a Delaware corporation (the “Company”), and the Lenders listed on Schedule A hereto (the “Lenders”).

**WHEREAS**, the Company has agreed to sell, and the Lenders have agreed to purchase, an aggregate principal amount of \$5,000,000 of the Company’s Convertible Promissory Notes (the “Notes”) in the form attached hereto as Exhibit A for an aggregate purchase price of \$5,000,000 in accordance with the terms and provisions hereof.

**NOW, THEREFORE**, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

### SECTION I - PURCHASE AND SALE OF NOTES

**1.1. Purchase and Sale of Notes.** Subject to the terms and conditions of this Agreement and in reliance on the representations, warranties and covenants herein set forth, the Company shall issue and sell to each of the Lenders, and each Lender severally agrees to purchase from the Company, the respective principal amount of Notes set forth opposite the name of such Lender on Schedule A hereto representing an aggregate principal amount of \$5,000,000.

**1.2. Closing.** The purchase of the Notes as set forth on Schedule A shall be made at a closing (the “Closing”) to be held on the date hereof. At the Closing, the Company will deliver to each Lender Notes in the principal amount set forth opposite the name of such Lender on Schedule A against payment of the purchase price by each Lender relating thereto as set forth on Schedule A to the Company by wire transfer payable in immediately available funds in accordance with the wire transfer instructions set forth on Schedule B. The Company and the Lender shall also make the deliveries specified in Sections 4.1 and 4.2, respectively, at the Closing.

**1.3. Use of Proceeds.** The Company shall use the proceeds received upon the sale of the Notes for lease restructuring costs (including lease exits), general corporate restructuring costs and other general corporate purposes.

### SECTION II - REPRESENTATIONS AND WARRANTIES OF THE COMPANY

In order to induce the Lenders to enter into this Agreement and consummate the transactions contemplated hereby, the Company hereby makes to the Lenders the following representations and warranties.

**2.1. Organization and Corporate Power.** The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The Company has all requisite corporate power and authority to own its properties, to carry on its business as presently conducted, to enter into and perform this Agreement, the Notes and the agreements, documents and instruments contemplated hereby (together, the “Transaction Documents”) to which it is a party and to carry out the transactions contemplated hereby and thereby. The Company is duly licensed or qualified to do business as a foreign corporation in each jurisdiction wherein the character of its property, or the nature of the activities presently conducted

---

by it, makes such qualification necessary, except where the failure to be so licensed or qualified would not have, or be reasonably likely to have, a material adverse effect on the assets, liabilities, condition (financial or other), business, results of operations or prospects of the Company (a “Material Adverse Effect”). The Company is not in material violation of any term or provision of its Certificate of Incorporation (the “Certificate”) or by-laws (the “By-laws”), each as in effect as of this date.

**2.2. Authorization and Non-Contravention.** The Transaction Documents are valid and binding obligations of the Company, enforceable in accordance with their terms, except as enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or similar laws, from time to time in effect, which affect enforcement of creditors’ rights generally and equitable principles. The execution, delivery and performance of the Transaction Documents, and the sale and delivery of the Notes in accordance with this Agreement have been duly authorized by all necessary corporate or other action of the Company and its stockholders. The execution, delivery and performance of the Transaction Documents, including, without limitation, the sale and delivery of the Notes in accordance with this Agreement, and the performance of any transactions contemplated by the Transaction Documents will not (i) violate, conflict with or result in a default (whether after the giving of notice, lapse of time or both) under any contract or obligation to which the Company is a party or by which it or its assets are bound, or any provision of the Certificate or By-Laws, or cause the creation of any lien or encumbrance upon any of the assets of the Company, except for those which would not have, or be reasonably likely to have, a Material Adverse Effect; (ii) violate, conflict with or result in a default (whether after the giving of notice, lapse of time or both) under, any provision of any law, regulation or rule, or any order of, or any restriction imposed by any court or other governmental agency applicable to the Company, except for those which would not have, or be reasonably likely to have, a Material Adverse Effect; (iii) require from the Company any notice to, declaration or filing with, or consent or approval of any governmental authority or other third party other than pursuant to federal or state securities or blue sky laws; or (iv) accelerate any obligation under, or give rise to a right of termination of, any agreement, permit, license or authorization to which the Company is a party or by which it is bound.

**2.3. No Brokers or Finders.** No person has or will have, as a result of the transactions contemplated by this Agreement, any right, interest or claim against or upon the Company for any commission, fee or other compensation as a finder or broker because of any act or omission by the Company or its stockholders or its affiliates.

### **SECTION III - REPRESENTATIONS AND WARRANTIES OF THE LENDERS**

Each Lender hereby represents, warrants and covenants on behalf of itself only that:

**3.1. Authorization.** Such Lender has full power and authority to enter into each of the Transaction Documents, and each such agreement constitutes its valid and legally binding obligation, enforceable in accordance with its terms.

**3.2. Purchase Entirely for Own Account.** The Notes to be received by such Lender will be acquired for investment for such Lender's own account (or the account of their respective affiliates), not as a nominee or agent, and not with a view to the resale or distribution of any part thereof in violation of any applicable law, and that Lender has no present intention of selling, granting any participation in or otherwise distributing the same to any other person. Such Lender does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to such person or to any third person, with respect to any of the Notes.

**3.3. Accredited Lender.** Such Lender is an "accredited investor", as defined in SEC Rule 501 of Regulation D of the Securities Act, as presently in effect.

**3.4. Restricted Securities.** Such Lender understands that the Notes it is purchasing are characterized as "restricted securities" under the federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations such Notes may not be resold without registration under the Act, except in certain limited circumstances.

**3.5. Authority and Non-Contravention.** The Transaction Documents to which it is a party are valid and binding obligations of such Lender, enforceable in accordance with their terms, except as enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or similar laws, from time to time in effect, which affect enforcement of creditors' rights generally. The execution, delivery and performance of the Transaction Documents to which it is a party have been duly authorized by all necessary corporate or other action of such Lender. The execution, delivery and performance of this Agreement and the performance of any transactions contemplated by the Transaction Documents will not (i) violate, conflict with or result in a default (whether after the giving of notice, lapse of time or both) under any material contract or obligation to which such Lender is a party or by which their or its assets are bound, or any provision of such Lenders' organizational documents, or cause the creation of any encumbrance upon any of the material assets of such Lenders; (ii) violate, conflict with or result in a default (whether after the giving of notice, lapse of time or both) under, any provision of any law, regulation or rule, or any order of, or any restriction imposed by any court or other governmental agency applicable to such Lender; (iii) require from such Lender any notice to, declaration or filing with, or consent or approval of any governmental authority or other third party other than pursuant to federal or state securities or blue sky laws; or (iv) accelerate any obligation under, or give rise to a right of termination of, any agreement, permit, license or authorization to which such Lender is a party or by which it is bound.

#### SECTION IV - COMPANY CLOSING DELIVERIES

At the Closing, the Company shall deliver to the Lenders the documents provided in this Section IV.

**4.1. Delivery of Documents.** The Company shall have executed and/or delivered to the Lenders (or shall have caused to be executed and delivered to the Lenders by the appropriate persons) the following:

- (a) the Notes to be delivered at the Closing;
- (b) copies of resolutions of the Board of Directors and, as applicable, the stockholders of the Company authorizing the execution and delivery of the Transaction Documents and the issuance of the Notes, as certified by the Company's Secretary;
- (c) certificates issued by the Secretary of State of the State of Delaware and such states in which the Company is qualified as a foreign corporation, certifying that the Company is in good standing in their respective states; and
- (d) such other supporting documents and certificates as the Lenders may reasonably request.

**4.2. Approvals and Consents.** The Company shall provide to the Lenders copies of all required authorizations, waivers, consents and permits from governmental authorities, regulatory agencies and other entities to permit the consummation of the transactions contemplated by this Agreement, in form and substance reasonably satisfactory to the Lenders, from all third parties.

#### SECTION V - LENDER CLOSING DELIVERIES

At the Closing, the Lenders shall deliver to the Company the items provided in this Section V.

**5.1. Payment of Purchase Price.** The Lenders shall have paid the purchase price for the Notes to be issued at the Closing as set forth on Schedule A by wire transfer payable in immediately available funds in accordance with the wire transfer instructions set forth on Schedule B.

#### SECTION VI - COVENANTS OF THE COMPANY

The Company covenants and agrees with each of the Lenders that:

**6.1. Corporate Existence.** The Company shall and shall cause each of its subsidiaries, if any, to:

- (a) carry on and conduct its business in substantially the same manner and in substantially the same fields of enterprise as contemplated as of the date hereof;

(b) do all things necessary to (x) remain duly incorporated or organized, validly existing and (to the extent such concept applies to such entity) in good standing as a domestic corporation, partnership or limited liability company in its jurisdiction of incorporation or organization, as the case may be, and (y) maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted;

(c) keep reasonably adequate books and records with respect to its business activities in which proper entries, reflecting all financial transactions, are made in accordance with GAAP and on a basis consistent with its last audited financial statements; and

(d) except for any of its assets leased to customers in the ordinary course of business, at all times maintain, preserve and protect all of its assets and properties used or useful in the conduct of its business, and keep the same in good repair, working order and condition in all material respects (taking into consideration ordinary wear and tear) and from time to time make, or cause to be made, all necessary or appropriate repairs, replacements and improvements thereto consistent with industry practices.

**6.2. Properties, Business Insurance.** The Company shall obtain and maintain and cause each of its subsidiaries, if any, to maintain as to their respective properties and business insurance against such casualties and contingencies and of such types and in such amounts as is customary for companies similarly situated.

**6.3. Appraisals.** Whenever a Default or Event of Default exists under the Notes, and at such other times as an Lender reasonably requests, the Company shall, at its sole expense, provide the Lenders with appraisals or updates thereof of their assets from an appraiser selected and engaged by such Lender, and prepared on a basis satisfactory to such Lender, such appraisals and updates to include, without limitation, information required by applicable law and regulations and by the internal policies of the Lenders.

**6.4. Inspection, Consultation and Advice.** The Company shall permit and cause each of its subsidiaries, if any, to permit each Lender and such persons as each Lender may designate, at such Lender's expense, to visit and inspect any of the properties of the Company and its subsidiaries, examine their books and take copies and extracts therefrom, discuss the affairs, finances and accounts of the Company and its subsidiaries with their officers, employees and public accountants (and the Company hereby authorizes said accountants to discuss with such Lender and such designees such affairs, finances and accounts), and consult with and advise the management of the Company and its subsidiaries as to their affairs, finances and accounts, all at reasonable times and upon reasonable notice during normal business hours and provided that such Lender or designee has executed a confidentiality agreement in substance and form reasonably acceptable to the Company.

**6.5. Restrictive Agreements Prohibited.** Neither the Company nor any of its subsidiaries shall become a party to any agreement which by its terms expressly restricts the Company's performance of any of the Transaction Documents or that prohibits, restricts or imposes any condition upon (a) its ability to create, incur or permit to exist any Lien upon any of its property or assets, or (b) the ability of any of the Company's subsidiaries to pay dividends or other distributions with respect to any shares of its capital stock or other equity interests or to make or repay loans or advances to the Company or to guarantee indebtedness of the Company.

**6.6. Compliance with Laws and Taxes.** The Company shall comply, and cause each subsidiary to comply, with all applicable laws, rules, regulations and orders, noncompliance with which could materially adversely affect its business or condition, financial or otherwise. The Company will timely file complete (subject to usual extension rights) and correct U.S. federal and applicable foreign, state and local tax returns required by law and pay when due (subject to usual extension rights) all taxes, assessments and governmental charges and levies upon it or its income, profits, or property, except those which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been set aside in accordance with GAAP.

**6.7. Liens.** For so long as the Notes remain outstanding, the Company will not create, incur, or suffer to exist any lien (statutory or other), mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, the interest of a vendor or lessor under any conditional sale, Capitalized Lease or other title retention agreement) (a "Lien") in, of, or on its property or the property of its subsidiaries, if any, except the following (collectively, "Permitted Liens"):

(a) Liens for taxes, fees, assessments, or other governmental charges or levies on the property of the Company or its subsidiaries if such taxes (1) shall not at the time be delinquent or (2) do not secure obligations in excess of \$100,000, are being contested in good faith and by appropriate proceedings diligently pursued, adequate reserves in accordance with GAAP have been set aside on the books of such credit party, and a stay of enforcement of such Lien is in effect;

(b) Liens imposed by law, such as carrier's, warehousemen's, and mechanic's Liens and other similar Liens arising in the ordinary course of business which secure payment of obligations not more than ten days past due or which are being contested in good faith by appropriate proceedings diligently pursued and for which adequate reserves shall have been set aside on the Company or its subsidiaries' books;

(c) statutory Liens in favor of landlords of real property leased by the Company or its subsidiaries; *provided that*, such entity is current with respect to payment of all rent and other amounts due to such landlord under any lease of such real property;

(d) Liens arising out of pledges or deposits under worker's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits, or similar legislation or to secure the performance of bids, tenders, or contracts (other than for the repayment of indebtedness) or to secure indemnity, performance, or other similar bonds for the performance of bids, tenders, or contracts (other than for the repayment of indebtedness) or to secure statutory obligations (other than liens arising under ERISA or environmental laws) or surety or appeal bonds, or to secure indemnity, performance, or other similar bonds;

(e) utility easements, building restrictions, and such other encumbrances or charges against real property as are of a nature generally existing with respect to properties of a similar character and which do not in any material way affect the marketability of such real property or interfere with the use thereof in the business of the Company or its subsidiaries; or

(f) purchase money liens for acquisitions in the ordinary course of business.

If Liens other than Permitted Liens exist, the Company and its subsidiaries immediately shall take, execute and deliver all actions, documents and instruments as are reasonably necessary to release and terminate such Liens.

**6.8. Expenses.** The Company agrees to pay and hold the Lenders harmless against liability for payment of all reasonable out-of-pocket costs and expenses incurred by them in connection with their ongoing investment in the Company, including, without limitation, the fees and disbursements of counsel and other professionals in connection with any modification, waiver, consent or amendment requested in connection with any Transaction Document. In addition, the Company agrees to pay any and all stamp, transfer, and other similar taxes, if any, payable or determined to be payable in connection with the execution and delivery of the Transaction Documents.

**6.9. Indemnification**

(a) Without limitation of any other provision of this Agreement or any agreement executed in connection herewith, the Company agrees to defend, indemnify and hold each Lender, its respective affiliates and direct and indirect partners (including partners of partners and stockholders and members of partners), members, stockholders, directors, officers, employees and agents and each person who controls any of them within the meaning of Section 15 of the Securities Act, or Section 20 of the Exchange Act (collectively, the “Lender Indemnified Parties” and, individually, an “Lender Indemnified Party”) harmless from and against any and all damages, liabilities, losses, Taxes, fines, penalties, reasonable costs and expenses (including, without limitation, reasonable fees of a single counsel representing the Lender Indemnified Parties), as the same are incurred, of any kind or nature whatsoever (whether or not arising out of third-party claims and including all amounts paid in investigation, defense or settlement of the foregoing) which may be sustained or suffered by any such Lender Indemnified Party (“Losses”), based upon, arising out of, or by reason of (i) any breach of any representation or warranty made by the Company in this Agreement or any other Transaction Document, (ii) any breach of any covenant or agreement made by the Company in this Agreement, in any other Transaction Document or in any other agreement executed in connection herewith or therewith, or (iii) any third party or governmental claims relating in any way to such Lender Indemnified Party’s status as a security holder, creditor, director, agent, representative or controlling person of the Company or otherwise relating to such Lender Indemnified Party’s involvement with the Company (including, without limitation, any and all Losses under the Securities Act, the Exchange Act or other federal or state statutory law or regulation, at common law or otherwise, which relate directly or indirectly to the

registration, purchase, sale or ownership of any securities of the Company or to any fiduciary obligation owed with respect thereto), including, without limitation, in connection with any third party or governmental action or claim relating to any action taken or omitted to be taken or alleged to have been taken or omitted to have been taken by any Lender Indemnified Party as security holder, director, agent, representative or controlling person of the Company or otherwise, alleging so-called control person liability or securities law liability; provided, however, that the Company will not be liable to the extent that such Losses arise from and are based on (A) an untrue statement or omission or alleged untrue statement or omission in a registration statement or prospectus which is made in reliance on and in conformity with written information furnished to the Company by or on behalf of such Lender Indemnified Party, or (B) conduct by an Lender Indemnified Party which constitutes fraud or willful misconduct, gross negligence or breach of a duty owed by such Lender.

(b) If the indemnification provided for in Section 6.9(a) above for any reason is held by a court of competent jurisdiction to be unavailable to an Lender Indemnified Party in respect of any Losses referred to therein, then the Company, in lieu of indemnifying such Lender Indemnified Party thereunder, shall contribute to the amount paid or payable by such Lender Indemnified Party as a result of such Losses (i) in such proportion as is appropriate to reflect the relative benefits received by the Company and the Lenders, or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company and the Lenders in connection with the action or inaction which resulted in such Losses, as well as any other relevant equitable considerations. The relative fault of the Company and the Lenders shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company and the Lenders and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

(c) Each of the Company and the Lenders agrees that it would not be just and equitable if contribution pursuant to Section 6.9(b) were determined by pro rata or per capita allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph.

#### **6.10. Right of Refusal.**

(a) The Company shall provide each Lender with prior written notice of any bona fide, third party debt financing (a "Debt Financing") to the Company, which notice shall include the proposed material terms and conditions of such Debt Financing (the "Debt Financing Notice"). The Debt Financing Notice shall be accompanied by a true copy of the proposed third party debt financing (which shall identify the proposed lender(s) and all relevant information in connection therewith). The Company's Debt Financing Notice shall constitute an irrevocable offer to enter into a Debt Financing with the Lenders, on the basis described below, on the same such terms and conditions. Each Lender will have the first opportunity, ratably based on their respective Pro Rata Share (defined below), to elect to provide or arrange such Debt Financing, on the terms set forth in the Debt Financing Notice by delivering written notice to the Company within thirty (30) days after receipt of such Debt Financing Notice (and if any Lender fails to



respond to such Debt Financing Notice within such 30-day period, such Lender will be deemed to have elected to not provide or arrange such Debt Financing to the Company). “Pro Rata Share” means, with respect to each Lender at any time a fraction, the numerator of which is the aggregate principal amount of Notes held by such Lender and the denominator of which is the aggregate principal amount of the Notes outstanding.

(b) In the event that the Lenders do not elect to exercise their rights under this Section 6.10 with respect to the Debt Financing within such thirty (30) day period referred to in Section 6.10(a), the Company may enter into the Debt Financing with such third party on the terms and conditions set forth in the Debt Financing Notice. Promptly after such Debt Financing, the Company shall notify the Lenders of the consummation thereof and shall furnish such evidence of the completion and time of completion of such Debt Financing and of the terms thereof as may reasonably be requested by the Lenders. If such third party Debt Financing is not consummated in accordance with the terms of the Debt Financing Notice on or before sixty (60) calendar days after the rejection or deemed rejection of the Debt Financing Notice by the Lenders, then the Company must against comply with the provisions of Section 6.10(a) before it may enter into a Debt Financing with any third party.

**6.11. Term.** Except as provided below, the covenants set forth in this Section VI shall terminate when the Lenders no longer own any of the Notes. Notwithstanding the foregoing, the covenant set forth in Section 6.9 hereof shall continue for so long as any Lender holds any Notes or until the expiration of the applicable statute of limitations, if later.

## SECTION VII - MISCELLANEOUS

**7.1. Survival of Representations and Warranties.** The representations, warranties, covenants and agreements made herein or in any certificates or documents executed in connection herewith shall survive the execution and delivery hereof and the Closing contemplated hereby and shall bind the successors and assigns of the relevant party, whether so expressed or not, and all such covenants, agreements, representations and warranties shall inure to the benefit of the successors and assigns of the parties hereto and to transferees of the Notes, whether so expressed or not.

**7.2. Entire Agreement.** The Transaction Documents constitute the full and entire understanding and agreement among the parties hereto with respect to the subject matters hereof and thereof, and any and all other written or oral agreements existing prior to or contemporaneously herewith are expressly superseded and canceled.

**7.3. Amendments Waivers and Consents.** For the purposes of this Agreement and all agreements, documents and instruments executed pursuant hereto, except as otherwise specifically set forth herein or therein, no course of dealing between the Company on the one hand and any Lender on the other and no delay on the part of any party hereto in exercising any rights hereunder or thereunder shall operate as a waiver of the rights hereof and thereof. Any term or provision hereof may be amended, terminated or waived (either generally or in a particular instance and either retroactively or prospectively) with the written consent of the Company and the holders of a two-thirds interest of the Notes. Any term or provision of the Notes may be amended, terminated or waived (either generally or in a particular instance and either retroactively or prospectively) with the written consent of the Company and the holders of a majority interest of the Notes. Any amendment or waiver effected in accordance with this Section 7.3 shall be binding upon each holder of Notes purchased under this Agreement at the time outstanding, each future holder of all such Notes and the Company.

**7.4. Notices and Demands.** All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if sent by electronic mail, delivered personally or mailed by certified or registered mail (return receipt requested) as follows:

To the Company:       YogaWorks, Inc.  
5780 Uplander Way  
Culver City, CA 90230  
Attn: Vance Chang  
Email: [vancec@yogaworks.com](mailto:vancec@yogaworks.com)

With a copy to:       Latham & Watkins LLP  
10250 Constellation Blvd., Suite 1100  
Los Angeles, CA 90067  
Attn: Steven Stokdyk  
Email: [Steven.Stokdyk@lw.com](mailto:Steven.Stokdyk@lw.com)

To the Lenders:       Great Hill Partners LLC  
200 Clarendon St., 29th Floor  
Boston, Massachusetts 02116  
Attention: Peter Garran  
Email: [pgarran@greathillpartners.com](mailto:pgarran@greathillpartners.com)

With a copy to:       Sidley Austin LLP  
60 State Street, 36th Floor  
Boston, MA 02109  
Attn: Alexander Temel & William Schwab  
Email: [atemel@sidley.com](mailto:atemel@sidley.com); [wschwab@sidley.com](mailto:wschwab@sidley.com)

or to such other address or electronic mail address of which any party may notify the other parties as provided above. Notices shall be effective as of the date of such delivery, mailing or electronic mailing.

**7.5. Severability.** Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be deemed prohibited or invalid under such applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, and such prohibition or invalidity shall not invalidate the remainder of such provision or the other provisions of this Agreement.

**7.6. Expenses.** The Company agrees to pay all reasonable fees and disbursements of counsel to the Lenders in connection with the negotiation, preparation and consummation of the Transaction Documents.

**7.7. Counterparts.** This Agreement and any Exhibit or Schedule hereto may be executed in multiple counterparts, each of which shall constitute an original but all of which shall constitute but one and the same instrument. One or more counterparts of this Agreement or any Exhibit or Schedule hereto may be delivered via telecopier, with the intention that they shall have the same effect as an original counterpart hereof.

**7.8. Effect of Headings; Construction.** The descriptive headings in this Agreement have been inserted for convenience only and shall not be deemed to limit or otherwise affect the construction of any provision thereof or hereof. The parties have participated jointly in the negotiation and drafting of the Transaction Documents with counsel sophisticated in investment transactions. In the event an ambiguity or question of intent or interpretation arises, this Agreement and the agreements, documents and instruments executed and delivered in connection herewith shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement and the agreements, documents and instruments executed and delivered in connection herewith.

**7.9. Governing Law.** This Agreement shall be deemed a contract made under the laws of the State of Delaware and all disputes, claims or controversies arising out of this Agreement, or the negotiation, validity or performance hereof or the transactions contemplated herein, shall be construed under and governed by the laws of such state, without giving effect to its conflict of laws principles.

**[SIGNATURE PAGES FOLLOW NEXT]**

**IN WITNESS WHEREOF**, the undersigned have executed this Note Purchase Agreement as of the day and year first above written.

**COMPANY:**

YOGAWORKS, INC.

By: /s/ Rosanna McCollough

Name: Rosanna McCollough

Title: CEO

**[Signature Page to Note Purchase Agreement]**

---

**LENDERS:**

GREAT HILL EQUITY PARTNERS V, L.P.

By: Great Hill Partners GP V, LP  
its General Partner

By: /s/ Michael Kumin  
Name: Michael Kumin  
Title: A Manager

Address:  
Great Hill Partners LLC  
200 Clarendon St., 29th Floor  
Boston, Massachusetts 02116

GREAT HILL INVESTORS, LLC

By: /s/ Michael Kumin  
Name: Michael Kumin  
Title: A Manager

Address:  
Great Hill Partners LLC  
200 Clarendon St., 29th Floor  
Boston, Massachusetts 02116

**[Signature Page to Note Purchase Agreement]**

---

**Schedule A**

<b>Name of Lender</b>	<b>Aggregate Principal Amount of Notes</b>
Great Hill Equity Partners V, L.P.	\$4,983,360
Great Hill Investors, LLC	\$16,640

---

**Schedule B**

**Wire Transfer Instructions**



Exhibit A  
Form of Note



THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD, TRANSFERRED, OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AND SUCH LAWS.

**CONVERTIBLE PROMISSORY NOTE**

[\$ [ • ]

September 26, 2019

**FOR VALUE RECEIVED**, YogaWorks, Inc., a corporation organized under the laws of Delaware (the “Company”), hereby promises to pay [ • ], a limited partnership organized under the laws of Delaware (the “Holder”), or its registered assigns, on the Maturity Date (as hereinafter defined) (or earlier as hereinafter provided) the principal sum of \$[ • ], with interest on the unpaid principal amount of this Note as provided herein. For the purposes of this Note, the term “Maturity Date” shall mean June 30, 2020.

1. Purchase Agreement; Definitions.

(a) This Convertible Promissory Note (as amended, modified or supplemented from time to time, the “Note”) is issued by the Company on the date hereof pursuant to the Note Purchase Agreement (as amended, modified or supplemented from time to time, the “Note Purchase Agreement”) dated as of September 26, 2019, by and among the Company, the Holder and the other lenders from time to time party thereto. This Note is one of a series of Convertible Promissory Notes (together with all notes issued pursuant to Section 13(d) or Section 14 hereof and thereof, the “Notes”) issued in connection with and pursuant to the Note Purchase Agreement. The Holder is entitled to the benefits of this Note and the Note Purchase Agreement, and may, enforce the agreements of the Company contained herein and therein and exercise the remedies provided for hereby and thereby or otherwise available in respect hereto and thereto, to the extent provided herein or therein. Capitalized terms used herein without definition are used herein with the meanings ascribed to such terms in the Note Purchase Agreement.

(b) In addition to the definitions set forth above, the following terms shall have the meanings set forth below and, unless the context of this Note provides otherwise, all capitalized terms not otherwise defined herein shall have the meanings given to them in the Note Purchase Agreement:

“Asset Disposition” shall mean, unless waived by a Required Interest, the disposition whether by sale, lease, transfer, loss, damage, destruction, condemnation or otherwise of any of the following: (a) any of the capital stock or other equity or ownership interest of any subsidiary of the Company, in whatever form, or (b) any of the assets of the Company or any of its subsidiaries (other than sales of receivables consistent with past practices in the ordinary course of business and securitization transactions).

“Change of Control” shall mean the occurrence of any one or more of the following, unless waived by a Required Interest:

- (i) The Lenders collectively shall cease to beneficially own and control, directly or indirectly, at least a majority of the outstanding voting rights of the Company, or
- (ii) (w) any merger or consolidation of the Company into or with another entity (except one in which the holders of capital stock of the Company immediately prior to such merger or consolidation continue to hold at least a majority of the voting power of the capital stock of the surviving entity), (x) any sale, license, lease or transfer of all or a material portion of the assets of the Company (other than sales of receivables consistent with past practices in the ordinary course of business and securitization transactions), in whatever form, (y) any sale, license, lease or transfer of all or a material portion of the assets of the subsidiaries of the Company, taken as a whole (other than sales of receivables consistent with past practices in the ordinary course of business and securitization transactions), in whatever form, or (z) any other transaction pursuant to or as a result of which a single person (or group of affiliated persons) acquires or holds capital stock of the Company representing a majority of the Company’s outstanding voting power.

“Common Stock” means the Company’s common stock, par value \$0.001 per share.

“Liquidity Event” shall mean (a) a Change of Control or (b) an Asset Disposition of all or substantially all of the assets of the Company and its subsidiaries, taken as a whole.

“Net Proceeds” shall mean the cash proceeds in respect of an Asset Disposition, net of (a) reasonable costs and expenses relating to such Asset Disposition, (b) any taxes payable (or reasonably reserved for after taking into account available credits and deductions) in respect of such Asset Disposition and (c) the amount required to be applied to other indebtedness relating to the relevant asset with the proceeds of such Asset Disposition.

2. Interest.

- (a) The Company promises to pay interest on the Principal Amount (as hereinafter defined) of this Note at the Interest Rate (as defined herein). Any accrued and unpaid interest shall be due on the Maturity Date. If this Note is converted into fully paid and non- assessable Conversion Shares, the accrued but unpaid interest will also be converted into fully paid and non-assessable Conversion Shares as provided in Section 4. Interest on this Note shall accrue from the date of issuance until repayment of the Principal Amount and payment of all accrued interest in full . Interest shall accrue and be computed on the basis of the actual number of days in the related period over 360 days.

For purposes herein,

- (i) “Principal Amount” shall mean the outstanding principal amount of this Note at any time; and
- (ii) “Interest Rate” shall mean twelve percent (12%) per annum.

- (b) Notwithstanding the foregoing provisions of this Section 2, but subject to applicable law, upon and during the occurrence of an Event of Default (as hereinafter defined), the Principal Amount of this Note shall bear interest, from the date of the occurrence of such Event of Default until such Event of Default is cured or waived, payable on demand in immediately available funds, at a rate equal to fifteen percent (15%) per annum. In addition, any overdue interest on this Note shall bear interest, payable on demand in immediately available funds, at a rate equal to fifteen percent (15%) per annum. In the event that any interest rate provided for herein shall be determined to be unlawful, such interest rate shall be computed at the highest rate permitted by applicable law. Any payment by the Company of any interest amount in excess of that permitted by law shall be considered a mistake, with the excess being applied to the principal of this Note without prepayment premium or penalty.

3. Principal.

The Company shall pay the Principal Amount due under this Note and all accrued and unpaid interest on the Maturity Date; *provided* that if this Note is converted into fully paid and non-assessable Conversion Shares, the accrued but unpaid interest will also be converted into fully paid and non-assessable Conversion Shares as provided in Section 4.

4. Optional Conversion.

At any time and from time to time (a) prior to or upon and during the occurrence of an Event of Default, from the date of such Event of Default until such Event of Default is cured or waived or (b) as of the Maturity Date, at the written election of Holder, any outstanding Principal Amount and accrued and unpaid interest on this Note (the "Conversion Amount") shall be converted into shares of Common Stock at a per share conversion price equal to \$0.60 (subject to appropriate adjustment to reflect any stock split, stock dividend, reverse stock split or similar corporate event affecting the Common Stock) (all such shares into which the Note is converted into, the "Conversion Shares"). Upon any conversion election made in accordance with this Section 4, the Company shall authorize and approve, and make all filings necessary, to amend its certificate of incorporation as may be required to increase the number of authorized shares of Common Stock to enable it to comply herewith. In lieu of any fractional shares to which the Holder would otherwise be entitled, the Company shall issue one whole share of Common Stock.

5. Voluntary Prepayment.

- (a) The Notes are subject to prepayment at the option of the Company, in whole or in part. The Company shall give written notice of voluntary prepayment of this Note or any portion thereof to the Holder not less than five (5) Business Days prior to the date fixed for such prepayment. Such notice of voluntary prepayment shall be given in the manner specified in Section 7.4 of the Note Purchase Agreement. Upon notice of prepayment being given by the Company to the Holder, the Company covenants and agrees that the Company shall prepay, on the date fixed for prepayment in the notice therefor, this Note or the portion hereof so called for prepayment, at the Principal Amount thereof or the portion thereof so called for prepayment, together with interest accrued and unpaid thereon to the date fixed for such prepayment, together with costs and expenses including, without limitation, reasonable fees, charges and disbursements of counsel to the Holder. Notwithstanding the above, at any time prior to such prepayment by the Company, the Holder may elect to convert all or any portion of the outstanding Principal Amount and accrued and unpaid interest due under this Note into Conversion Shares on the terms set forth in Section 4.

- (b) All prepayments under this Section 5 shall include payment of accrued interest on the Principal Amount so prepaid and shall be applied first to payment of default interest, if any, then to payment of accrued interest, then to all costs, expenses and indemnities payable under the Note Purchase Agreement, if any, and thereafter to principal, provided, however, each voluntary prepayment of less than the full outstanding principal balance of the Note shall be in an aggregate Principal Amount of \$100,000 or a whole multiple thereof.
- (c) If more than one Note is outstanding, the amounts payable under this Section 5 upon an election by the Company to prepay shall be applied to the Notes pro rata based on the relative amounts outstanding under each of the Notes (subject to the right of the Holder or any holder of the other Notes to convert some or all of such Note(s) as provided in Section 5(a) above).

6. Mandatory Prepayment.

- (a) Upon the occurrence of a Liquidity Event, all Principal Amount and interest on this Note shall become immediately due and payable at the option of the Holder. The Holder may, upon receiving notice of any Liquidity Event pursuant to Section 6(b) hereof, exercise its right to demand payment in full of this Note, by giving the Company notice of such election within ten (10) Business Days of receiving such notice. The Company shall, within five (5) Business Days following the consummation of an Asset Disposition, apply the Net Proceeds thereof to the prepayment of the outstanding balance of this Note.
- (b) The Company shall give written notice to the Holder of any Liquidity Event at least ten (10) Business Days and not more than sixty (60) Business Days prior to the consummation of such event. Such notice shall be given in the manner specified in Section 7.4 of the Note Purchase Agreement. Nothing contained in this Section 6 shall be deemed a consent by the Holder or any affiliate or board representative thereof to the consummation of any Liquidity Event and the Company covenants and agrees that, notwithstanding any other provisions of any Transaction Document, it shall not consummate an Asset Disposition of all or substantially all of the assets of such Company without the consent in writing of all Holders of the Notes unless the Company pays the Notes in full at or prior to consummation thereof. In addition, in the event that such a notice of prepayment is delivered by the Company in connection with a Change of Control or Asset Disposition transaction and such transaction is not consummated within sixty (60) days of the notice of prepayment, the Company shall be under no obligation to make the payments as set forth above (but must once again comply with the notice provisions above in connection with any subsequent closing of such a transaction).
- (c) All prepayments under this Section 6 shall include payment of accrued interest on the Principal Amount so prepaid and shall be applied first to payment of default interest, if any, then to payment of accrued interest, then to all costs, expenses and indemnities payable under the Note Purchase Agreement, if any, and thereafter to the Principal Amount.
- (d) If more than one Note is outstanding, the Net Proceeds payable under this Section 6 shall be applied to the Notes pro rata, in accordance with the Principal Amount outstanding under each such Note.

7. Termination of Rights.

All rights with respect to this Note shall terminate upon the earlier to occur of the date (a) this Note is repaid in full and (b) all outstanding Principal Amount and accrued and unpaid interest is converted into Conversion Shares in accordance with the terms hereunder (such earlier date, the “Note Cancellation Date”), whether or not this Note has been surrendered. Notwithstanding the foregoing, Holder agrees to surrender this Note to the Company for cancellation as soon as is possible following conversion of this Note. Holder shall not be entitled to receive the Conversion Shares to be issued upon conversion of this Note until the original of this Note (or an executed affidavit of loss, damage or mutilation and agreement to indemnify the Company therefrom, in form reasonably requested by the Company) is surrendered (or delivered in the case of such affidavit and agreement) to the Company.

8. Amendment.

Amendments and modifications of this Note may be made only in the manner provided in Section 7.3 of the Note Purchase Agreement.

9. Defaults and Remedies.

(a) Events of Default.

The occurrence of any one or more of the following events shall constitute an “Event of Default” hereunder:

- (i) Non-Payment. The Company shall (A) fail to pay when due any principal of this Note, (B) fail to pay within three (3) days after the same becomes due, any interest or fees payable under the terms of this Note or the Note Purchase Agreement or (C) fail to pay within three (3) days after receipt of notice of the failure to pay when due, any other obligations payable under the terms of this Note, the Note Purchase Agreement or any of the other Transaction Documents; or
- (ii) Other Defaults. The Company shall fail to observe or perform any other covenant, obligation, condition or agreement contained in this Note, the Note Purchase Agreement or any other Transaction Document and such failure shall continue for thirty (30) days after the earlier of (A) the date of notice by any Lender to the Company of such failure or (B) the date the Company has knowledge of such failure; or
- (iii) Representations and Warranties. Any material representation, warranty or certificate made or furnished by or on behalf of the Company to any Lender in or in connection with this Note, the Note Purchase Agreement or any other Transaction Document, or as an inducement to any Lender to enter into this Note, the Note Purchase Agreement or any other Transaction Document, shall be false, incorrect, incomplete or misleading in any material respect when made or furnished; or
- (iv) Intentionally Omitted.

- (v) Insolvency; Voluntary Proceedings. The Company shall (A) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian of itself or of all or a substantial part of its property, (B) be unable, or admit in writing its inability, to pay its debts generally as they mature, (C) make a general assignment for the benefit of its or any of its creditors, (D) be dissolved or liquidated in full or in part, (E) become insolvent (as such term may be defined or interpreted under any applicable statute), or (F) commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or consent to any such relief or to the appointment of or taking possession of its property by any official in an involuntary case or other proceeding commenced against it; or
- (vi) Involuntary Proceedings. Proceedings for the appointment of a receiver, trustee, liquidator or custodian of the Company or of all or a substantial part of the property thereof, or an involuntary case or other proceedings seeking liquidation, reorganization or other relief with respect to the Company or the debts thereof under any bankruptcy, insolvency or other similar law now or hereafter in effect shall be commenced and an order for relief entered or such proceeding shall not be dismissed or discharged within ninety (90) days of commencement; or
- (vii) Judgments. (A) One or more judgments, orders, decrees or arbitration awards requiring the Company to pay an aggregate amount of \$250,000 or more (exclusive of amounts covered by insurance issued by an insurer not an Affiliate of the Company) shall be rendered against the Company in connection with any single or related series of transactions, incidents or circumstances and the same shall not be satisfied, vacated, stayed or bonded for a period of ten (10) consecutive days; (B) one or more judgments, orders, decrees or arbitration awards requiring the Company to pay an aggregate amount of \$250,000 (exclusive of amounts covered by insurance issued by an insurer not an Affiliate of the Company) shall be rendered against the Company in connection with any related or unrelated transactions, incidents or circumstances and the same shall not be satisfied, vacated, stayed or bonded for a period of ten (10) consecutive days; (C) any judgment, writ, assessment, warrant of attachment, tax lien or execution or similar process not covered by a customer of the Company's indemnity or similar duty shall be issued or levied against a part of the property of the Company with an aggregate value in excess of \$250,000 and the same shall not be released, stayed, vacated, bonded or otherwise dismissed within thirty (30) days after issue or levy; or (D) any other non-monetary judgments, orders, decrees, arbitration awards, writs or similar processes which, alone or in the aggregate, could reasonably be expected to have a Material Adverse Effect are rendered, issued or levied; or
- (viii) Involuntary Dissolution or Split Up. Any order, judgment or decree shall be entered against the Company decreeing its involuntary dissolution or split up and such order shall remain undischarged and unstayed for a period in excess of sixty (60) days.

(b) Acceleration.

If an Event of Default occurs under Section 9(a)(v) or 9(a)(vi), then the Principal Amount of, accrued interest on and all other amounts payable under, this Note shall automatically become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived. If any other Event of Default occurs and is continuing and the Holder so notifies the Company in writing, the Principal Amount of, accrued interest on and all other amounts payable under, this Note may be declared by a Required Interest to be immediately due and payable. Upon such declaration, such principal, interest and other amounts shall become immediately due and payable.

10. Suits for Enforcement.

(a) Upon the occurrence and during the continuation of any one or more Events of Default, the Holder of this Note may proceed to protect and enforce its rights hereunder by suit in equity, action at law or by other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in the Note Purchase Agreement or this Note or in aid of the exercise of any power granted in the Note Purchase Agreement or this Note, or may proceed to enforce the payment of this Note, or to enforce any other legal or equitable right of the Holders of this Note, provided, however, that no Holder will take any actions to protect or enforce its rights hereunder without the consent of a Required Interest.

(b) In case of an Event of Default, the Company will pay to the Holder such amounts as shall be sufficient to cover the reasonable costs and expenses of such Holder due to such Event of Default, including without limitation the reasonable fees and disbursements of counsel to such Holder.

11. Remedies Cumulative.

No remedy herein conferred upon the Holder is intended to be exclusive of any other remedy and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or otherwise.

12. Remedies Not Waived.

No course of dealing between the Company and the Holder or any delay on the part of the Holder in exercising any rights hereunder shall operate as a waiver of any right.

13. Transfer; Registration.

(a) The term "Holder" as used herein shall also include any registered transferee of this Note. Each transferee of this Note acknowledges that this Note has not been registered under the Securities Act, and each Holder agrees that, prior to any proposed transfer of this Note, if such transfer is not made pursuant to either an effective registration statement under the Securities Act, or an opinion of counsel, reasonably satisfactory in form and substance to the Company, that this Note may be sold without registration under the Securities Act, the Holder will, if requested by the Company, deliver to the Company:

- (i) an investment covenant reasonably satisfactory to the Company signed by the proposed transferee;
  - (ii) an agreement by such transferee to the impression of the restrictive investment legend set forth on this Note; and
  - (iii) an agreement by such transferee to be bound by the provisions of this Section 13 relating to the transfer of such Note.
- (b) This Note is a registered instrument. The Company shall maintain a register (the “Note Register”) in its principal offices for the purpose of registering the Note and any transfer thereof, which register shall reflect and identify, at all times, the ownership of any interest in the Note. Upon the issuance of this Note, the Company shall record the name of the initial purchaser of this Note in the Note Register as the first Holder. Upon surrender for registration of transfer or exchange of this Note at the principal offices of the Company, the Company shall, at the Company’s expense, execute and deliver a new Note of like tenor and of a like aggregate Principal Amount, registered in the name of the Holder or a transferee or transferees. Every Note surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by written instrument of transfer duly executed by the Holder of such Note or such holder’s attorney duly authorized in writing. The Company shall not have any obligation hereunder to any Person other than the registered Holder of this Note.
- (c) This Note may be transferred or assigned by the Holder at any time, subject to Sections 13(a), 13(b) and 15 hereof.
- (d) In the event that the Holder intends to transfer the Note to more than one transferee, the Company shall, in good faith, cooperate with the Holder to effectuate such a transfer and to issue replacement Notes in the appropriate denominations.
- (e) The Holder shall bear the costs if any of any transfer or assignment of the Note.

14. Replacement of Note.

On receipt by the Company of an affidavit of an authorized representative of the Holder stating the circumstances of the loss, theft, destruction or mutilation of this Note (and in the case of any such mutilation, on surrender and cancellation of this Note), the Company, at its expense, will promptly execute and deliver, in lieu thereof, a new Note of like tenor. If required by the Company, such Holder must provide an agreement to indemnify the Company, which in the judgment of the Company, is sufficient to protect the Company from any loss that it may suffer if a lost, stolen or destroyed Note is replaced. On the date hereof, Holder has surrendered to the Company for cancellation the Original Note in exchange for delivery of this Note.

15. Successors and Assigns: Assignment.

All the covenants, stipulations, promises and agreements in this Note shall inure to the benefit of and be binding upon the successors and permitted assigns of the Company. The Holder may not assign this Note or any of its respective rights under this Note to any person without the consent of the Required Interest. The Company may not assign any of its duties under this Note without the prior written consent of the Holder, any such purported assignment without such consent being null and void. No Person other than the Holder of this Note and its successors and permitted assigns is intended to be a beneficiary of any of the Transaction Documents.



16. GOVERNING LAW.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE.

17. WAIVER OF JURY TRIAL.

EACH OF THE COMPANY AND THE HOLDER OF THIS NOTE HEREBY WAIVES, TO THE EXTENT PERMITTED BY APPLICABLE LAW, TRIAL BY JURY IN ANY LITIGATION IN ANY COURT WITH RESPECT TO, IN CONNECTION WITH, OR ARISING OUT OF THIS NOTE OR ANY AGREEMENTS OR TRANSACTIONS CONTEMPLATED HEREBY OR THE VALIDITY, PROTECTION, INTERPRETATION, OR ENFORCEMENT HEREOF OR THEREOF. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THIS NOTE, INCLUDING WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. EACH OF THE COMPANY AND THE HOLDER OF THIS NOTE ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS ALREADY RELIED ON THIS WAIVER IN ENTERING INTO THIS TRANSACTION, AND THAT EACH WILL CONTINUE TO RELY ON THIS WAIVER IN ITS RELATED FUTURE DEALINGS. EACH OF THE COMPANY AND THE HOLDER OF THIS NOTE FURTHER WARRANTS AND REPRESENTS THAT EACH HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT EACH HAS KNOWINGLY AND VOLUNTARILY WAIVED ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THE TRANSACTION DOCUMENTS, OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THIS NOTE. IN THE EVENT OF LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT. EACH OF THE COMPANY AND THE HOLDER OF THIS NOTE ALSO WAIVES ANY BOND OR SURETY OR SECURITY UPON SUCH BOND THAT MIGHT, BUT FOR THIS WAIVER, BE REQUIRED OF EACH.

18. Headings.

The headings in this Note are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

19. Severability.

If any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired, unless the provisions held invalid, illegal or unenforceable shall substantially impair the benefits of the remaining provisions hereof.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed as of the date first written above.

**COMPANY:**

YOGAWORKS, INC.

\_\_\_\_\_  
Name:

Title:

*[Signature page to YogaWorks – Convertible Promissory Note]*

---

**HOLDER:**

GREAT HILL EQUITY PARTNERS V, L.P.

---

Name:

Title:

Address for Notices:

---

c/o Great Hill Partners LLC  
200 Clarendon St., 29th Floor  
Boston, Massachusetts 02116  
Attn: Peter Garran

---

*[Signature page to YogaWorks – Convertible Promissory Note]*

---

**Schedule I**

Wire Transfer Instructions for the Holder

To be provided by the Holder.

**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, Brian T. Cooper, 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. I am 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 my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me 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 my 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 the 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. I have disclosed, based on 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, 2019

By: \_\_\_\_\_ /s/ Brian T. Cooper

**Brian T. Cooper**  
**Chief Executive Officer and**  
**Principal Financial Officer**

**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”), certify that, to the best of his knowledge and belief, the Company’s quarterly report on Form 10-Q for the quarter ended September 30, 2019, 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, 2019 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/ Brian T. Cooper  
\_\_\_\_\_  
Brian T. Cooper  
Chief Executive Officer  
Principal Executive Officer and Principal Financial Officer  
November 14, 2019

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.