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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2022

☐ **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: 001-34785

XpresSpa Group, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**20-4988129**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
254 West 31st Street, 11th Floor, New York, NY	**10001**
(Address of principal executive offices)	(Zip Code)

(Registrant's Telephone Number, Including Area Code): **(212) 309-7549**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	XSPA	The Nasdaq Stock Market LLC

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, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

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

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

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

As of August 12, 2022, 94,278,118 shares of the registrant's common stock were outstanding.

XpresSpa Group, Inc. and Subsidiaries

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PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

XpresSpa Group, Inc. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share and per share data)

	June 30, 2022	December 31, 2021
Current assets		
Cash and cash equivalents	$ 71,108	$ 105,506
Accounts receivable	832	615
Inventory	1,065	1,763
Other current assets	1,362	1,095
Total current assets	74,367	108,979
Restricted cash	751	751
Property and equipment, net	8,020	6,658
Intangible assets, net	4,986	3,732
Operating lease right of use assets, net	6,782	4,336
Goodwill	4,024	-
Other assets	2,435	2,810
Total assets	$ 101,365	$ 127,266
Current liabilities		
Accounts payable, accrued expenses and other	$ 9,289	$ 12,958
Current portion of operating lease liabilities	3,007	2,736
Deferred revenue	245	549
Current portion of promissory note, unsecured	-	3,584
Total current liabilities	12,541	19,827
Long-term liabilities		
Operating lease liabilities	8,885	7,504
Total liabilities	21,426	27,331
Commitments and contingencies (see Note 15)		
Equity		
Series A Convertible Preferred Stock, $0.01 par value per share; 6,968 shares authorized; none issued and outstanding	-	-
Series C Junior Preferred Stock, $0.01 par value per share; 300,000 shares authorized; none issued and outstanding	-	-
Series D Convertible Preferred Stock, $0.01 par value per share; 500,000 shares authorized; none issued and outstanding	-	-
Series E Convertible Preferred Stock, $0.01 par value per share, 2,397,060 shares authorized; none issued and outstanding	-	-
Series F Convertible Preferred Stock, $0.01 par value per share, 9,000 shares authorized; none issued and outstanding	-	-
Common Stock, $0.01 par value per share, 150,000,000 shares authorized; 95,360,271 and 101,269,349 shares issued and outstanding as of June 30, 2022 and December 31, 2021, respectively	954	1,013
Treasury stock, at cost; 1,338,404 and 0 shares as of June 30, 2022 and December 31, 2021, respectively	(1,021)	-
Additional paid-in capital	479,432	487,306
Accumulated deficit	(407,476)	(395,275)
Accumulated other comprehensive loss	(458)	(312)
Total equity attributable to XpresSpa Group, Inc.	71,431	92,732
Noncontrolling interests	8,508	7,203
Total equity	79,939	99,935
Total liabilities and equity	$ 101,365	$ 127,266

The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.

XpresSpa Group, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)
(In thousands, except share and per share data)

	Three months ended June 30,		Six months ended June 30,	
	2022	**2021**	**2022**	**2021**
Revenue, net				
Managed services fees	$ -	$ 8,669	$ -	$ 16,843
Patient services revenue	7,732	-	27,121	-
Services	4,787	338	8,564	603
Products	421	79	766	144
Other	657	6	1,194	14
Total revenue, net	13,597	9,092	37,645	17,604
Cost of sales				
Labor	5,477	1,927	10,939	3,142
Occupancy	1,262	443	2,330	924
Products and other operating costs	5,618	5,331	14,135	7,794
Total cost of sales	12,357	7,701	27,404	11,860
Depreciation and amortization	1,501	946	2,765	1,690
(Gain)/impairment on disposal of assets	(52)	-	(52)	22
General and administrative	7,558	4,646	17,746	9,154
Total operating expenses	21,364	13,293	47,863	22,726
Operating loss	(7,767)	(4,201)	(10,218)	(5,122)
Interest income, net	38	13	45	25
Other non-operating expense, net	(196)	(551)	(514)	(449)
Loss before income taxes	(7,925)	(4,739)	(10,687)	(5,546)
Income tax (expense) benefit	(2)	9	(2)	8
Net loss	(7,927)	(4,730)	(10,689)	(5,538)
Net loss (income) attributable to noncontrolling interests	9	263	(1,512)	15
Net loss attributable to XpresSpa Group, Inc.	$ (7,918)	$ (4,467)	$ (12,201)	$ (5,523)
Net loss	$ (7,927)	$ (4,730)	$ (10,689)	$ (5,538)
Other comprehensive (loss) income from operations	(105)	5	(146)	(11)
Comprehensive loss	$ (8,032)	$ (4,725)	$ (10,835)	$ (5,549)
Loss per share				
Basic and diluted loss per share	$ (0.08)	$ (0.04)	$ (0.12)	$ (0.05)
Weighted-average number of shares outstanding during the period				
Basic and diluted	95,352,025	105,398,359	98,458,153	103,240,406

The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.

XpresSpa Group, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
(Unaudited)

(In thousands, except share and per share data)

	Common stock		Treasury Stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total Company equity	Non-controlling interests	Total equity
	Shares	Amount	Shares	Amount						
December 31, 2021	101,269,349	$ 1,013	—	$ —	$ 487,306	$ (395,275)	$ (312)	$ 92,732	$ 7,203	$ 99,935
Issuance of Common Stock for acquisition	552,487	5	—	—	901	—	—	906	—	906
Vesting of restricted stock units	391,820	4	—	—	(4)	—	—	—	—	—
Value of Shares Withheld to fund payroll taxes	—	—	—	—	(73)	—	—	(73)	—	(73)
Stock-based compensation	—	—	—	—	1,543	—	—	1,543	—	1,543
Net loss for the period	—	—	—	—	—	(4,283)	—	(4,283)	1,521	(2,762)
Repurchase and retirement of common stock	(7,142,446)	(71)	—	—	(11,024)	—	—	(11,095)	—	(11,095)
Foreign currency translation	—	—	—	—	—	—	(41)	(41)	—	(41)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(824)	(824)
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	200	200
March 31, 2022	95,071,210	$ 951	—	$ —	$ 478,649	$ (399,558)	$ (353)	$ 79,689	$ 8,100	$ 87,789
Vesting of restricted stock units	289,061	3	—	—	(3)	—	—	—	—	—
Grant of stock options for services	—	—	—	—	15	—	—	` 15	—	15
Stock-based compensation	—	—	—	—	771	—	—	771	549	1,320
Net loss for the period	—	—	—	—	—	(7,918)	—	(7,918)	(9)	(7,927)
Repurchase of common stock	—	—	(1,338,404)	(1,021)	—	—	—	(1,021)	—	(1,021)
Foreign currency translation	—	—	—	—	—	—	(105)	(105)	—	(105)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(132)	(132)
June 30, 2022	95,360,271	$ 954	(1,338,404)	$ (1,021)	$ 479,432	$ (407,476)	$ (458)	$ 71,431	$ 8,508	$ 79,939

The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.

XpresSpa Group, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
(Continued)
(Unaudited)
(In thousands, except share and per share data)

	Common stock		Treasury Stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total Company equity	Non-controlling interests	Total equity
	Shares	Amount	Shares	Amount						
December 31, 2020	94,058,853	$ 941	—	$ —	$ 475,709	$ (398,624)	$ (220)	$ 77,806	$ 2,565	$ 80,371
Warrant exercises, net of costs	11,223,529	112	—	—	16,895	—	—	17,007	—	17,007
Stock-based compensation	—	—	—	—	264	—	—	264	741	1,005
Net loss for the period	—	—	—	—	—	(1,056)	—	(1,056)	248	(808)
Foreign currency translation	—	—	—	—	—	—	(16)	(16)	—	(16)
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	333	333
March 31, 2021	105,282,382	$ 1,053	—	$ —	$ 492,868	$ (399,680)	$ (236)	$ 94,005	$ 3,887	$ 97,892
Issuance of Common Stock for services	223,637	2	—	—	318	—	—	320	—	320
Issuance of restricted stock	27,983	—	—	—	—	—	—	—	—	—
Foreign currency translation	—	—	—	—	—	—	5	5	—	5
Net loss for the period	—	—	—	—	—	(4,467)	—	(4,467)	(263)	(4,730)
Stock-based compensation	—	—	—	—	267	—	—	267	61	328
Redemption of certain noncontrolling interests	—	—	—	—	—	—	—	—	(133)	(133)
June 30, 2021	105,534,002	$ 1,055	—	$ —	$ 493,453	$ (404,147)	$ (231)	$ 90,130	$ 3,552	$ 93,682

The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.

XpresSpa Group, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six months ended June 30, 2022	Six months ended June 30, 2021
Cash flows from operating activities		
Net loss	$ (10,689)	$ (5,538)
Adjustments to reconcile net loss to net cash used in operating activities:		
Items included in net loss not affecting operating cash flows:		
Depreciation and amortization	2,765	1,690
(Gain)/loss on disposal of assets	(52)	22
Amortization of operating lease right of use asset	828	627
Non-employee stock based compensation	15	320
Stock-based compensation	2,863	1,333
Loss (gain) on equity investment	430	414
Changes in assets and liabilities:		
Decrease (increase) in inventory	684	(674)
Decrease (increase) in accounts receivable	186	(546)
(Decrease) increase in deferred revenue	(1,027)	2,253
Other assets, current and non-current	(295)	(2,478)
Other liabilities, current and non-current	(2,803)	(1,518)
(Decrease) increase in accounts payable	(1,520)	2,281
Net cash used in operating activities	(8,615)	(1,814)
Cash flows from investing activities		
Acquisition of property and equipment	(4,062)	(2,131)
Acquisition of HyperPointe net of cash assumed	(4,853)	—
Acquisition of software	(283)	(523)
Net cash used in investing activities	(9,198)	(2,654)
Cash flows from financing activities		
Proceeds from direct offerings of Common Stock and warrants exercises, net of costs	—	17,007
Redemption of non-controlling interests	—	(133)
Repurchase of Common Stock	(12,116)	—
Contributions from noncontrolling interests	200	333
Payments for shares withheld on vesting	(73)	—
Repayment of Paycheck Protection Program	(3,584)	—
Distributions to noncontrolling interests	(956)	—
Net cash (used in) provided by financing activities	(16,529)	17,207
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(56)	7
(Decrease)/ Increase in cash, cash equivalents and restricted cash	(34,398)	12,746
Cash, cash equivalents, and restricted cash at beginning of the period	106,257	90,502
Cash, cash equivalents, and restricted cash at end of the period	$ 71,859	$ 103,248
Cash paid for		
Interest	$ 10	$ —
Income taxes	2	$ —
Non-cash investing and financing transactions		
Capital expenditures included in Accounts payable, accrued expenses and other	$ 231	$ —
Issuance of Common Stock on acquisition of gcg Connect, LLC, d/b/a HyperPointe	$ 906	$ —

The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.

XpresSpa Group, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In thousands, except for share and per share data)

Note 1. General

Overview

XpresSpa Group, Inc. ("XpresSpa Group" or the "Company") is a leading global travel health and wellness services holding company. XpresSpa Group currently has four reportable operating segments: XpresSpa®, XpresTest®, Treat™, and HyperPointe which was acquired in January 2022.

XpresSpa Group's subsidiary, XpresSpa Holdings, LLC ("XpresSpa") has been a global airport retailer of spa services through its XpresSpa spa locations, offering travelers premium spa services, including massage, nail and skin care, as well as spa and travel products ("XpresSpa").

Through XpresSpa Group's XpresTest, Inc. subsidiary ("XpresTest"), the company launched XpresCheck Wellness Centers, also in airports. XpresCheck offers COVID-19 and other medical diagnostic testing services to the traveling public, as well as airline, airport and concessionaire employees, and TSA and U.S. Customs and Border Protection agents. XpresTest has entered into managed services agreements ("MSAs") with professional medical services companies that provide health care services to patients. The medical services companies pay XpresTest a monthly fee to operate in the XpresCheck Wellness Centers. Under the terms of the MSAs, XpresTest provides office space, equipment, supplies, non-licensed staff, and management services in return for a management fee. Effective July 1, 2021, the Company determined that the PLLCs are variable interest entities ("VIEs") due to their equity holders having sufficient capital at risk; and the Company having a variable interest in and being a primary beneficiary of the PLLCs.

The Treat segment, which is operating through XpresSpa Group's subsidiary Treat, Inc. ("Treat") is a travel health and wellness brand that provides access to health and wellness services for travelers at on-site centers (currently located in JFK International Airport and Phoenix Sky Harbor International Airport and opening later this year in Salt Lake City International Airport).

The Company's HyperPointe segment, which the Company acquired in January 2022 (*see Note 7. Acquisition of HyperPointe*), provides a broad range of service and support options for our customers, including technical support services and advanced services.

Basis of Presentation and Principles of Consolidation

The unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information and the instructions to Article 8-03 of Regulation S-X, and should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2021, as amended. The condensed consolidated balance sheet as of December 31, 2021 was derived from the audited annual financial statements but does not include all information required by GAAP for annual financial statements. The financial statements include the accounts of the Company, all entities that are wholly owned by the Company, and all entities in which the Company has a controlling financial interest as well as variable interest entities in which we are the primary beneficiaries. All adjustments that, in the opinion of management, are necessary for a fair presentation for the periods presented have been reflected by the Company. Such adjustments are of a normal, recurring nature. The results of operations for the three and six months ended June 30, 2022 are not necessarily indicative of the results that may be expected for the entire fiscal year or for any other interim period. All significant intercompany balances and transactions have been eliminated in consolidation.

Recent Developments

XpresCheck Wellness Centers

XpresCheck's business has MSAs with state licensed physicians and nurse practitioners, under which we administer COVID-19 testing options, including a Polymerase Chain Reaction (PCR) test and a rapid PCR test. As of the date of this report, there are 15 operating XpresCheck locations operating in 12 airports, including the following locations opened since December 31, 2021:

- In February 2022, a second XpresCheck Wellness Center opened at Denver International Airport, pre-security in the Great Hall. It contains six separate testing rooms to provide diagnostic COVID-19 testing.

- In March 2022, we opened an XpresCheck Wellness Center in Orlando International Airport, pre-security, in the South Walk area of the Main Terminal. It contains five separate testing rooms to provide diagnostic COVID-19 testing.

During 2021, XpresCheck initiated a $2,001 eight-week pilot program with the Centers for Disease Control and Prevention (CDC) in collaboration with Concentric by Ginkgo. Under this program, XpresCheck is conducting biosurveillance monitoring at four major U.S. airports (JFK International Airport, Newark Liberty International Airport, San Francisco International Airport, and Hartsfield-Jackson Atlanta International Airport) aimed at identifying existing and new SARS-CoV-2 variants. On January 31, 2022, the Company announced the extension of the program, bringing the total contract to $5,534. Approximately $3,291 and $1,368 of the full $5,534 amount was recognized during the first half of 2022 and the fourth quarter of 2021, respectively. The Company anticipates that the remaining $875 of the full $5,534 amount will be realized in the third quarter of 2022.

XpresSpa

There are currently eighteen operating XpresSpa domestic locations and the Company expects to re-open four additional domestic locations in the near-term. During 2022, the Company sold its two franchise locations in Austin-Bergstrom International Airport. A significant number of the domestic XpresSpa locations are operating approximately eight hours per day during the busiest hours (compared to up to sixteen hours per day pre-pandemic) improving labor productivity. Additionally, XpresSpa implemented a price increase in mid-October 2021 in its efforts to return to profitability. As passenger airport volumes improve, the Company will continue to review operating hours to optimize revenue opportunity.

During the fourth quarter of 2021, the Company began testing several new services to take advantage of a growing interest in non-traditional spa services and expansion of its retail offering to align more closely with the services the Company provides. The Company is evaluating the success of these new initiatives at each airport on an on-going basis and will incorporate changes to its approach as more of the portfolio is reactivated.

The Company also has six international locations operating, including three XpresSpa locations in Dubai International Airport in the United Arab Emirates and three XpresSpa locations in Schiphol Amsterdam Airport in the Netherlands. The Company also signed for an additional five locations at Istanbul Airport and expects to open the first store later in 2022.

Treat

Treat is the Company's new travel, health and wellness brand transforming the way we access care through a suite of health and wellness services supported by an integrated digital platform and a relevant retail offering to the traveling public.

Treat's on-site centers (currently located in JFK International Airport and in Phoenix Sky Harbor International Airport and opening later this year in Salt Lake City International Airport) provide access to health and wellness services for travelers. The Treat teams provide travel-related diagnostic testing for virus, cold, flu and other illnesses as well as hydration therapy, IV drips, and vitamin injections. Travelers can purchase time blocks to use the Company's wellness rooms to engage in interactive services like self-guided yoga, meditation and low impact weight exercises or to relax and unplug from the hectic pace of the airport and renew themselves before or after their trip.

Treat offers a website (www.treat.com) and mobile app to complement the offering with relevant health and wellness content designed to help people on the go with information that could impact their travel. The platform provides travelers access to a comprehensive online marketplace of services including global illness tracker tools such as the COVID-19 Requirements Map, on-demand chat care by licensed providers, a health wallet to store personal and family health records (including COVID-19 testing results), and a scheduler to arrange for direct care at one of the Company's on-site locations. The information on the Treat website is not incorporated by reference into this Quarterly Report on Form 10-Q and does not constitute a part of this Form 10-Q.

HyperPointe Acquisition

In January 2022, the Company announced and closed on the acquisition of gcg Connect, LLC d/b/a HyperPointe.

The purchase price in the transaction consisted of $7,121 in cash and $906 in common stock, offset by the settlement of intercompany accounts payable of $770 as well as potential additional earn-out payments of up to $7,500 over a three-year timeframe based upon future performance; these earn-out payments may be satisfied in cash or common stock or a combination thereof subject to various terms and conditions. As of the acquisition date, and as of June 30, 2022, the Company believes that the fair value of the potential earnout payment is $0.

HyperPointe currently operates as a new operating segment within the XpresSpa Group. The chief executive officer of HyperPointe before the Company's acquisition, continues to serve as the chief executive officer of HyperPointe, as well as serving as the chief executive officer of XpresCheck. See *Note 7. Acquisition of HyperPointe* for related discussion.

Liquidity and Financial Condition

As of June 30, 2022, the Company had cash and cash equivalents, excluding restricted cash, of $71,108, total current assets of $74,367, total current liabilities of $12,541 and positive working capital of $61,826 compared to a positive working capital of $89,152 as of December 31, 2021.

Note 2. Significant Accounting and Reporting Policies

(a) Revenue Recognition Policy

XpresSpa

The Company recognizes revenue from the sale of XpresSpa products and services when the services are rendered at XpresSpa stores and from the sale of products at the time products are purchased at the Company's stores or online usually by credit card, net of discounts and applicable sales taxes. Accordingly, the Company recognizes revenue for the Company's single performance obligation related to both in-store and online sales at the point at which the service has been performed or the control of the merchandise has passed to the customer. Revenues from the XpresSpa retail and e-commerce businesses are recorded at the time goods are shipped.

The Company has also entered into collaborative agreements with marketing partners whereby it sells certain of its partners' products in its XpresSpa. The Company acts as an agent for revenue recognition purposes and therefore records revenue net of the revenue share payable to the partners. Upon receipt of the non-recurring, non-refundable initial collaboration fee, management records a deferred revenue liability and recognizes revenue on a straight-line basis over the life of the collaboration agreement.

XpresCheck

Through its XpresCheck Wellness Centers and under the terms of the Managed Services Agreement ("MSA") with Professional Limited Liability Companies ("PLLCs") that in turn contract with physicians and Nurse Practitioners, the Company offers testing services to airline employees, contractors, concessionaire employees, TSA officers and U.S. Customs and Border Protection agents, as well as the traveling public. The Company has entered into MSAs with PLLCs that provide healthcare services to patients. Under the terms of the MSAs which may be modified for commercial reasonableness and fair market value, XpresTest provides office space, equipment, supplies, non-licensed staff, and management services to be used for the purpose of COVID-19 and other medical diagnostic testing in return for a management fee which was deemed a performance obligation for recognizing revenue prior to July 1, 2021.

Effective, July 1, 2021 (*see Note 3. Variable Interest Entities*), the Company determined that the PLLCs are variable interest entities due to their equity holders having insufficient capital at risk, and the Company having a variable interest and being the primary beneficiary of the PLLCs. As a result of this determination, the total revenue of the PLLCs is designated as revenue for the Company. The performance obligation for this revenue is the PLLCs administering COVID-19 tests to airline employees, contractors, concessionaire employees, TSA officers and U.S. Customs and Border Protection agents, as well as the traveling public, with revenue being recognized at the point in time at which the service is performed.

Treat

The Company recognizes revenue from the sale of Treat products and services when the services are rendered at Treat Centers and from the sale of products at the time products are purchased at the Treat Centers or online usually by credit card, net of discounts and applicable sales taxes. Accordingly, the Company recognizes revenue for the Company's single performance obligation related to both in-centers and online sales at the point at which the service has been performed or the control of the merchandise has passed to the customer. Revenues from the Treat retail and e-commerce businesses are recorded at the time goods are shipped. Also, under the terms of Treat's contracts with PLLCs, whereby the PLLCs as their performance obligations provide travel-related diagnostic testing for virus, cold, flu and other illnesses as well as hydration therapy, IV drips, and vitamin injections. The Company determined that these PLLCs are variable interest entities due to their equity holders having insufficient capital at risk, and the Company having a variable interest and being the primary beneficiary of the PLLCs. As a result of this determination, the total revenue of the PLLCs is designated as revenue for the Company. This revenue is recognized at the point in time at which the service is performed by the PLLCs.

HyperPointe

The Company's HyperPointe segment which we acquired in January 2022 (*see Note 7. Acquisition of HyperPointe)* provides broad range of service and support options for its customers, including technical support services and advanced services. Technical support services represent the majority of these offerings which are distinct performance obligations that are satisfied over time with revenue recognized ratably over the contract term. Advanced services are distinct performance obligations that are satisfied over time with revenue recognized as services are delivered. Revenue billed in advance are treated as deferred revenue which was $191 as of June 30, 2022. HyperPointe had unbilled receivables of $60 included in Accounts Receivable as of June 30, 2022.

The Company excludes all sales taxes assessed to its customers from revenue. Sales taxes assessed on revenues are included in *Accounts payable, accrued expenses and other* on the Company's condensed consolidated balance sheets until remitted to state agencies.

(b) Variable Interest Entities

The Company evaluates its ownership, contractual, pecuniary, and other interests in entities to determine if it has any variable interest in a variable interest entity ("VIE"). These evaluations are complex and involve judgment. If the Company determines that an entity in which it holds a contractual or ownership interest is a VIE and that the Company is the primary beneficiary, the Company consolidates such entity in its consolidated financial statements. The primary beneficiary of a VIE is the party that meets both of the following criteria: (i) has the power to make decisions that most significantly affect the economic performance of the VIE; and (ii) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. Management performs ongoing reassessments of whether changes in the facts and circumstances regarding the Company's involvement with a VIE will cause the consolidation conclusion to change. Changes in consolidation status are applied prospectively.

(c) Business Combinations

The Company applies the provisions of ASC Topic 805, Business Combinations ("ASC 805") in the accounting for acquisitions of businesses. ASC 805 requires the Company to use the acquisition method of accounting by recognizing the identifiable tangible and intangible assets acquired and liabilities assumed, and any non-controlling interest in the acquired business, measured at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the aforementioned amounts.

While the Company uses its best estimates and assumptions to accurately apply preliminary values to assets acquired and liabilities assumed at the acquisition date, these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of the assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded in the consolidated statements of operations.

Accounting for business combinations requires management to make significant estimates and assumptions, especially at the acquisition date, including estimates for intangible assets. Although the Company believes the assumptions and estimates that have been made are reasonable and appropriate, they are based in part on historical experience and information obtained from the acquired companies and are inherently uncertain. Critical estimates in valuing certain of the intangible assets the Company has acquired include future expected cash flows, and discount rates.

(d) Goodwill

The Company accounts for goodwill under ASC 350-30, *Intangibles-Goodwill and Other*. Goodwill represents the cost of a business acquisition in excess of the fair value of the net assets acquired. Goodwill is not amortized and is reviewed for impairment annually, or more frequently if facts and circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the company performs a quantitative test to identify and measure the amount of goodwill impairment loss. The Company compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds fair value, goodwill of the reporting unit is considered impaired, and that excess is recognized as a goodwill impairment loss.

Recently adopted accounting pronouncements

Accounting Standards Update No. 2020-06—Debt--Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)

Issued in August 2020, this update is intended to reduce the unnecessary complexity of the current guidance thus resulting in more accurate accounting for convertible instruments and consistent treatment from one entity to the next. Under current GAAP, there are five accounting models for convertible debt instruments. Except for the traditional convertible debt model that recognizes a convertible debt instrument as a single debt instrument, the other four models, with their different measurement guidance, require that a convertible debt instrument be separated (using different separation approaches) into a debt component and an equity or a derivative component. Convertible preferred stock also is required to be assessed under similar models. The Financial Accounting Standard Board ("FASB") decided to simplify the accounting for convertible instruments by removing certain separation models currently included in other accounting guidance that were being applied to current accounting for convertible instruments. Under the amendments in this update, an embedded conversion feature no longer needs to be separated from the host contract for convertible instruments with conversion features that are not required to be accounted for as derivatives. Consequently, a convertible debt instrument will be accounted for as a single liability measured at its amortized cost and a convertible preferred stock will be accounted for as a single equity instrument measured at its historical cost, as long as no other features require bifurcation and recognition as derivatives. The FASB also decided to add additional disclosure requirements in an attempt to improve the usefulness and relevance of the information being provided. The new standard is effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. The Company adopted ASU 2020-06 as of the reporting period beginning January 1, 2022. The adoption of this update did not have a material impact on the Company's condensed consolidated financial statements.

ASU 2021-04: Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity Classified Written Call Options

In May 2021, the FASB issued ASU 2021-04, "Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity Classified Written Call Options'" ("ASU 2021-04"), which introduces a new way for companies to account for warrants either as stock compensation or derivatives. Under the new guidance, if the modification does not change the instrument's classification as equity, the company accounts for the modification as an exchange of the original instrument for a new instrument. In general, if the fair value of the "new" instrument is greater than the fair value of the "original" instrument, the excess is recognized based on the substance of the transaction, as if the issuer has paid cash. The effective date of the standard is for interim and annual reporting periods beginning after December 15, 2021 for all entities. The Company adopted ASU 2021-04 as of the reporting period beginning January 1, 2022. The adoption of this update did not have a material impact on the Company's condensed consolidated financial statements.

Note 3. Variable Interest Entities

Through its XpresCheck Wellness Centers, the Company provides services pursuant to contracts with PLLCs which in turn contracts with physicians and other medical professional providers to render COVID-19 and other medical diagnostic testing services to airline employees, contractors, concessionaire employees, TSA officers and U.S. Customs and Border Protection agents, and the traveling public. The PLLCs collectively represent the Company's affiliated medical group. The PLLCs were designed and structured to comply with the relevant laws and regulations governing professional medical practice, which generally prohibits the practice of medicine by lay persons or entities. All of the issued and outstanding equity interests of the PLLCs are owned by a licensed medical professional nominated by the Company (the "Nominee Shareholder"). Upon formation of the PLLCs, and initial issuance of equity interests, the Nominee Shareholder contributes a nominal amount of capital in exchange for their interest in the PLLC. The Company then executes with each PLLC a MSA, which provides for various administrative services, management services and day-to-day activities of the practice to be rendered by the Company through its XpresCheck Wellness Centers.

The Company also has exclusive responsibility for the provision of all nonmedical services including contracting with customers who access the PLLCs for a medical visit, handling all financial transactions and day-to-day operations of each PLLC, overseeing the establishment of COVID-19 and other medical diagnostic testing services policies, and making recommendations to the PLLC in establishing the guidelines for the employment and compensation of the physicians and other employees of the PLLCs. Until June 30, 2021, MSA fees were commensurate with the expected level of activity required to be billed by XpresCheck Wellness Centers. Therefore, these PLLCs were assessed not to be variable interest entities prior to July 1, 2021.

Effective, July 1, 2021, contractual arrangements between the Company, the Company's affiliated medical group and nominated shareholders were modified in a manner that changes the characteristics or adequacy of the nominee shareholders' equity investment at risk and residual returns. Therefore, due to reassessment triggered by the development on July 1, 2021, the Company determined that the PLLCs are variable interest entities. Notwithstanding their legal form of ownership of equity interests in the PLLC, the primary beneficiary of the affiliated medical group is the Company as it meets both of the following criteria: (i) has the power to make decisions that most significantly affect the economic performance of the affiliated medical group; and (ii) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the affiliated medical group. The Company consolidated the PLLCs under the VIE model since the Company has the power to direct activities that most significantly impact the PLLCs economic performance and the right to receive benefits or the obligation to absorb losses that could potentially be significant to the PLLCs.

The aggregate carrying value of total assets and total liabilities included on the consolidated balance sheets for the PLLCs after elimination of intercompany transactions were $1,638, included in Cash and Cash Equivalents, and $324 included in *Accounts payable, accrued expenses and other*, respectively, as of June 30, 2022. The aggregate carrying value of total assets and total liabilities included on the consolidated balance sheets for the PLLCs after elimination of intercompany transactions were $3,033, included in Cash and Cash Equivalents, and $683, included in *Accounts payable, accrued expenses and other*, respectively, as of December 31, 2021. The total revenue included on the consolidated statements of operations and comprehensive income (loss) for the PLLCs after elimination of intercompany transactions was $7,732 and $27,121 for the three months and six months ended June 30, 2022, respectively.

Note 4. Potentially Dilutive Securities

The table below presents the computation of basic and diluted net loss per share of Common Stock:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Basic and diluted numerator:				
Net loss attributable to XpresSpa Group, Inc.	$ (7,918)	$ (4,467)	$ (12,201)	$ (5,523)
Net loss attributable to common shareholders	$ (7,918)	$ (4,467)	$ (12,201)	$ (5,523)
Basic and diluted denominator:				
Basic and diluted weighted average shares outstanding	95,352,025	105,398,359	98,458,153	103,240,406
Basic and diluted loss per share	$ (0.08)	$ (0.04)	$ (0.12)	$ (0.05)
Net loss per share data presented above excludes from the calculation of diluted net loss, the following potentially dilutive securities, having an anti-dilutive impact, in case of net loss				
Both vested and unvested options to purchase an equal number of shares of Common Stock	4,756,973	2,838,955	4,756,973	2,838,955
Unvested RSUs to issue an equal number of shares of Common Stock	78,125	70,082	78,125	70,082
Warrants to purchase an equal number of shares of Common Stock	29,460,560	37,988,662	29,460,560	37,988,662
Total number of potentially dilutive securities excluded from the calculation of earnings/(loss) per share attributable to common shareholders	34,295,658	40,897,699	34,295,658	40,897,699

Note 5. Cash, Cash Equivalents, and Restricted Cash

A reconciliation of the Company's cash and cash equivalents in the Condensed Consolidated Balance Sheets to cash, cash equivalents and restricted cash in the Condensed Consolidated Statements of Cash Flows as of June 30, 2022 and December 31, 2021 is as follows:

	June 30, 2022	December 31, 2021
Cash denominated in United States dollars	$ 69,280	$ 102,560
Cash denominated in currency other than United States dollars	1,721	2,133
Restricted cash	751	751
Credit and debit card receivables	107	813
Total cash, cash equivalents and restricted cash	$ 71,859	$ 106,257

The Company places its cash and temporary cash investments with credit quality institutions. At times, such cash denominated in United States dollars may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limit. As of June 30, 2022 and December 31, 2021, deposits in excess of FDIC limits were $68,885 and $103,339 respectively. As of June 30, 2022 and December 31, 2021, the Company held cash balances in overseas accounts, totaling $1,721 and $2,133 respectively, which are not insured by the FDIC. If the Company were to distribute the amounts held overseas, the Company would need to follow an approval and distribution process as defined in its operating and partnership agreements, which may delay and/or reduce the availability of that cash to the Company.

Note 6. Other current assets

	June 30, 2022	December 31, 2021
Prepaid expenses	$ 1,315	$ 1,047
Other	47	48
Total other current assets	$ 1,362	$ 1,095

Note 7. Acquisition of HyperPointe

On January 14, 2022, the Company acquired all of the equity interests in gcg Connect, LLC, d/b/a HyperPointe, a New Jersey limited liability company (“HyperPointe”), for an aggregate initial purchase price of approximately $7,257, which consisted of (i) $7,121 in cash offset by settlement of intercompany accounts payable of $770, and (ii) the issuance of 552,487 shares of common stock of the Company to the equity owners of HyperPointe, plus additional consideration in the form of a potential earnout of up to $7,500 (the “Acquisition”). The portion of the initial consideration for the Acquisition comprising the 552,487 shares of Company common stock was valued at $906 based upon a closing reference price of $1.64 as contemplated by the acquisition agreement.

XpresSpa Group also agreed pursuant to an earnout provision to issue up to an additional $7,500 in cash or stock if certain earnout performance targets are met during an earnout period ending on the third anniversary of the date of the acquisition agreement. For purposes of the earnout, the Common Stock will also be valued on a per share basis. The earnout payments may be satisfied in (i) cash, (ii) shares of Common Stock (priced at $1.81), or (iii) any combination thereof, at the election of the equity owners of HyperPointe, provided that in the event (and to the extent) XpresSpa Group does not have sufficient authorized shares of Common Stock that are unissued and not duly reserved for issuance upon options, warrants or other convertible securities, then XpresSpa Group shall be permitted to settle any earnout payments in cash. As a result, XpresSpa Group may issue up to an additional 4,143,647 shares of Common Stock; however, the actual number of shares that will be issued under the earnout, if any, will depend on (i) the extent of fulfillment of the earnout performance targets at the time of calculation of the earnout and (ii) the elections and conditions described in the previous sentence.

XpresSpa Group granted an equity award to the previous Chief Executive Officer of HyperPointe and who was offered employment with the Company in connection with XpresSpa’s acquisition of the equity interests of HyperPointe, as an inducement material to such new employee entering into employment with the Company. The equity award was approved on January 7, 2022, in accordance with Nasdaq Listing Rule 5635(c)(4).

The employee received stock options to purchase 1,000,000 shares of XpresSpa common stock. The stock options were issued upon the closing of the acquisition of HyperPointe and employee’s hire date in connection therewith (the "Grant Date"), and all stock options included within the equity inducement award have an exercise price of $1.64 per share, resulting in the fair value of $1,457 which would be charged to expense per the option terms. One-third of the options will vest on each of the first three anniversaries of the Grant Date, subject to the employee's continued employment with XpresSpa or its subsidiaries on such vesting dates. The stock options have a ten-year term.

The Company has recognized the assets and liabilities based on the acquisition date fair values. The acquisition did not result in the creation of any contingent consideration as of the Acquisition date and as of June 30, 2022.

Determination of the fair values of the acquired assets and assumed liabilities (and the related determination of estimated lives of depreciable tangible and identifiable intangible assets) requires significant judgment.

The fair value of intangible assets other than Goodwill was determined primarily using income approaches. This included estimated multi-period excess earnings valuation method for Customer relationships and the relief-from-royalty valuation for the tradename.

The adjustments set forth in the following condensed unaudited consolidated Balance Sheet reflect the effect of the consummation of the acquisition:

Consideration paid	**$** 7,257
Fair value of assets acquired and liabilities assumed	
Cash and cash equivalents	**$** 2,269
Accounts receivable	346
Unbilled Receivables	56
Prepaid expenses and other current assets	19
Other long-term assets	16
Property and equipment	68
Customer relationships	1,198
Trade name	302
Software	335
Accounts payable	(653)
Deferred revenue	(723)
	3,233
Goodwill	**$** 4,024

Note 8. Accounts payable, accrued expenses and other

	June 30, 2022	December 31, 2021
Accounts payable	$ 4,674	$ 5,966
Litigation accrual	845	845
Accrued compensation	1,799	2,862
Tax-related liabilities	557	603
Gift certificates and loyalty reward program liabilities	494	494
Construction Accrual	53	930
Credit card processing fees	119	501
Other miscellaneous accruals	748	757
Total accounts payable, accrued expenses and other current liabilities	$ 9,289	$ 12,958

Note 9. Intangible Assets

The following table provides information regarding the Company's intangible assets subject to amortization, which consist of the following:

	June 30, 2022			December 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade names	$ 1,641	$ (1,240)	$ 401	$ 1,339	$ (1,118)	$ 221
Customer Relationships	1,510	(422)	1,088	—	—	—
Software	4,502	(1,103)	3,399	3,886	(484)	3,402
Licenses	116	(18)	98	116	(7)	109
Total intangible assets	$ 7,769	$ (2,783)	$ 4,986	$ 5,341	$ (1,609)	$ 3,732

The Company's intangible assets are amortized over their expected useful lives. The Company recorded amortization expense of $471 and $106 during the three months ended June 30, 2022 and 2021, respectively, and $864 and $205 during the six months ended June 30, 2022 and 2021, respectively.

Based on the intangible assets balance as of June 30, 2022, the estimated amortization expense for the remainder of the calendar year and each of the succeeding calendar years is as follows:

Calendar Years ending December 31,	Amount
Remaining 2022	$ 946
2023	1,555
2024	1,450
2025	397
2026	323
Thereafter	315
Total	$ 4,986

Note 10. Leases

The Company leases its retail and diagnostic testing locations at various domestic and international airports. Additionally, the Company leases its corporate office in New York City. Certain leases entered into by the Company fall under ASU No. 2016-02, *Leases* ("ASC 842"). At inception, the Company determines if a lease qualifies under ASC 842. Certain of the Company's lease arrangements contain fixed payments throughout the term of the lease, while others involve a variable component to determine the lease obligation wherein a certain percentage of sales is used to calculate the lease payment.

All qualifying leases held by the Company are classified as operating leases. Operating lease right of use assets represent the Company's right to use an underlying asset for the lease term and operating lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease right of use assets and operating lease liabilities are recognized as of the commencement date based on the present value of lease payments over the lease term. The Company records its operating lease right of use assets and operating lease liabilities based on required guaranteed payments under each lease agreement. The Company uses its incremental borrowing rate as of the commencement date of the lease, which approximates the rate at which the Company can borrow funds on a secured basis, in determining the present value of the guaranteed lease payments.

The Company reviews all of its existing lease agreements on a quarterly basis to determine whether there were any modifications to existing lease agreements and to assess if any leases should be accounted for pursuant to the guidance in

ASC 842. The Company recalculates the right of use asset and lease liability based on the modified lease terms and adjusts both balances accordingly.

The Company has received rent concessions from landlords on a majority of its leases, allowing for the relief of minimum guaranteed payments in exchange for percentage-of-revenue rent or providing relief from rent through payment deferrals. Currently, the periods of relief from these payments, which began in March 2020, range from three to thirty-four months and are still in effect for some of the affected leases. The Company received minimum guaranteed payment concessions of approximately $110 and $511 in the three months ended June 30, 2022 and 2021, respectively, $431 and $983 in the six months ended June 30, 2022 and 2021, respectively. The Company expects to realize additional rent concessions while some of its spas remain closed.

The Financial Accounting Standards Board (“FASB”) issued a Q&A in March 2020 that focused on the application of lease guidance in ASC 842 for lease concessions related to the effects of COVID-19. The FASB staff has said that entities can elect to not evaluate whether concessions granted by lessors related to COVID-19 are lease modifications. Entities that make this election can then apply the lease modification guidance in ASC 842 or account for the concession as if it were contemplated as part of the existing contract. XpresSpa has elected to not treat the concessions as lease modifications and will instead account for the lease concessions as if they were contemplated as part of the existing leases.

When a lessor grants a concession that contractually releases a lessee from certain lease payments or defers lease payments, a lessee may account for the concession as a negative variable lease payment and recognize negative variable lease expense in the period when the rent concession becomes accruable. The Company has recorded negative variable lease expense and adjusted lease liabilities at the point in which the rent concession has become accruable.

Supplemental cash flow information related to leases for the six months ended June 30, 2022 and 2021 were as follows:

	Six months ended June 30,	
	2022	**2021**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ (2,031)	$ (2,149)
Leased assets obtained in exchange for new and modified operating lease liabilities	$ 3,273	$ 656
Leased assets surrendered in exchange for termination of operating lease liabilities	$ —	$ 9

As of June 30, 2022, operating leases contain the following future minimum commitments:

Calendar Years ending December 31,	**Amount**
Remaining 2022	$ 2,044
2023	3,378
2024	2,657
2025	2,003
2026	1,027
Thereafter	2,193
Total future lease payments	13,302
Less: interest expense at incremental borrowing rate	(1,410)
Net present value of lease liabilities	$ 11,892

Other assumptions and pertinent information related to the Company's accounting for operating leases are:

Weighted average remaining lease term:	4.65 years
Weighted average discount rate used to determine present value of operating lease liability:	8.55 %

Cash paid for minimum annual rental obligations during the three and six months ended June 30, 2022 was $349 and $620, respectively. Cash paid for minimum annual rental obligations during three and six months ended June 30, 2021 was $64 and $214, respectively.

Variable lease payments that are calculated monthly as a percentage of product and services revenue, were $324 and $114 for the three months ended June 30, 2022 and 2021, respectively, and $689 and $211 for the six months ended June 30, 2022 and 2021, respectively.

Note 11. Debt

Total Debt as of June 30, 2022 and December 31, 2021 is comprised of the following:

	June 30, 2022	**December 31, 2021**
Promissory note, unsecured (Current)	—	3,584
Total debt	$ —	$ 3,584

Paycheck Protection Program

On May 1, 2020, the Company entered into a U.S. Small Business Administration ("SBA") Paycheck Protection Program ("the PPP") promissory note in the principal amount of $5,653 payable to Bank of America, NA ("Bank of America") evidencing a PPP loan (the "PPP Loan"). The PPP Loan bears interest at a rate of 1% per annum. No payments were due on the PPP Loan during a six-month deferral period commencing on May 2, 2020. Commencing one month after the expiration of the deferral period and continuing on the same day of each month thereafter until the maturity date of the PPP Loan, the Company is obligated to make monthly payments of principal and interest, each in such equal amount required to fully amortize the principal amount outstanding on the PPP Loan by the maturity date. The PPP loan was paid off on the maturity date of May 2, 2022.

Note 12. Stockholders' Equity

Warrants

The following table represents the activity related to the Company's warrants during the six months ended June 30, 2022.

	No. of Warrants	Exercise price range
December 31, 2021	37,817,694	0.525 - 6.566
Granted	—	
Exercised	—	
Expired	(8,357,134)	$ 5.25 - 6.566
June 30, 2022	29,460,560	$ 1.7 - 3.9375

Share Repurchase Program

On August 31, 2021, the Company's board of directors initially authorized a stock repurchase program that permitted the purchase and repurchase of up to 15 million shares of its common stock through September 15, 2022. In May 2022, the Board increased the share repurchase program by an additional 10 million shares and extended its effectiveness through September 15, 2023. Under this stock repurchase program, management has discretion in determining the conditions under which shares may be purchased from time to time. The program does not require us to repurchase any specific number of shares, and may be modified, suspended or terminated at any time without prior notice. Under the program, the Company purchased 8,480,850 shares for $12,116 and retired 7,142,446 of these purchased shares during the six months ended June 30, 2022, and the remaining 1,338,404 shares were retired on August 3, 2022.

Stock-based Compensation

In September 2020, the Board of Directors approved a new stock-based compensation plan available to grant stock options, restricted stock and Restricted Stock Units ("RSU's") to the Company's directors, employees and consultants. Shareholder approval of the plan was subsequently obtained on October 28, 2020. Under the 2020 Equity Incentive Plan (the "2020 Plan"), a maximum of 5,000,000 shares of Common Stock may be issued. The Company's previous Employee, Director and Consultant Equity Incentive Plan (the "2012 Plan") was terminated upon receipt of shareholder approval of the 2020 Plan.

Awards granted under the 2012 Plan remain in effect pursuant to their terms. Generally, stock options are granted with exercise prices equal to the fair market value on the date of grant, vest in four equal quarterly installments, and expire 10 years from the date of grant. RSUs granted generally vest over a period of one year.

In September 2020, XpresTest created a stock-based compensation plan available to grant stock options, Restricted Stock Awards ("RSAs") and RSU's to XpresTest's directors, employees and consultants. Under the XpresTest 2020 Equity Incentive Plan (the "XpresTest Plan"), a maximum of 200 shares of XpresTest common stock may be awarded, which would represent 20% of the total number of shares of common stock of XpresTest as of June 30, 2022. Certain named executive officers, consultants, and directors of the Company are eligible to participate in the XpresTest Plan. The XpresTest Plan RSAs vest upon satisfaction of certain service and performance-based conditions. The fair value of the XpresTest Plan RSAs is determined based on the weighted average of (i) Fair Value of XpresTest under the Indirect Valuation Method developing assumptions for XpresSpa Net Market Cap and XpresSpa standalone Fair Value, and (ii) Direct Valuation Method developing assumptions for XpresTest Representative Forecasted Revenue for 2021 and Peer companies Revenue's Multiples. As of June 30, 2022, there is a $305 of unrecognized stock-based compensation related to the XpresTest Plan. Subsequent to June 30, 2022, an aggregate of 27.5 fully vested RSAs were granted to certain named executive officers and directors of XpresTest.

The fair value of stock options is estimated as of the date of grant using the Black-Scholes-Merton ("Black-Scholes") option-pricing model. The Company uses the simplified method to estimate the expected term of options due to insufficient history and high turnover in the past.

The following variables were used as inputs in the model:

Share price of the Company's Common Stock on the grant date:	$ 0.78 - 1.64
Exercise price:	$ 0.78 - 1.64
Expected volatility:	123.45 %
Expected dividend yield:	0 %
Annual average risk-free rate:	1.62 - 3.24 %
Expected term:	6.43 years

Total stock-based compensation for the three months ended June 30, 2022 and 2021 is $1,320 and $328, respectively, and for the six months ended June 30, 2022 and 2021 is $2,863 and $1,333, respectively. The Company had $3,139 and $2,088 of unrecognized stock-based compensation related to the XpresSpa Stock Options, as of June 30, 2022 and December 31, 2021, respectively.

The following table sets forth the Company's Equity Incentive activities for the six months ended June 30, 2022:

	RSUs		**XpresTest RSAs**		**Stock options**		
	No. of RSUs	**Weighted average grant date fair value**	**No. of RSAs**	**Weighted average grant date fair value**	**No. of options**	**Weighted average exercise price**	**Exercise price range**
Outstanding as of December 31, 2021	600,000	$ 1.63	—	$ —	2,826,871	$ 2.57	$1.19 - 2,460.0
Granted	156,250	1.28	15	56,890	2,200,338	1.51	0.78 - 1.64
Exercised/Vested	(678,125)	1.59	—	—	—	—	
Forfeited	—	—	—	—	(245,027)	1.55	1.43-3.82
Expired	—	—	—	—	(25,209)	1.58	1.53-1.61
Outstanding as of June 30, 2022	78,125	$ 1.28	15	$ 56,890	4,756,973	$ 2.13	$0.78 - 2,460.0
Exercisable as of June 30, 2022					1,870,531	$ 2.87	$0.78 - 2,460.0

Note 13. Fair Value Measurements

Fair value measurements are determined based on assumptions that a market participant would use in pricing an asset or a liability. A three-tiered hierarchy distinguishes between market participant assumptions based on (i) observable inputs such as quoted prices in active markets (Level 1), (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3).

The following table presents the placement in the fair value hierarchy measured at fair value on a recurring basis as of June 30, 2022 and December 31, 2021(in thousands):

		Fair value measurement at reporting date using		
	Balance	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
As of June 30, 2022:				
Recurring fair value measurements				
Equity securities:				
Route1, Inc.	$ 292	$ —	$ 292	$ —
Total equity securities	292	—	292	—
Total recurring fair value measurements	$ 292	$ —	$ 292	$ —
As of December 31, 2021				
Recurring fair value measurements				
Equity securities:				
Route1	$ 722	$ —	$ 722	$ —
Total equity securities	722	—	722	—
Total recurring fair value measurements	$ 722	$ —	$ 722	$ —

Equity securities pertain to common shares in Route1, Inc. obtained in the 2018 sale of Group Mobile to Route 1, Inc. As of June 30, 2022, the Company owns 3,855,443 common shares of Route 1. In connection with the remeasurement of the common shares of Route 1, Inc., the Company recorded an unrealized loss of $157 and $430 for the three and six months ended June 30, 2022, respectively, and $513 and $414, for the three and six months ended June 30, 2021, respectively.

In addition to the above, the Company's financial instruments as of June 30, 2022 and December 31, 2021 consisted of cash and cash equivalents, receivables, accounts payable and debt. The carrying amounts of all the aforementioned financial instruments approximate fair value because of the short-term maturities of these instruments.

Note 14. Income Taxes

The Company's provision for income taxes consists of federal, state, local, and foreign taxes in amounts necessary to align the Company's year-to-date provision for income taxes with the effective tax rate that the Company expects to achieve for the full year. Each quarter, the Company updates its estimate of the annual effective tax rate and records cumulative adjustments as deemed necessary. The income tax provision for the six months ended June 30, 2022 reflect an estimated global annual effective tax rate of approximately (0.10)%.

As of June 30, 2022, deferred tax assets generated from the Company's U.S. activities were offset by a valuation allowance because realization depends on generating future taxable income, which, in the Company's estimation, is not more likely than not to be generated before such net operating loss carryforwards expire. Net operating loss carryforwards generated after December 31, 2017 do not expire. The Company expects its effective tax rate for its current fiscal year to be significantly lower than the statutory rate as a result of a full valuation allowance; therefore, any loss before income taxes does not generate a corresponding income tax benefit.

Income tax expense for the six months ended June 30, 2022 was $2 which was attributed to state taxing jurisdictions in which a measure of income is utilized to determine a tax liability. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual tax rate could differ from current estimates.

Note 15. Commitments and Contingencies

Certain of the Company's outstanding legal matters include speculative claims for substantial or indeterminate amounts of damages. The Company regularly evaluates developments in its legal matters that could affect the amount of any potential liability and makes adjustments as appropriate. Significant judgment is required to determine both the likelihood of there being any potential liability and the estimated amount of a loss related to the Company's legal matters.

With respect to the Company's outstanding legal matters, based on its current knowledge, the Company's management believes that the amount or range of a potential loss will not, either individually or in the aggregate, have a material adverse effect on its business, consolidated financial position, results of operations or cash flows. However, the outcome of such legal matters is inherently unpredictable and subject to significant uncertainties. The Company evaluated the outstanding legal matters and assessed the probability and likelihood of the occurrence of liability. Based on management's estimates, the Company has recorded accruals of $845 both as of June 30, 2022 and December 31, 2021, which is included in *Accounts payable, accrued expenses and other current liabilities* in the condensed consolidated balance sheets.

The Company expenses legal fees in the period in which they are incurred.

Kyle Collins v. Spa Products Import & Distribution Co., LLC et al

This is a combined class action and California Private Attorney's General Act ("PAGA") action. Plaintiff seeks to recover wages, penalties and PAGA penalties for claims for (1) failure to provide meal periods, (2) failure to provide rest breaks, (3) failure to pay overtime, (4) inaccurate wage statements, (5) waiting time penalties, and (6) PAGA penalties of $0.1 per employee per pay period per violation. There are approximately 240 current and former employees in the litigation class. The parties agreed to mediation on May 26, 2020, however, due to COVID-19, the parties subsequently stayed all proceedings. The mediation session occurred on March 18, 2021, and the parties reached a settlement. A revised motion for preliminary approval of the settlement was filed with the Court in February 2022. The Final Fairness Approval Hearing is set for August 29, 2022 with the Effective Date set for November 2, 2022.

OTG Management PHL B v. XpresSpa Philadelphia Terminal B et al.

On May 9, 2022, a lawsuit was filed in the Philadelphia Court of Common Pleas by OTG Management at Philadelphia International Airport, claiming that XpresSpa improperly backed out of its sublease for space at Terminal B and now owes between $864 and $2,250 in accelerated rent for the 12-year contract. They claim that by refusing to complete the project, failing to commence and maintain operations, refusing to pay rent and improperly purporting to terminate the lease (among other acts and omissions), XpresSpa breached the lease. OTG Management agreed to extend XpresSpa's time to respond to the Complaint until Monday, August 22, 2022 and a Case Management Conference has been set for August 24, 2022.

Leases

XpresSpa is contingently liable to a surety company under certain general indemnity agreements required by various airports relating to its lease agreements. XpresSpa agrees to indemnify the surety for any payments made on contracts of suretyship, guaranty, or indemnity. The Company believes that all contingent liabilities will be satisfied by its performance under the specified lease agreements.

Note 16. Segment Information

As a result of the Company's transition to a pure-play health and wellness services company, the Company currently has four reportable operating segments: XpresSpa, XpresTest, Treat and HyperPointe which we acquired in January 2022. The Company analyzes the results of the Company's business through the four reportable segments. The XpresSpa segment provides travelers premium spa services, including massage, nail and skin care, as well as spa and travel products. The XpresTest segment provides diagnostic COVID-19 tests at XpresCheck Wellness Centers in airports, to airport employees and to the traveling public. The Treat segment provides access to integrated care which can seamlessly fit into a post-pandemic world and is designed to deliver on-demand access to integrated healthcare through technology and personalized services, positioned for a traveler to access health care, records and real-time information all in one place, as well as book appointments in the Company's on-site wellness centers as they reopen. The chief operating decision maker evaluates the operating results and performance of the Company's segments through operating income. Expenses that can be specifically identified with a segment have been included as deductions in determining operating income. Any remaining expenses and other charges are included in Corporate and Other. HyperPointe currently operates as a new operating segment within the XpresSpa Group. HyperPointe provides a broad range of service and support options for its customers, including technical support services and advanced services.

	For the three months ended June 30,	
	2022	2021
Revenue		
XpresSpa	$ 3,290	$ 423
XpresTest	9,253	8,669
Treat	399	—
HyperPointe	655	—
Corporate and other	—	—
Total revenue	$ 13,597	$ 9,092
Operating (loss) income		
XpresSpa	$ (1,958)	$ (1,666)
XpresTest	(1,937)	121
Treat	(1,460)	(1,526)
HyperPointe	(275)	—
Corporate and other	(2,137)	(1,130)
Total operating income (loss)	$ (7,767)	$ (4,201)
Depreciation & Amortization		
XpresSpa	$ 358	$ 318
XpresTest	606	624
Treat	442	—
HyperPointe	95	—
Corporate and other	—	4
Total Depreciation & Amortization	$ 1,501	$ 946

	For the six months ended June 30,	
	2022	2021
Revenue		
XpresSpa	$ 5,933	$ 757
XpresTest	29,849	16,847
Treat	685	—
HyperPointe	1,178	—
Corporate and other	—	—
Total revenue	$ 37,645	$ 17,604

Operating (loss) income		
XpresSpa	$ (6,413)	$ (3,233)
XpresTest	4,268	2,582
Treat	(2,756)	(1,810)
HyperPointe	(552)	—
Corporate and other	(4,765)	(2,661)
Total operating loss	$ (10,218)	$ (5,122)
Depreciation & Amortization		
XpresSpa	$ 701	$ 591
XpresTest	1,135	1,095
Treat	767	—
HyperPointe	157	—
Corporate and other	5	4
Total depreciation & amortization	$ 2,765	$ 1,690
Capital Expenditures		
XpresSpa	$ 641	$ 517
XpresTest	614	2,068
Treat	2,123	—
HyperPointe	—	—
Corporate and other	54	47
Total capital expenditures	$ 3,432	$ 2,632

	June 30, 2022	**December 31, 2021**
Long-lived Assets		
XpresSpa	$ 10,944	$ 8,419
XpresTest	1,600	2,246
Treat	4,460	2,700
HyperPointe	160	—
Corporate and other	674	1,132
Total long-lived Assets	$ 17,838	$ 14,497

	June 30, 2022	**December 31, 2021**
Assets		
XpresSpa	$ 17,832	$ 12,351
XpresTest	7,710	19,349
Treat	8,254	5,918
HyperPointe	7,260	—
Corporate and other	60,309	89,648
Total assets	$ 101,365	$ 127,266

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" that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained herein that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipates," "believes," "can," "continues," "could," "estimates," "expects," "intends," "may," "will be," "plans," "projects," "seeks," "should," "targets," "will," "would," and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2021 filed on March 31, 2022, as subsequently amended on May 2, 2022 (the "2021 Annual Report"), our Quarterly Report on Form 10-Q for the three months ended March 31, 2022 filed on May 16, 2022, and this Quarterly Report on Form 10-Q and any future reports we file with the Securities and Exchange Commission ("SEC"). The forward-looking statements set forth herein speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

All references in this Quarterly Report on Form 10-Q to "we," "us" and "our" refer to XpresSpa Group, Inc., a Delaware corporation, and its consolidated subsidiaries.

Overview

XpresSpa Group, Inc. is one of the leading global travel health and wellness services holding companies. XpresSpa Group currently has four reportable operating segments: XpresSpa, XpresTest, Treat and HyperPointe.

XpresSpa Group's subsidiary, XpresSpa Holdings, LLC ("XpresSpa") has been a global airport retailer of spa services through its XpresSpa spa locations, offering travelers premium spa services, including massage, nail and skin care, as well as spa and travel products ("XpresSpa").

In March 2020, we temporarily closed all global XpresSpa locations due to the categorization by local jurisdictions of the spa locations as "non-essential services." A significant number of our XpresSpa locations remain closed, although several have reopened as described under "Recent Developments -XpresSpa Premium Spa Services" below. We intend to assess the reopening of remaining XpresSpa®™ spa locations on a location-by-location basis.

Since the beginning of the temporary closure of our XpresSpa locations, we successfully launched our XpresCheck Wellness Centers through XpresSpa Group's subsidiary XpresTest, we launched XpresCheck Wellness Centers, also in airports. XpresCheck offers COVID-19 and other medical diagnostic testing services to the traveling public, as well as airline, airport and concessionaire employees, and TSA and U.S. Customs and Border Protection agents. XpresTest has entered into MSAs with professional medical services companies or professional limited liability companies ("PLLC") that provide health care services to patients. The PLLCs pay XpresTest a monthly fee to operate in the XpresCheck Wellness Centers. Under the terms of MSAs, we provide office space, equipment, supplies, non-licensed staff, and management services in return for a management fee. Effective July 1, 2021, we determined that the PLLCs are VIEs due to their equity holders having insufficient capital at risk, and the Company having a variable interest in and being a primary beneficiary of these PLLCs.

Furthermore, XpresSpa Group continues to develop Treat, a travel health and wellness brand that is positioned for a post-pandemic world. Treat's on-site centers (currently located in JFK International Airport and Phoenix Sky Harbor International Airport and opening later this year in Salt Lake City International Airport) provide access to health and wellness services for travelers. Our teams provide travel-related diagnostic testing for virus, cold, flu and other illnesses as well as hydration therapy, IV drips, and vitamin injections. Travelers can purchase time blocks to use our wellness rooms to engage in interactive services like self-guided yoga, meditation and low impact weight exercises or to relax and unplug from the hectic pace of the airport and renew themselves before or after their trip. The integration and expansion of services and products, both domestically and internationally, is part of our objective to grow airport business.

Treat offers a website (www.treat.com) and mobile app to complement the offering with relevant health and wellness content designed to help people on the go with information that could impact their travel. The platform provides travelers access to a comprehensive online marketplace of services including global illness tracker tools such as the COVID-19 Requirements Map, on-demand chat care by licensed providers, a health wallet to store personal and family health records (including COVID-19 testing results), and a scheduler to arrange for direct care at one of our on-site locations. The information on the Treat website is not incorporated by reference into this Quarterly Report on Form 10-Q and does not constitute a part of this Form 10-Q.

Our HyperPointe segment, which we acquired in January 2022 provides a broad range of service and support options for our customers, including technical support services and advanced services.

Although we recognize four segments of business, our strategy for the future, is to create and leverage a fully integrated set of products and services that are both profitable and scalable across our portfolio of brands. Additionally, we will expand our retail strategy, not only adding more products for sale but aligning those products more efficiently to our service offerings. For example, adding fortified water and hydration packets to the delivery of an onsite hydration IV or adding muscle relaxation patches to a neck or back massage to continue treatment after the delivery of the service. The integration and expansion of services and products, both domestically and internationally, is part of our objective to grow airport business.

We also plan to build our capability for delivering health and wellness services outside the airport. We believe operating outside of the airport complements our offering and allows us to scale growth faster.

These strategic imperatives will be accomplished through development of an infrastructure specifically focused on enabling scalable and efficient growth.

While management has used all currently available information in assessing our business prospects, the ultimate impact of the COVID-19 pandemic on our XpresCheck Wellness Centers and on our results of operations, financial condition and cash flows remains uncertain and could have a material effect on our business.

Recent Developments

XpresCheck Wellness Centers

XpresCheck's business has management services agreements with state licensed physicians and nurse practitioners, under which we administer COVID-19 testing options, including a Polymerase Chain Reaction (PCR) test and a rapid PCR test. As of the date of this report, there are 15 operating XpresCheck locations in 12 airports, including the following locations opened since December 31, 2021:

- In February 2022, a second XpresCheck opened at Denver International Airport, pre-security in the Great Hall. It contains six separate testing rooms to provide diagnostic COVID-19 testing.

- In March 2022, we opened an XpresCheck in Orlando International Airport, pre-security, in the South Walk area of the Main Terminal. It contains five separate testing rooms to provide diagnostic COVID-19 testing.

During 2021, XpresCheck initiated a $2,001, eight-week pilot program with the Centers for Disease Control and Prevention (CDC) in collaboration with Concentric by Ginkgo. Under this program, XpresCheck is conducting biosurveillance monitoring at four major U.S. airports (JFK International Airport, Newark Liberty International Airport, San Francisco International Airport, and Hartsfield-Jackson Atlanta International Airport) aimed at identifying existing and new SARS-CoV-2 variants. On January 31, 2022, we announced the extension of the program, bringing the total contract to $5,534. Approximately $3,291 and $1,368 of the full $5,534 amount was recognized during the first half of 2022 and the fourth quarter of 2021, respectively. The Company anticipates that the remaining $875 of the full $5,534 amount will be realized in the third quarters of 2022.

XpresSpa

There are currently eighteen operating XpresSpa domestic locations and we expect to re-open four additional domestic locations in 2022. During 2022, we sold our two franchise locations in Austin-Bergstrom International Airport A majority of the domestic XpresSpa locations are operating approximately eight hours per day during the busiest hours (compared to up to sixteen hours per day pre-pandemic) improving labor productivity. Additionally, XpresSpa implemented a price increase in mid-October 2021 in its efforts to return to profitability. And as airport volumes improve, we will continue to review our operating hours to optimize revenue opportunity.

During the fourth quarter of 2021, we began testing several new services to take advantage of a growing interest in non-traditional spa services and expansion of our retail offering to align more closely with the services we provide. We are evaluating the success of these new initiatives at each airport on an on-going basis and will incorporate changes to our approach as more of the portfolio is reactivated.

There are also six international locations operating, including three XpresSpa locations in Dubai International Airport in the United Arab Emirates and three XpresSpa locations in Schiphol Amsterdam Airport in the Netherlands. We have also signed for five locations at Istanbul Airport and expect to open the first store later in 2022.

The Company received rent concessions from landlords on a majority of its leases, allowing for the relief of minimum guaranteed payments in exchange for percentage-of-revenue rent or providing relief from rent through payment deferrals. Currently, the period of relief from these payments range from three to thirty-four months (34) and began in March 2020. The Company received minimum guaranteed payment concessions of approximately $110 and $511 in the three months ended June 30, 2022 and 2021, respectively, $431 and $983 in the six months ended June 30, 2022 and 2021, respectively. We expect to realize additional rent concessions while some of our spas remain closed.

Treat

Treat is our new travel, health and wellness brand transforming the way we access care through a suite of health and wellness services supported by an integrated digital platform and a relevant retail offering to the traveling public.

Treat's on-site centers (currently located in JFK International Airport and Phoenix Sky Harbor International Airport and opening later this year in Salt Lake City International Airport) provide access to health and wellness services for travelers. Our teams provide travel-related diagnostic testing for virus, cold, flu and other illnesses as well as hydration therapy, IV drips, and vitamin injections. Travelers can purchase time blocks to use our wellness rooms to engage in interactive services like self-guided yoga, meditation and low impact weight exercises or to relax and unplug from the hectic pace of the airport and renew themselves before or after their trip.

Treat offers a website (www.treat.com) and mobile app to complement the offering with relevant health and wellness content designed to help people on the go with information that could impact their travel. The platform provides travelers access to a comprehensive online marketplace of services including global illness tracker tools such as the COVID-19 Requirements Map, on-demand chat care by licensed providers, a health wallet to store personal and family health records (including COVID-19 testing results), and a scheduler to arrange for direct care at one of our on-site locations.

HyperPointe Acquisition

In January 2022, we announced and closed on the acquisition of gcg Connect, LLC d/b/a HyperPointe. HyperPointe is a leading digital healthcare and data analytics relationship marketing agency servicing the global healthcare and pharmaceutical industry. HyperPointe has significant experience in patient and healthcare professional marketing and deep technological experience with CXM (customer experience management) and data analytics. Since June 2020, HyperPointe's management team and suite of services and technology have been used to develop and deploy the technological infrastructure needed to scale the growth of our XpresCheck business HyperPointe's experience in this space continues to serve the XpresCheck business and we expect it will play a critical role in the expansion of on-going biosurveillance efforts.

The purchase price in the transaction consisted of $7,121 in cash and $906 in common stock, offset by the settlement of intercompany accounts payable of $770. as well as potential additional earn-out payments of up to $7,500 over a three-year timeframe based upon future performance; these earn-out payments may be satisfied in cash or common stock or a combination thereof subject to various terms and conditions.

HyperPointe currently operates as a new segment within XpresSpa Group. Ezra Ernst, who was the chief executive officer of HyperPointe before our acquisition, continues to serve as the chief executive officer of HyperPointe, as well as the chief executive officer of XpresCheck, reporting to Scott Milford, XpresSpa Group CEO.

Adjusted EBITDA

Adjusted EBITDA is a supplemental measure of financial performance that is not required by or presented in accordance with GAAP but is a measurement used by management to assess the trends in our business. In evaluating our performance as measured by Adjusted EBITDA, we recognize and consider the limitations of this measurement.

We define Adjusted EBITDA as earnings before interest, taxes, depreciation and amortization expense, non-cash charges, and stock-based compensation expense.

We consider Adjusted EBITDA to be an important indicator for the performance of our operating business, but it is not a measure of performance or liquidity calculated in accordance with GAAP. We have included this non-GAAP financial measure because management utilizes this information for assessing our performance and liquidity, and as an indicator of our ability to make capital expenditures and finance working capital requirements. We believe that Adjusted EBITDA is a measurement that is commonly used by analysts and some investors in evaluating the performance and liquidity of growth companies such as ours.

In particular, we believe that it is useful for analysts and investors to understand that Adjusted EBITDA excludes certain transactions not related to our core cash operating activities, which are primarily related to our XpresCheck Wellness Centers. We believe that excluding these transactions allows investors to meaningfully analyze the performance of our core cash operations.

Adjusted EBITDA should not be considered in isolation or as an alternative to cash flow from operating activities or as an alternative to operating income or as an indicator of operating performance or any other measure of performance derived in accordance with GAAP. Adjusted EBITDA does not reflect our obligations for the payment of income taxes, interest expense, or other obligations such as capital expenditures.

A reconciliation of operating income (loss) from operations presented in accordance with GAAP for the three and six month periods ended June 30, 2022 and 2021 to Adjusted EBITDA (loss) is presented in the table below.

Q2 2022 Results of Operations and Adjusted EBITDA

(Amounts in thousands)

	Three months ended June 30,		Six months ended June 30,	
Revenue:	**2022**	**2021**	**2022**	**2021**
Managed services fees	$ —	$ 8,669	$ —	$ 16,843
Patient service revenue	7,732	—	27,121	—
Services	4,787	338	8,564	603
Products	421	79	766	144
Other	657	6	1,194	14
Total revenue	13,597	9,092	37,645	17,604
Cost of sales				
Labor	5,477	1,927	10,939	3,142
Occupancy	1,262	443	2,330	924
Product and other operating costs	5,618	5,331	14,135	7,794
Total cost of sales	12,357	7,701	27,404	11,860
Depreciation and amortization	1,501	946	2,765	1,690
(Gain)/impairment on disposal of assets	(52)	—	(52)	22
General and administrative	7,558	4,646	17,746	9,154
Total operating expense	21,364	13,293	47,863	22,726
Loss from operations	(7,767)	(4,201)	(10,218)	(5,122)
Interest income, net	38	13	45	25
Other non-operating (expense)/income, net	(196)	(551)	(514)	(449)
Loss before income taxes	(7,925)	(4,739)	(10,687)	(5,546)
Income tax (expense) benefit	(2)	9	(2)	8
Net loss	(7,927)	(4,730)	(10,689)	(5,538)
Net loss (income) attributable to noncontrolling interests	9	263	(1,512)	15
Net loss attributable to common shareholders	$ (7,918)	$ (4,467)	$ (12,201)	$ (5,523)
Loss from operations	$ (7,767)	$ (4,201)	$ (10,218)	$ (5,122)
Add back:				
Depreciation and amortization	1,501	946	2,765	1,690
(Gain)/Impairment/disposal of assets	(52)	—	(52)	22
Stock-based compensation expense	1,320	328	2,863	1,333
Adjusted EBITDA	$ (4,998)	$ (2,927)	$ (4,642)	$ (2,077)

Results of Operations

Revenue

We recognize revenue from the sale of XpresSpa services when they are rendered at our stores and from the sale of products at the time goods are purchased at our stores or online (usually by credit card), net of discounts and applicable sales taxes. A significant number of our spa locations remain closed and therefore generate little revenue.

We have entered into managed services agreements with professional medical services companies that provide healthcare services to patients in our XpresCheck and Treat Wellness Centers. The medical services companies will pay XpresTest and Treat, a monthly management fee to operate in the XpresCheck and Treat Wellness Centers.

Our HyperPointe segment provides broad range of service and support options for our customers, including technical support services and advanced services. Technical support services represent the majority of these offerings which are distinct performance obligations that are satisfied over time with revenue recognized ratably over the contract term.

Cost of sales

Cost of sales for our XpresSpa segment consists of store-level costs. Store-level costs include all costs that are directly attributable to the store operations, primarily payroll and related benefit costs for store personnel, occupancy costs and cost of products sold. Cost of sales of our XpresTest and Treat segments include costs related to the XpresCheck and Treat Medical Office business, and consists of expenses directly attributable to the clinic operations under the terms of the MSAs, primarily payroll and related benefit costs for personnel, occupancy costs and cost of supplies used to administer the diagnostic COVID-19 tests and a suite of health and wellness services

General and administrative

General and administrative expenses include management and administrative personnel, overhead and occupancy costs, insurance and various professional fees, as well as stock-based compensation for directors, management and administrative personnel.

Three months ended June 30, 2022 compared to the three months ended June 30, 2021

Revenue

	Three months ended June 30,		
	2022	**2021**	**Inc/(Dec)**
Total revenue	$ 13,597	$ 9,092	$ 4,505

The increase in revenue of $4,505 or 50%, was primarily due to patient service revenue triggered by the rapid growth of the XpresTest segment with the addition of more locations after Q2 2021 and consolidations of PLLCs as VIEs since the second half of 2021, resulting in the recognition of their revenue as our revenue. The Company also saw an increase in revenue associated with the XpresSpa locations that opened during the second half of 2021.

Cost of sales

	Three months ended June 30,		
	2022	**2021**	**Inc/(Dec)**
Cost of sales	$ 12,357	$ 7,701	$ 4,656

The increase in cost of sales of $4,656 or 60%, was due to the increase in revenues resulting in increased costs to operate the increased number of XpresCheck locations; inclusive of PLLCs costs due to consolidating them since the second half of 2021, and the reopening of certain XpresSpa locations that were temporarily closed during the second quarter of 2021. We had 22 open Spa locations as of June 30, 2022, and 2 open Spa locations as of June 30, 2021. The largest component in the cost of sales are costs of testing kits and labor costs at the location-level. Cost of sales also includes rent and related occupancy costs, which can primarily include rent based on percentage of sales, as well as other product costs directly associated with the procurement of retail inventory, and other operating costs.

Depreciation and amortization

	Three months ended June 30,		
	2022	2021	Inc/(Dec)
Depreciation and amortization	$ 1,501	$ 946	$ 555

The increase in depreciation and amortization of approximately 59% was primarily due to depreciation and amortization related to the recently opened XpresCheck and Treat Wellness Centers.

General and administrative

	Three months ended June 30,		
	2022	2021	Inc/(Dec)
General and administrative	$ 7,558	$ 4,646	$ 2,912

The increase of approximately 63% was primarily due to functional costs associated with the operations of XpresCheck and Treat wellness centers, XpresSpa locations, and the newly acquired HyperPointe segment.

Other non-operating (expense) income, net

	Three months ended June 30,		
	2022	2021	Inc/(Dec)
Other non-operating (expense) /income, net	$ (196)	$ (551)	$ 355

The following is a summary of the transactions included in other non-operating expense, net for the three months ended June 30, 2022 and 2021:

	Three months ended June 30,	
	2022	2021
Loss on equity investments	$ (157)	$ (513)
Bank fees and financing charges	(39)	(38)
Total	$ (196)	$ (551)

Interest income, net

	Three months ended June 30,		
	2022	2021	Inc/(Dec)
Interest income, net	$ 38	$ 13	$ 25

Interest income, net increased as a result of increased interest rate and elimination of interest expense since the beginning of May 2022.

Six months ended June 30, 2022 compared to the Six months ended June 30, 2021

Revenue

	Six months ended June 30,		
	2022	**2021**	**Inc/(Dec)**
Total revenue	$ 37,645	$ 17,604	$ 20,041

The increase in revenue of $20,041 or 114%, was primarily due to patient service revenue triggered by the rapid growth of the XpresTest segment with the addition of more locations after Q2 2021 and consolidations of PLLCs as VIEs since the beginning of second half of 2021, resulting in the recognition of their revenue as our revenue. The Company also saw an increase in revenue associated with the XpresSpa locations that opened during the second half of 2021.

Cost of sales

	Six months ended June 30,		
	2022	**2021**	**Inc/(Dec)**
Cost of sales	$ 27,404	$ 11,860	$ 15,544

The increase in cost of sales of $15,544 or 131%, was due to the increase in revenues resulting in increased costs to operate the increased number of XpresCheck locations; inclusive of PLLCs' costs due to consolidating them since the beginning of second half of 2021, and the reopening of certain XpresSpa locations that were temporarily closed during the second quarter of 2021. We had 22 open Spa locations as of June 30, 2022, and 2 open Spa locations as of June 30, 2021. The largest component in the cost of sales are costs of testing kits and labor costs at the location-level. Cost of sales also includes rent and related occupancy costs, which can primarily include rent based on percentage of sales, as well as other product costs directly associated with the procurement of retail inventory, and other operating costs.

Depreciation and amortization

	Six months ended June 30,		
	2022	**2021**	**Inc/(Dec)**
Depreciation and amortization	$ 2,765	$ 1,690	$ 1,075

The increase in depreciation and amortization of approximately 64% was primarily due to depreciation and amortization related to XpresCheck and Treat Wellness Centers after the second quarter of 2021.

General and administrative

	Six months ended June 30,		
	2021	**2020**	**Inc/(Dec)**
General and administrative	$ 17,746	$ 9,154	$ 8,592

The increase of approximately 94% was primarily due to functional costs associated with the operations of XpresCheck and Treat wellness centers, XpresSpa locations, and the newly acquired HyperPointe segment.

Other non-operating (expense) income, net

	Six months ended June 30,		
	2022	2021	Inc/(Dec)
Other non-operating (expense) /income, net	$ (514)	$ (449)	$ (65)

The following is a summary of the transactions included in other non-operating expense (income), net for the six months ended June 30, 2022 and 2021:

	Six months ended June 30,	
	2022	2021
Loss on equity investments	$ (430)	$ (414)
Bank fees and financing charges	(84)	(35)
Total	$ (514)	$ (449)

Interest income, net

	Six months ended June 30,		
	2022	2021	Inc/(Dec)
Interest income, net	$ 45	$ 25	$ 20

Interest income, net increased as a result of increased interest rate and elimination of interest expense since the beginning of May 2022.

Liquidity and Capital Resources

As of June 30, 2022, we had cash and cash equivalents, excluding restricted cash, of $71,108, total current assets of $74,367, total current liabilities of $12,541 and positive working capital of $61,826 compared to a positive working capital of $89,152 as of December 31, 2021.

On August 31, 2021, our board of directors initially authorized a stock repurchase program that permitted the purchase and repurchase of up to 15 million shares of our common stock through September 15, 2022. In May 2022, the Board increased the share repurchase program by an additional 10 million shares and extended its effectiveness through September 15, 2023. Under the new stock repurchase program, management has discretion in determining the conditions under which shares may be purchased from time to time. The program does not require us to repurchase any specific number of shares, and may be modified, suspended or terminated at any time without prior notice. Under the program, we purchased 8,480,850 shares for $12,116 and retired 7,142,446 of these purchased shares during the six months ended June 30, 2022, and the remaining 1,338, 404 shares were retired on August 3, 2022.

While we have addressed our working capital deficiency and long-term debt, and continue to focus on our overall operating profitability, we expect to incur net losses in the foreseeable future. In addition, the ongoing impact of the COVID-19 pandemic on our business going forward remains uncertain at this time and may result in additional material adverse impacts on our liquidity position and access to capital.

Critical Accounting Estimates

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2021, as amended, filed with the SEC which includes a description of our critical accounting estimates that involve subjective and complex judgments that could potentially affect reported results. There have been no material changes to our critical accounting estimates as to the methodologies or assumptions we apply under them. We continue to monitor such methodologies and assumptions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required as we are a smaller reporting company.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Exchange Act) that are designed to ensure that information required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer (Principal Financial and Accounting Officer), as appropriate, to allow timely decisions regarding required disclosure.

As of June 30, 2022, our management carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Interim Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Our management’s evaluation as of December 31, 2019 identified a material weakness in our internal control over financial reporting. Based on our evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of June 30, 2022, to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer and Interim Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Notwithstanding this conclusion, management believes that the condensed consolidated financial statements in this Quarterly Report on Form 10-Q fairly present in all material respects our financial condition, results of operations and cash flows in conformity with GAAP.

Remediation Plan for Material Weakness in Internal Control over Financial Reporting

We and our Board treat the controls surrounding, and the integrity of, our financial statements with the utmost priority. Management is committed to the planning and implementation of remediation efforts to address control deficiencies and any other identified areas of risk. These remediation efforts are intended to both address the identified material weakness and to enhance our overall financial control environment. In particular:

- we will continue to strengthen our interim and annual financial review controls to function with a sufficient level of precision to detect and correct errors on a timely basis; and
- we will continue to improve the timeliness of our closing processes with respect to interim and annual periods.

Following identification of this control deficiency, commenced remediation efforts by implementing modifications to better ensure that the Company has appropriate and timely reviews on all financial reporting analysis. The material weakness in our internal control over financial reporting will not be considered remediated until these modifications are implemented, in operation for a sufficient period of time, tested, and concluded by management to be designed and operating effectively. In addition, as we continue to evaluate and work to improve our internal control over financial reporting, management may determine to take additional measures to address control deficiencies or determine to modify our remediation plan. Management is testing and evaluating the implementation of these modifications during 2021 to ascertain whether they are designed and operating effectively to provide reasonable assurance that they will prevent or detect a material misstatement in the Company's financial statements.

The steps we took to address the deficiencies identified included:

- we hired a permanent Chief Financial Officer in December 2020, and following his departure in June 2022 we are currently searching for a new Chief Financial Officer;
- we have engaged in efforts to restructure accounting processes and revise organizational structures to enhance accurate accounting and appropriate financial reporting;
- we have engaged outside service providers to assist with the valuation and recording of key reporting areas such as leases and stock compensation expense;
- we have implemented additional accounting software to aid in the accounting and financial reporting process;
- we have contracted an independent consulting firm to assist with the preparation of the Financial Statements and U.S. GAAP accounting research; and
- in March 2021, we hired a seasoned Certified Public Accountant as a permanent Corporate Controller, who also has a Certified Information Systems Auditor accreditation.

We are committed to maintaining a strong internal control environment, and we believe the measures described above will strengthen our internal control over financial reporting and remediate the material weakness we have identified. Our remediation efforts have begun, and we will continue to devote significant time and attention to these remedial efforts. As we continue to evaluate and work to improve our internal control over financial reporting, management may determine to take additional measures to strengthen controls or to modify the remediation plan described above, which may require additional implementation time.

As noted above, we believe that, as a result of management's in-depth review of its accounting processes, and the additional procedures management has implemented, there are no material inaccuracies or omissions of material fact in this Form 10-Q and, to the best of our knowledge, we believe that the condensed consolidated financial statements in this Form 10-Q fairly present in all material respects our financial condition, results of operations and cash flows in conformity with GAAP.

Changes in Internal Control over Financial Reporting

Based on our evaluation, management concluded that our internal control over financial reporting was not effective as of June 30, 2022, due to a material weakness in our internal control over our financial close and reporting process, which was discovered in 2019, still remaining unmitigated. Management continues to conclude that as of June 30, 2022 we still did not have a sufficient complement of corporate personnel with appropriate levels of accounting and controls knowledge and experience commensurate with our financial reporting requirements to appropriately analyze, record and disclose accounting matters completely and accurately. As a result of this evaluation, we also selectively used outside consultants who possessed the appropriate levels of accounting and controls knowledge to appropriately analyze, record, and disclose accounting matters completely and accurately.

Other than as set forth in the foregoing paragraph, there have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

For information regarding legal proceedings, see Note 15. "*Commitments and Contingencies*" in our notes to the condensed consolidated financial statements included in "Item 1. Condensed Consolidated Financial Statements (Unaudited)."

Item 1A. Risk Factors.

There have been no material changes to the risk factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2021.

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 No.	Description
31.1*	Certification of Principal Executive Officer pursuant to Exchange Act, Rules 13a – 14(a) and 15d – 14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Principal Financial Officer pursuant to Exchange Act, Rules 13a – 14(a) and 15d – 14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32**	Certifications of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

***** **Filed herewith.**
****** **Furnished herein.**

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.

XpresSpa Group, Inc.

Date:	August 15, 2022	By:	/s/ Scott R Milford
			Scott R. Milford **Chief Executive Officer** **(Principal Executive Officer)**
Date:	August 15, 2022	By:	/s/ Omar A. Haynes
			Omar A. Haynes **Interim Chief Financial Officer** **(Principal Financial and Accounting Officer)**

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Scott R. Milford, certify that:

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

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

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

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

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

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

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my 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 (the registrant's first fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my 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 (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the 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.

Dated: August 15, 2022

/s/ SCOTT R. MILFORD
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Omar A. Haynes, certify that:

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

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

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

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

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

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

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my 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 (the registrant's first fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my 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 (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the 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.

Dated: August 15, 2022

/s/ OMAR A. HAYNES

Interim Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of XpresSpa Group, Inc., a Delaware corporation (the “Company”), does hereby certify, to such officer’s knowledge, that:

The Quarterly Report for the quarter ended June 30, 2022 (the “Form 10-Q”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 15, 2022

/s/ SCOTT R. MILFORD

Scott R.Milford
Chief Executive Officer
(Principal Executive Officer)

/s/ OMAR A. HAYNES

Omar A. Haynes
Interim Chief Financial Officer
(Principal Financial and Accounting Officer)