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

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

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

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

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

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

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

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

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

Securities registered pursuant to Section 12(b) of the Act: None (1)

(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 August 13, 2019, the registrant had 16,998,748 shares of common stock, $0.001 par value per share, outstanding.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

YogaWorks, Inc.

Condensed Consolidated Balance Sheets (Unaudited)

	As of June 30,2019	As of December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	$ 4,917,559	$ 11,447,318
Inventories	1,017,882	1,148,449
Prepaid expenses and other current assets	790,863	936,757
Total current assets	6,726,304	13,532,524
Property and equipment, net	10,842,396	10,225,944
Intangible assets, net	11,901,519	13,291,502
Goodwill	663,954	663,954
Other non-current assets	1,212,659	1,327,775
Total assets	$ 31,346,832	$ 39,041,699
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued expenses	$ 4,175,111	$ 4,905,204
Accrued compensation	1,973,847	1,802,047
Deferred revenue	8,736,650	7,276,578
Current portion of deferred rent	147,502	124,319
Total current liabilities	15,033,110	14,108,148
Deferred rent, net of current portion	4,082,612	3,975,391
Total liabilities	19,115,722	18,083,539
Commitments and Contingencies (Note 10)		
Stockholders' equity		
Common stock $0.001 par value; 50,000,000 shares authorized, 16,987,120 issued and 16,774,440 outstanding at June 30, 2019 and 50,000,000 shares authorized, 16,639,586 issued and 16,494,838 outstanding at December 31, 2018	16,775	16,496
Additional paid in capital	113,898,297	113,260,161
Accumulated deficit	(101,683,962)	(92,318,497)
Total stockholders' equity	12,231,110	20,958,160
Total liabilities and stockholders' equity	$ 31,346,832	$ 39,041,699

See accompanying notes to condensed consolidated financial statements.

YogaWorks, Inc.

Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Net revenues	$ 13,913,760	$ 14,870,362	$ 29,605,034	$ 30,400,175
Cost of revenues and operating expenses				
Cost of revenues	5,345,496	5,755,974	11,490,315	11,679,823
Center operations	6,907,444	7,061,573	13,749,438	13,833,489
General and administrative expenses	4,494,248	4,054,012	8,869,964	8,458,945
Depreciation and amortization	1,549,032	2,218,271	3,048,700	4,597,028
Goodwill impairment	—	2,474,819	—	2,474,819
Asset impairment	—	—	174,725	—
Total cost of revenues and operating expenses	18,296,220	21,564,649	37,333,142	41,044,104
Loss from operations	(4,382,460)	(6,694,287)	(7,728,108)	(10,643,929)
Interest income, net	23,011	44,142	62,347	50,272
Net loss before income taxes	(4,359,449)	(6,650,145)	(7,665,761)	(10,593,657)
Provision for income taxes	6,769	528	11,794	17,912
Net loss	$ (4,366,218)	$ (6,650,673)	$ (7,677,555)	$ (10,611,569)
Basic and diluted net loss per share attributable to common stockholders	$ (0.26)	$ (0.41)	$ (0.46)	$ (0.65)
Weighted-average number of shares used in calculating loss per share attributable to common stockholders:				
Basic and diluted common shares	16,604,330	16,382,505	16,569,035	16,367,796

See accompanying notes to condensed consolidated financial statements.

YogaWorks, Inc.

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

	Three Months Ended June 30, 2018				
	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Par Value	Capital	Deficit	Equity
Balance as of April 1, 2018	16,362,955	$ 16,363	$ 112,028,925	$ (61,092,467)	$ 50,952,821
Vesting of restricted stock units	104,182	105	(105)	—	—
Repurchase of shares to satisfy tax withholding	(6,636)	(7)	(10,020)	—	(10,027)
Stock-based compensation	—	—	497,433	—	497,433
Net loss	—	—	—	(6,650,673)	(6,650,673)
Balance as of June 30, 2018	16,460,501	$ 16,461	$ 112,516,233	$ (67,743,140)	$ 44,789,554

	Six Months Ended June 30, 2018				
	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Par Value	Capital	Deficit	Equity
Balance as of January 1, 2018	16,332,510	$ 16,333	$ 111,650,415	$ (57,131,571)	54,535,177
Vesting of restricted stock units	160,533	161	(161)	—	—
Repurchase of shares to satisfy tax withholding	(32,542)	(33)	(83,630)	—	(83,663)
Stock-based compensation	—	—	949,609	—	949,609
Net loss	—	—	—	(10,611,569)	(10,611,569)
Balance as of June 30, 2018	16,460,501	$ 16,461	$ 112,516,233	$ (67,743,140)	$ 44,789,554

	Three Months Ended June 30, 2019				
	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Par Value	Capital	Deficit	Equity
Balance as of April 1, 2019	16,608,238	$ 16,609	$ 113,615,042	$ (97,317,744)	$ 16,313,907
Vesting of restricted stock units	201,977	202	(202)	—	—
Repurchase of shares to satisfy tax withholding	(35,775)	(36)	(23,766)	—	(23,802)
Stock-based compensation	—	—	307,223	—	307,223
Net loss	—	—	—	(4,366,218)	(4,366,218)
Balance as of June 30, 2019	16,774,440	$ 16,775	$ 113,898,297	$ (101,683,962)	$ 12,231,110

	Six Months Ended June 30, 2019				
	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Par Value	Capital	Deficit	Equity
Balance as of January 1, 2019	16,494,838	$ 16,496	$ 113,260,161	$ (92,318,497)	$ 20,958,160
Vesting of restricted stock units	341,264	341	(341)	—	—
Repurchase of shares to satisfy tax withholding	(61,662)	(62)	(38,430)	—	(38,492)
Stock-based compensation	—	—	676,907	—	676,907
Impact of Adopting Topic 606	—	—	—	(1,687,910)	(1,687,910)
Net loss	—	—	—	(7,677,555)	(7,677,555)
Balance as of June 30, 2019	16,774,440	$ 16,775	$ 113,898,297	$ (101,683,962)	$ 12,231,110

See accompanying notes to condensed consolidated financial statements.

YogaWorks, Inc.

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Cash flows from operating activities		
Net loss	$ (7,677,555)	$ (10,611,569)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,048,700	4,597,028
Goodwill impairment	—	2,474,819
Asset impairment	174,725	—
Deferred tax	—	12,641
Stock-based compensation expense	676,907	949,609
Changes to operating assets and liabilities, net of effects from acquisitions:		
Inventories	130,567	(6,386)
Prepaid expenses and other current assets	145,894	(930,279)
Other non-current assets	115,116	(52,751)
Accounts payable and accrued expenses	(1,413,307)	(857,643)
Accrued compensation	171,800	(212,042)
Deferred revenue	(227,838)	2,739
Deferred rent and other non-current liabilities	130,404	83,116
Net cash used in operating activities	(4,724,587)	(4,550,718)
Cash flows from investing activities		
Purchases of property, equipment, and intangible assets	(1,766,680)	(629,662)
Cash paid for acquisitions, net of earnouts	—	(721,930)
Net cash used in investing activities	(1,766,680)	(1,351,592)
Cash flows from financing activities		
Repurchase of shares to satisfy tax withholding	(38,492)	(83,663)
Acquisition earnout and holdback payments	—	(643,694)
Net cash used in financing activities	(38,492)	(727,357)
Decrease in cash and cash equivalents	(6,529,759)	(6,629,667)
Cash and cash equivalents, beginning of period	11,447,318	22,095,216
Cash and cash equivalents, end of period	$ 4,917,559	$ 15,465,549
Supplemental cash flow information		
Effect of the adoption of Topic 606 on deferred revenue	$ 1,687,910	$ —
Non-cash investing activities:		
Purchases of property and equipment financed by accounts payable and accrued expenses	683,214	—
Purchase consideration liabilities related to acquisitions	—	159,000

See accompanying notes to condensed consolidated financial statements.

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 June 30, 2019, we owned and operated 68 yoga studios in nine regional markets. The following table illustrates the studio locations by regional market:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2019		2018		2019		2018	
Regional Market	Number of Studios(1)	Percentage of Net Revenues(2)	Number of Studios(1)	Percentage of Net Revenues(2)	Number of Studios(1)	Percentage of Net Revenues(2)	Number of Studios(1)	Percentage of Net Revenues(2)
Los Angeles	17	34%	17	34%	17	34%	17	34%
Northern California	13	22%	13	21%	13	23%	13	22%
Houston	7	9%	7	9%	7	8%	7	9%
New York City(3)	4	8%	5	10%	4	8%	5	11%
Baltimore	7	7%	7	6%	7	7%	7	6%
Boston(4)	6	6%	8	5%	6	6%	8	4%
Orange County (California)	4	6%	4	6%	4	6%	4	6%
Washington, D.C.	6	5%	6	4%	6	5%	6	4%
Atlanta	4	3%	4	5%	4	3%	4	4%
Total Studios	68		71		68		71	

(1) Number of studios as of June 30, 2019 and 2018.
(2) For the three and six months ended June 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.
(3) One New York City studio was closed in the fourth quarter of 2018.
(4) Reflects five Boston area studios acquired in the second quarter of 2018 and two Boston area studios that closed in the third quarter of 2018 and first quarter of 2019.

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 $101.7 million as of June 30, 2019. In addition, we had negative working capital of $8.3 million and $0.6 million at June 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 August 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.

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 June 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 June 30, 2019, as if the previous accounting was in effect.

Condensed Consolidated Balance Sheets

	As of June 30, 2019		
	As Reported (ASC 606)	Impacts of Adoption	Without Adoption (ASC 605)
Liabilities			
Deferred revenue	$ 8,736,650	$ (1,504,306)	$ 7,232,344
Stockholders' Equity			
Accumulated deficit	(101,683,962)	1,504,306	(100,179,656)

Condensed Consolidated Statements of Operations

	Three Months Ended June 30, 2019		
	As Reported (ASC 606)	Impacts of Adoption	Without Adoption (ASC 605)
Net revenues	$ 13,913,760	$ 3,019	$ 13,916,779
Cost of revenues and operating expenses	18,296,220	—	18,296,220
Loss from Operations	(4,382,460)	3,019	(4,379,441)
Interest income, net	23,011	—	23,011
Net loss before income taxes	(4,359,449)	3,019	(4,356,430)
Provision for income taxes	6,769	—	6,769
Net Loss	$ (4,366,218)	$ 3,019	$ (4,363,199)
Net loss per share, basic and diluted	$ (0.26)		$ (0.26)
Weighted average common stock outstanding, basic and diluted	16,604,330		16,604,330

	Six Months Ended June 30, 2019		
	As Reported (ASC 606)	Impacts of Adoption	Without Adoption (ASC 605)
Net revenues	$ 29,605,034	$ (295,987)	$ 29,309,047
Cost of revenues and operating expenses	37,333,142	—	37,333,142
Loss from Operations	(7,728,108)	(295,987)	(8,024,095)
Interest income, net	62,347	—	62,347
Net loss before income taxes	(7,665,761)	(295,987)	(7,961,748)
Provision for income taxes	11,794	—	11,794
Net Loss	$ (7,677,555)	$ (295,987)	$ (7,973,542)
Net loss per share, basic and diluted	$ (0.46)		$ (0.48)
Weighted average common stock outstanding, basic and diluted	16,569,035		16,569,035

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.

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, 2019. 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. Although early adoption is permitted, we anticipate adopting these provisions in the first quarter of 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We had $51.7 million of operating lease obligations as of June 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 six months ended June 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 June 30, 2019 and the condensed consolidated balance sheet as of June 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 three and six months ended June 30, 2019, these acquisitions contributed $407,631 and $838,519, respectively to our Company's revenues. Net income contributed by these acquisitions was not separately identifiable due to our integration activities and the impact of corporate-level expenses and is impracticable to provide. Acquisition-related costs, including legal fees and all related professional fees, were expensed.

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

		Amount
Inventories	$	3,966
Property and equipment		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	$	721,930

4. Property and Equipment

The major classes of property and equipment are as follows:

		As of June 30,2019		As of December 31, 2018
Computer equipment and purchased software	$	681,380	$	670,022
Furniture and fixtures		2,932,609		2,744,580
Leasehold improvements		27,850,950		26,792,887
Other equipment		226,172		213,546
Construction-in-progress		2,064,649		1,075,634
Total property and equipment		33,755,760		31,496,669
Less accumulated depreciation and amortization		(22,913,364)		(21,270,725)
	$	10,842,396	$	10,225,944

Depreciation and amortization expenses include property and equipment, leasehold improvements and purchased software. We incurred depreciation expense of $881,427 and $753,884 for the three months ended June 30, 2019 and 2018 and $1,645,356 and 1,576,005 for the six months ended June 30, 2019 and 2018, respectively.

During the first quarter of 2019, we recorded an impairment charge of $174,725 to the property and equipment for one of our studios that was closed in the first quarter of 2019.

5. Goodwill

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

	As of June 30,2019	As of December 31, 2018
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	—	(12,653,819)
Goodwill, end of period	$ 663,954	$ 663,954

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. We performed an interim goodwill impairment test as of June 30, 2019 and no impairment was noted.

6. Deferred Revenue

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Deferred revenue at beginning of period	$ 8,274,505	$ 7,382,888	$ 7,276,578	$ 7,187,948
Cash receipts before deferred revenue	14,433,004	14,686,356	29,425,033	30,475,200
Net revenue for the period	(13,913,760)	(14,870,362)	(29,605,034)	(30,400,175)
Deferred revenue from Loyalty Program	—	—	1,687,910	—
Deferred revenue from acquisitions	—	354,613	—	354,613
Change in gift card liabilities	(57,099)	(8,195)	(47,837)	(72,286)
Deferred revenue at end of period	$ 8,736,650	$ 7,545,300	$ 8,736,650	$ 7,545,300

7. 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Numerator for basic and diluted loss per share attributable to common stockholders:				
Net loss	$ (4,366,218)	$ (6,650,673)	$ (7,677,555)	$ (10,611,569)
Dividend attributable to participating securities	—	—	—	—
Net loss attributable to YogaWorks, Inc. common stockholders	$ (4,366,218)	$ (6,650,673)	$ (7,677,555)	$ (10,611,569)
Denominator:				
Weighted-average outstanding shares of common stock	16,604,330	16,382,505	16,569,035	16,367,796
Net loss per share attributable to common stockholders:				
Basic and diluted	$ (0.26)	$ (0.41)	$ (0.46)	$ (0.65)

For the period ended June 30, 2019, and 2018, there were outstanding options to purchase 2,988,003 and 1,414,720 shares of Common Stock outstanding, respectively, which were excluded from the computation of diluted loss per share because it would be anti-dilutive.

8. 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 June 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 June 30, 2019, 981,844 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	—	—	—	—
Cancelled	(201,721)	8.33	—	—
Outstanding at June 30, 2019	2,988,003	3.09	8.96	40,651
Exercisable at June 30, 2019	1,359,526	5.35	8.39	8,166

(1) Based on our Company's closing stock price of $0.60 on June 28, 2019.

Unamortized stock-based compensation expense relating to stock options was $0.7 million at June 30, 2019, which is expected to be recognized over a weighted-average period of 2.1 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:

	Six Months Ended June 30,	
	2019	2018
Risk-free interest rate	2.51%	2.38%
Expected term (in years)	5.55	6.05
Dividend yield	0.00%	0.00%
Expected volatility	49%	49%

Restricted Stock Units

Our Company granted 225,000 and 292,500 Restricted Stock Units ("RSU") to our officers and board of directors during the three and six months ended June 30, 2019, respectively. During the three and six months ended June 30, 2018, our company also granted 300,000 RSU to our officers and board of directors. All RSU grants vest on the satisfaction of only a service-based condition. As of June 30, 2019, there were 441,943 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 $0.7 million at June 30, 2019, which is expected to be recognized as expense over the weighted-average period of 1.5 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 six months ended June 30, 2019, our Company withheld 35,775 and 61,662 shares of Common Stock ("Net Settlement"), and remitted $23,802 and $38,492, respectively, in cash to meet the related tax withholding requirements on behalf of our officers. For the three and six months ended June 30, 2018, our Company also withheld 6,636 and 32,542 shares of Common Stock, and remitted $10,027 and $83,663, 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Stock-based compensation	$ 307,223	$ 497,433	$ 676,907	$ 949,609

9. Income Taxes

Our effective income tax rate for the three months ended June 30, 2019 and 2018 was (0.16)% and (0.01)%, respectively. In addition, our effective income tax rate for the six months ended June 30, 2019 and 2018 was (0.15) % and (0.17) %, 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 six months ended June 30, 2019 and 2018 was primarily related to the impact of the valuation allowance and state income taxes.

At June 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 June 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 six months ended June 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.

10. 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. The Court also ordered plaintiffs to file a consolidated complaint on or before August 20, 2019, and that Defendants may file a motion to stay the case. Pending further order of the court, defendants do not need to file a response to any complaint in the State Court Action. 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(s) to the motion(s) to dismiss is due by September 24, 2019; Defendants' reply/replies in support of their motion(s) to dismiss are due by November 21, 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.

11. Subsequent Events

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, par value $0.001 per share, 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.

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 June 30, 2019 Compared to Quarter Ended June 30, 2018 (Unaudited)

	Quarters Ended June 30,		Variance	
(in thousands)	**2019**	**2018**	**Dollar**	**Percent**
Net revenues	$ 13,914	$ 14,870	$ (956)	(6%)
Cost of revenues and operating expenses:				
Cost of revenues	5,346	5,756	(410)	(7%)
Center operations	6,907	7,061	(154)	(2%)
General and administrative expenses	4,494	4,054	440	11%
Depreciation and amortization	1,549	2,218	(669)	(30%)
Asset impairment	-	2,475	(2,475)	N/A
Total cost of revenues and operating expenses	18,296	21,564	(3,268)	(15%)
Loss from operations	(4,382)	(6,694)	2,312	(35%)
Interest income, net	23	44	(21)	(48%)
Net loss before income taxes	(4,359)	(6,650)	2,291	(34%)
Provision for income taxes	7	1	6	600%
Net loss	$ (4,366)	$ (6,651)	$ 2,285	(34%)

Net revenues

The change in net revenues for the three months ended June 30, 2019 was primarily due to the decrease in the number of studios that resulted to a decrease in revenue by $0.5 million as compared to the same period in 2018. The Company's marketing initiatives towards monthly memberships resulted to $1.1 million increase in membership sales and a corresponding decrease of $1.5 million in multi-class packages as compared to the same period in 2018. In addition, unearned revenue increased by $0.1 million due to the adoption of Topic 606.

Cost of revenues

The $0.4 million or 7% decrease in cost of revenues for the quarter ended June 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, efficiency programs resulted to $0.2 million decrease in teacher payroll costs.

Center operations

The decrease in center operations for the quarter ended June 30, 2019, as compared to the same period in 2018, was primarily due to decrease in rent expense of $0.2 million due to the decrease in number of studios.

General and administrative

The increase in general and administrative expenses for the quarter ended June 30, 2019, as compared to the same period in 2018, was primarily due to increased cost for social media promotional campaigns and web advertisements by $0.3 million, to increase traffic at the studios, and increase in professional legal fees of $0.3 million. These increases were offset by a decrease in travel expenses of $0.1 million as a result of implemented efficiency programs, and decrease of $0.1 million in taxes and licenses expenses.

Depreciation and amortization

The $0.7 million or 30% decrease in depreciation and amortization expense between the quarters ended June 30, 2019 and June 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.

Asset impairment

No asset impairment was booked for the quarter ended June 30, 2019. For the quarter ended June 30, 2018, we recognized an impairment to goodwill of $2.5 million. The impairment was primarily due to the decrease in the Company's market capitalization.

Interest income, net

The slight decrease in interest income, net for the quarter ended June 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 June 30, 2019 and 2018. Our effective income tax rate was (0.16) % for the three months ended June 30, 2019 and (0.01) % for the three months ended June 30, 2018.

Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018 (Unaudited)

	For the Six Months Ended June 30,		Variance	
(in thousands)	**2019**	**2018**	**Dollar**	**Percent**
Net revenues	$ 29,605	$ 30,400	$ (795)	(3%)
Cost of revenues and operating expenses:				
Cost of revenues	11,490	11,680	(190)	(2%)
Center operations	13,749	13,833	(84)	(1%)
General and administrative expenses	8,870	8,459	411	5%
Depreciation and amortization	3,049	4,597	(1,548)	(34%)
Goodwill impairment	—	2,475	(2,475)	(100%)
Asset impairment	175	—	175	N/A
Total cost of revenues and operating expenses	37,333	41,044	(3,711)	(9%)
Loss from operations	(7,728)	(10,644)	2,916	(27%)
Interest income, net	62	50	12	24%
Net loss before income taxes	(7,666)	(10,594)	2,928	(28%)
Provision for income taxes	12	18	(6)	(33%)
Net loss	$ (7,678)	$ (10,612)	$ 2,934	(28%)

Net revenues

The change in net revenues for the six months ended June 30, 2019 was primarily due to the decrease in the number of studios that resulted to a decrease in revenue by $1.0 million as compared to the same period in 2018. The Company's marketing initiatives towards monthly memberships resulted to $2.9 million increase in membership sales and a corresponding decrease of $2.6 million in multi-class packages as compared to the same period in 2018. In addition, retail sales and events decreased by $0.2 million and $0.1 million, respectively, and unearned revenue increased by $0.2 million due to the adoption of Topic 606. These decreases were offset by an increase in social commerce sales of $0.4 million.

Cost of revenues

The $0.2 million or 2% decrease in cost of revenues for the six months ended June 30, 2019, as compared to the same period in 2018, was primarily due to the decrease in number of studios and efficiency programs that resulted to $0.1 million decrease in payroll costs and decrease in costs of retail sales of $0.1 million.

Center operations

The $0.1 million or 1% decrease in center operations for the six months ended June 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 $0.3 million. This was offset by higher repairs and maintenance expenses by $0.2 million.

General and administrative

The increase in general and administrative expenses for the six months ended June 30, 2019, as compared to the same period in 2018, was primarily due to increased cost of social media promotional campaigns and web advertisements of $0.4 million to increase traffic at the studios, increase in professional legal fees of $0.2 million, and increase in maintenance expenses of $0.1 million. These increases were offset by a decrease in travel expenses of $0.2 million as a result of implemented efficiency programs, and decrease of $0.1 million in taxes and licenses expenses.

Depreciation and amortization

The $1.5 million or 34% decrease in depreciation and amortization expense between the six months ended June 30, 2019 and June 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.

Asset impairment

For the six months ended June 30, 2019, we recorded an impairment charge of $0.2 million to the property and equipment for one of our studios that was closed in the first quarter of 2019. For the six months ended June 30, 2018, we recognized an impairment to goodwill of $2.5 million. The impairment was primarily due to the decrease in the Company's market capitalization.

Interest income, net

The increase in interest income, net for the six months ended June 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 six months ended June 30, 2019 and 2018. Our effective income tax rate was (0.15) % for the six months ended June 30, 2019 and (0.17) % for the six months ended June 30, 2018.

Non-GAAP financial measures

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

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

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

Adjusted EBITDA and Studio-Level EBITDA

The following table presents a reconciliation of Adjusted EBITDA and Studio-Level EBITDA to Net loss:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(in thousands)	(Unaudited)			
Net loss	$ (4,366)	$ (6,651)	(7,678)	(10,612)
Interest income, net	(23)	(44)	(62)	(50)
Provision for income taxes	7	1	12	18
Depreciation and amortization	1,549	2,218	3,049	4,597
Goodwill impairment	—	2,475	—	2,475
Asset impairment	—	—	175	—
Deferred rent(a)	34	40	141	36
Stock based compensation(b)	307	497	677	949
Legal settlement(c)	291	—	337	—
Severance	—	68	—	68
Professional fees(d)	—	16	5	71
Studio closure expenses(e)	5	—	11	—
Adjusted EBITDA	(2,196)	(1,380)	(3,333)	(2,448)
Other general and administrative expenses(f)	3,896	3,590	7,851	7,378
Studio-Level EBITDA	$ 1,700	$ 2,210	4,518	4,930

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

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

(c) Legal settlement expenses incurred in the period to settle claims.

(d) Professional fees are related to certain accounting, tax and consulting services.

(e) Represents closure expenses of one Boston area studio that closed in 2019.

(f) Represents general and administrative expenses that are corporate and regional expenses and not incurred by our studios, and which are primarily comprised of expenses related to (i) wages and benefits of corporate and regional employees, (ii) non-studio rent, utilities and maintenance, (iii) corporate and regional marketing and advertising, and (iv) corporate professional fees. Other general and administrative expenses exclude any general and administrative expenses related to deferred rent, stock-based compensation, legal settlement, severance, professional fees or any other general and administrative expenses that are included in the reconciliation of net loss to Adjusted EBITDA.

Adjusted net loss

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(in thousands)	(Unaudited)			
Net loss	$ (4,366)	$ (6,651)	$ (7,678)	$ (10,612)
Goodwill impairment	—	2,475	—	2,475
Asset impairment	—	—	175	—
Stock based compensation(a)	307	497	677	949
Legal settlement(b)	291	—	337	—
Severance	—	68	—	68
Professional fees(c)	—	16	5	71
Studio closure expenses (d)	5	—	11	—
Adjusted net loss	$ (3,763)	$ (3,595)	$ (6,473)	$ (7,049)

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

(b) Legal settlement expenses incurred in the period to settle claims.

(c) Professional fees related to certain accounting, tax and consulting services.

(d) Represents closure expenses of one Boston area studio that closed in 2019.

Liquidity and Capital Resources

We have a history of operating losses and an accumulated deficit of $101.7 million as of June 30, 2019. In addition, we had negative working capital of $8.3 million and $0.6 million at June 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 August 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.

	Six Months Ended June 30,	
	2019	2018
(in thousands)	(Unaudited)	
Used in operating activities	$ (4,725)	$ (4,551)
Used in investing activities	(1,767)	(1,352)
Used in provided by financing activities	(38)	(727)
Decrease in cash and cash equivalents	(6,530)	(6,630)
Cash and cash equivalents, beginning of period	11,447	22,095
Cash and cash equivalents, end of period	4,917	15,465

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 six months ended June 30, 2019, $3.9 million or 51% of our net loss of $7.7 million consisted of non-cash items, including depreciation and amortization expense of $3.0 million, stock-based compensation expense of $0.7 million and asset impairment of $0.2 million. Net cash used in operating activities in the six months ended June 30, 2019 also included a $0.2 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.

For the six months ended June 30, 2018, $8.0 million or 75% of our net loss of $10.6 million consisted of non-cash items, including depreciation and amortization expense of $4.6 million, goodwill impairment of $2.5 million, and stock-based compensation expense of $0.9 million. Net cash used in operating activities in the six months ended June 30, 2018 also included a $0.9 million decrease in accounts payable and accrued expenses due to the timing of payments, a $0.2 million decrease in accrued compensation and a $0.9 million increase in prepaid expenses and other current assets primarily due to the timing of rent payments.

Net cash used in investing activities

For the six months ended June 30, 2019, our net cash used in investing activities was primarily due to the purchases of property and equipment for $1.8 million.

For the six months ended June 30, 2018, our net cash used in investing activities was primarily due to the acquisition of five studios amounting to $0.7 million, and purchases of property and equipment for $0.6 million.

Net cash used in financing activities

For the six months ended June 30, 2019, our net cash used in financing activities was due to repurchases of vested RSUs to satisfy tax withholding obligations of $0.1 million.

For the six months ended June 30, 2018, our net cash used in financing activities was due to subsequent acquisition-related payments of $0.6 million, and repurchases of vested RSUs to satisfy tax withholding obligations of $0.1 million.

Off-Balance Sheet Arrangements

As of June 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 our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this quarterly report on Form 10-Q.

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

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of June 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. The Court also ordered plaintiffs to file a consolidated complaint on or before August 20, 2019, and that Defendants may file a motion to stay the case. Pending further order of the court, Defendants do not need to file a response to any complaint in the State Court Action. 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(s) to the motion(s) to dismiss is due by September 24, 2019; Defendants' reply/replies in support of their motion(s) to dismiss are due by November 21, 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

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

* 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: August 14, 2019	By:	/s/ Rosanna McCollough
		Rosanna McCollough
		President and Chief Executive Officer
Date: August 14, 2019	By:	/s/ Vance Chang
		Vance Chang
		Chief Financial Officer

Exhibit 31.1

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

I, Rosanna McCollough, certify that:

1. I have reviewed this quarterly report on Form 10-Q of YogaWorks, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 14, 2019

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

Exhibit 31.2

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

I, Vance Chang, certify that:

1. I have reviewed this quarterly report on Form 10-Q of YogaWorks, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 14, 2019

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

Exhibit 32.1

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

The undersigned, as Principal Executive Officer and as Principal Financial Officer of YogaWorks, Inc. (the "Company"), respectively, certify that, to the best of their knowledge and belief, the Company's quarterly report on Form 10-Q for the quarter ended June 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 June 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/ Rosanna McCullough
Rosanna McCullough
President and Chief Executive Officer
(Principal Executive Officer)
August 14, 2019

/s/ Vance Chang
Vance Chang
Chief Financial Officer
(Principal Financial Officer)
August 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.