

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 March 31, 2021

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

(State or other jurisdiction of  
incorporation or organization)

20-4988129

(I.R.S. Employer  
Identification No.)

254 West 31<sup>st</sup> Street, 11th Floor, New York, NY  
(Address of principal executive offices)

10001  
(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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 May 13, 2021, 105,310,365 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)**

	March 31, 2021	December 31, 2020
<b>Current assets</b>		
Cash and cash equivalents	\$ 102,649	\$ 89,801
Accounts receivable, net	3,019	-
Inventory	1,165	657
Other current assets	956	1,321
<b>Total current assets</b>	<b>107,789</b>	<b>91,779</b>
Restricted cash	701	701
Property and equipment, net	4,464	4,161
Intangible assets, net	771	870
Operating lease right of use assets	3,134	3,034
Other assets	2,961	2,588
<b>Total assets</b>	<b>\$ 119,820</b>	<b>\$ 103,133</b>
<b>Current liabilities</b>		
Accounts payable, accrued expenses and other	\$ 7,049	\$ 7,382
Current portion of operating lease liabilities	2,789	2,797
Current portion of promissory note, unsecured	4,004	3,298
<b>Total current liabilities</b>	<b>13,842</b>	<b>13,477</b>
<b>Long-term liabilities</b>		
Promissory note, unsecured	1,649	2,355
Operating lease liabilities	6,437	6,930
<b>Total liabilities</b>	<b>21,928</b>	<b>22,762</b>
<b>Commitments and contingencies (see Note 11)</b>		
<b>Equity</b>		
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; 105,282,382 and 94,058,853 shares issued and outstanding as of March 31, 2021 and December 31, 2020, respectively	1,053	941
Additional paid-in capital	492,868	475,709
Accumulated deficit	(399,680)	(398,624)
Accumulated other comprehensive loss	(236)	(220)
<b>Total equity attributable to XpresSpa Group, Inc.</b>	<b>94,005</b>	<b>77,806</b>
Noncontrolling interests	3,887	2,565
<b>Total equity</b>	<b>97,892</b>	<b>80,371</b>
<b>Total liabilities and equity</b>	<b>\$ 119,820</b>	<b>\$ 103,133</b>

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)**

	<b>Three months ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Revenue, net</b>		
Managed services fees	\$ 8,174	\$ -
Services	265	6,686
Products	65	891
Other	8	141
<b>Total revenue, net</b>	<b>8,512</b>	<b>7,718</b>
<b>Cost of sales</b>		
Labor	1,215	4,476
Occupancy	481	1,410
Products and other operating costs	2,463	1,282
<b>Total cost of sales</b>	<b>4,159</b>	<b>7,168</b>
Depreciation and amortization	744	1,265
Impairment/disposal of assets	22	-
General and administrative	4,508	3,233
<b>Total operating expenses</b>	<b>9,433</b>	<b>11,666</b>
<b>Operating loss</b>	<b>(921)</b>	<b>(3,948)</b>
Interest income (expense), net	12	(1,061)
Loss on revaluation of warrants and conversion options	-	(5,369)
Other non-operating income (expense), net	102	(346)
<b>Loss from operations before income taxes</b>	<b>(807)</b>	<b>(10,724)</b>
Income tax expense	(1)	-
<b>Net loss</b>	<b>(808)</b>	<b>(10,724)</b>
Net (income) loss attributable to noncontrolling interests	(248)	108
<b>Net loss attributable to XpresSpa Group, Inc.</b>	<b>\$ (1,056)</b>	<b>\$ (10,616)</b>
<b>Net loss</b>	<b>\$ (808)</b>	<b>\$ (10,724)</b>
Other comprehensive loss from operations	(16)	-
<b>Comprehensive loss</b>	<b>\$ (824)</b>	<b>\$ (10,724)</b>
<b>Loss per share</b>		
<b>Basic and diluted net loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (1.74)</b>
<b>Weighted-average number of shares outstanding during the year</b>		
Basic	101,058,500	6,276,012
Diluted	101,058,500	6,276,012

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**  
**(Unaudited)**  
(In thousands, except share and per share data)

	Series E		Series F		Common stock		Additional paid- in capital	Accumulated deficit	Accumulated other comprehensive loss	Total Company equity	Non- controlling interests	Total equity
	Preferred stock Shares	Amount	Preferred stock Shares	Amount	Shares	Amount						
<b>December 31, 2020</b>	-	\$ -	-	\$ —	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
<b>March 31, 2021</b>	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>105,282,382</u>	<u>\$ 1,053</u>	<u>\$ 492,868</u>	<u>\$ (399,680)</u>	<u>\$ (236)</u>	<u>\$ 94,005</u>	<u>\$ 3,887</u>	<u>\$97,892</u>

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)**

	Series E Preferred stock		Series F Preferred stock		Common stock		Additional paid- in capital *	Accumulated deficit	Accumulated other comprehensive loss	Total Company equity (deficit)	Non- controlling interests	Total equity (deficit)
	Shares	Amount	Shares	Amount	Shares *	Amount *						
<b>December 31, 2019</b>	977,865	\$ 10	8,996	\$ —	5,157,390	\$ 52	\$ 302,118	\$ (308,136)	\$ (283)	\$ (6,239)	\$ 3,703	\$ (2,536)
Issuances of Common Stock for payment of interest on B3D Note	—	—	—	—	236,077	2	418	—	—	420	—	420
Issuance of Series E Preferred Stock for payment of interest on Calm Note	10,123	—	—	—	—	—	63	—	—	63	—	63
Conversion of Series F Preferred Stock into Common Stock	—	—	(7,465)	—	930,326	9	(9)	—	—	—	—	—
Direct offerings of Common Stock and pre-funded warrants, net of costs	—	—	—	—	8,210,239	82	4,176	—	—	4,258	—	4,258
Exercise of May 2018 Class A Warrants into Common Stock	—	—	—	—	2,578,455	26	3,096	—	—	3,122	—	3,122
Conversion of B3D Note to Common Stock	—	—	—	—	1,430,647	14	1,321	—	—	1,335	—	1,335
Issuance of Common Stock for services	—	—	—	—	58,333	1	134	—	—	135	—	135
Stock-based compensation	—	—	—	—	—	—	72	—	—	72	—	72
Net loss for the period	—	—	—	—	—	—	—	(10,616)	—	(10,616)	(108)	(10,724)
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	—	—	117	117
<b>March 31, 2020</b>	987,988	\$ 10	1,531	\$ —	18,601,467	\$ 186	\$ 311,389	\$ (318,752)	\$ (283)	\$ (7,450)	\$ 3,712	\$ (3,738)

\* Adjusted to reflect the impact of the 1:3 reverse stock split that became effective on June 11, 2020.

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)**

	<b>Three months ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (808)	\$ (10,724)
Adjustments to reconcile net loss to net cash used in operating activities:		
<b>Items included in net loss not affecting operating cash flows:</b>		
Revaluation of warrants and conversion options	—	5,369
Depreciation and amortization	744	1,265
Impairment/disposal of assets	22	—
Accretion of debt discount on notes	—	602
Amortization of operating lease right of use asset	224	527
Issuance of shares of Common Stock for payment of interest	—	420
Issuance of shares of Series E Preferred Stock for payment of interest	—	63
Loss on the extinguishment of debt	—	265
Issuance of shares of Common Stock for services	—	135
Amortization of debt issuance costs	—	87
Stock-based compensation	1,005	72
Gain on equity investment	(99)	—
<b>Changes in assets and liabilities:</b>		
(Increase) decrease in inventory	(508)	51
Increase in accounts receivable, net	(3,019)	—
Decrease (increase) in other current assets and other assets	91	(710)
Decrease in lease liabilities	(825)	—
Decrease in accounts payable, accrued expenses and other	(325)	(939)
<b>Net cash used in operating activities</b>	<b>(3,498)</b>	<b>(3,517)</b>
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	(986)	(584)
<b>Net cash used in investing activities</b>	<b>(986)</b>	<b>(584)</b>
<b>Cash flows from financing activities</b>		
Proceeds from direct offerings of Common Stock and warrants	—	4,258
Proceeds from additional borrowing from B3D	—	900
Proceeds from funding advance	—	910
Warrant exercises, net of costs	17,007	—
Debt issuance costs	—	(400)
Contributions from noncontrolling interests	333	117
<b>Net cash provided by financing activities</b>	<b>17,340</b>	<b>5,785</b>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(8)	(13)
Increase (decrease) in cash, cash equivalents and restricted cash	12,848	1,671
Cash, cash equivalents, and restricted cash at beginning of the period	90,502	2,635
Cash, cash equivalents, and restricted cash at end of the period	<b>\$ 103,350</b>	<b>\$ 4,306</b>
<b>Cash paid during the period for</b>		
Interest	\$ —	\$ 169
Income taxes	\$ —	\$ 2
<b>Non-cash investing and financing transactions</b>		
Conversions of B3D Note into Common Stock	\$ —	\$ 1,335
Settlement of derivative liability through the issuance of Common Stock	\$ —	\$ 3,122
Conversion of Series F Preferred Stock into Common Stock	\$ —	\$ 9

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”) is a leading global travel health and wellness services holding company. XpresSpa Group currently has two reportable operating segments: XpresSpa and XpresTest.

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, we provide office space, equipment, supplies, non-licensed staff, and management services in return for a management fee.

***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, 2020, as amended. The condensed consolidated balance sheet as of December 31, 2020 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. 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 months ended March 31, 2021 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***

**Effect of Novel Coronavirus on Business**

In March 2020, the Company temporarily closed all global XpresSpa locations due to the categorization by local jurisdictions of the spa locations as “non-essential services.” Substantially all of the Company’s XpresSpa locations remain closed. The Company intends to reopen XpresSpa spa locations on a location-by-location basis and resume normal operations at such selected locations once restrictions are lifted and airport traffic returns to sufficient levels to support operations at a unit level.

Since the time of that temporary closure, the Company successfully launched its XpresCheck™ Wellness Centers, offering such testing services, as described above. Also, the Company continues to evaluate alternative testing protocols and work in partnership with airlines for safe travels.

While management has used all currently available information in assessing its business prospects, the ultimate impact of the COVID-19 pandemic and the Company’s XpresCheck™ Wellness Centers on its results of operations, financial



condition and cash flows remains uncertain. The success or failure of the Company's XpresCheck™ Wellness Centers could also have a material effect on the Company's business.

### **XpresCheck™ Wellness Centers**

Through our XpresCheck™ Wellness Centers and under the terms of Managed Services Agreements (“MSAs”) with physicians' practices, we offer testing services from our 13 XpresCheck™ Wellness Centers at 11 Airports in 10 states 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 professional medical service entities that provide healthcare services to patients. Under the terms of the MSAs, 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. Since December 31, 2020, we announced the opening of the following XpresCheck™ Wellness Centers to provide diagnostic COVID-19 testing:

On January 12, 2021, the Company opened its second XpresCheck™ Wellness Center at Boston's Logan International Airport. It contains four separate testing rooms to provide diagnostic COVID-19 testing.

On January 20, 2021, the Company announced the opening of an XpresCheck™ Wellness Center at Salt Lake City International Airport. It contains four separate testing rooms to provide diagnostic COVID-19 testing.

On February 16, 2021, the Company announced the opening of an XpresCheck™ Wellness Center of the Company's second XpresCheck testing facility at Newark Liberty International Airport. It contains four separate testing rooms to provide diagnostic COVID-19 testing.

On March 8, 2021, the Company announced the opening of an XpresCheck™ Wellness Center at Houston George Bush Intercontinental Airport. It contains four separate testing rooms to provide diagnostic COVID-19 testing.

On March 15, 2021, the Company announced the opening of XpresCheck™ Wellness Centers at Dulles International and Reagan National Airports in Virginia, containing nine and four separate testing rooms, respectively, to provide diagnostic COVID-19 testing.

On April 8, 2021, the Company announced the opening of an XpresCheck™ Wellness Center at Seattle-Tacoma International Airport. It contains eight separate testing rooms to provide diagnostic COVID-19 testing.

On April 21, 2021, the Company announced the opening of an XpresCheck™ Wellness Center at San Francisco International Airport. It contains nine separate testing rooms to provide diagnostic COVID-19 testing.

### **Airport Rent Concessions**

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 range from three to nineteen months and began in March 2020. The Company received minimum guaranteed payment concessions of approximately \$472 and \$75 in the three months ended March 31, 2021 and March 31, 2020, respectively, and \$2,504 in the twelve months ended March 31, 2021. The company expects to realize additional rent concessions while our XpresSpa locations remain closed.

### **Liquidity and Financial Condition**

As of March 31, 2021, the Company had cash and cash equivalents, excluding restricted cash, of \$102,649, total current assets of \$107,789, total current liabilities of \$13,842 and positive working capital of \$93,947, compared to a positive working capital of \$78,302 as of December 31, 2020.

During the three months ended March 31, 2021, holders of the Company's December 2020 Investor Warrants, December 2020 Placement Agent Warrants and December 2020 Placement Agent Tail Fee Warrants exercised a total of 11,223,529 warrants for common shares. The Company received gross proceeds of approximately \$19,161. In accordance with the placement agent agreements with H.C. Wainwright & Co., LLC and Palladium, the Company paid cash fees of \$2,154 and issued 842,588 warrants to H.C. Wainwright & Co., LLC at an exercise price of \$2.125 per share and 325,500 warrants to Palladium at an exercise price of \$1.70 per share. See *Note 8. Stockholders' Equity* for related discussion.

## **Note 2. Significant Accounting and Reporting Policies**

### **(a) Revenue Recognition Policy**

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 our stores or online usually by credit card, net of discounts and applicable sales taxes. Accordingly, the Company recognizes revenue for our 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.

Through its XpresCheck™ Wellness Centers and under the terms of Managed Services Agreements ("MSAs") with a physician's practice, 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 professional medical service entities that provide healthcare services to patients. Under the terms of the MSAs, 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. However, as a result of uncertainties around the cash flows of the XpresCheck™ Wellness Centers, the Company concluded in 2020 that the collectability criteria to qualify as a contract under ASC 606 was not met, and therefore, revenue associated with the monthly management fee would not be recognized until a subsequent reassessment resulted in the MSAs meeting the collectability criteria. XpresTest recognized \$8,178 of revenue (including catch-up revenue of \$3,186 for 2020) during the three months ended March 31, 2021, under the MSAs, pursuant to reassessments in Q1 2021, of MSA agreements executed in 2020, and assessments of MSA agreements executed in 2021 resulting in management's conclusion that they met the collectability criteria.

The Company has a franchise agreement with an unaffiliated franchisee to operate an XpresSpa location. Under the Company's franchising model, all initial franchising fees relate to the franchise right, which is a single performance obligation that transfers over time. Upon receipt of the non-recurring, non-refundable initial franchise fee, management records a deferred revenue liability in *Accounts payable, accrued expenses and other* on the Company's condensed consolidated balance sheets and recognizes revenue on a straight-line basis over the life of the franchise agreement.

The Company has also entered into collaborative agreements with marketing partners whereby it sells certain of its partners' products in the Company's XpresSpa spas. 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 in *Accounts payable, accrued expenses and other* on the Company's condensed consolidated balance sheets and recognizes revenue on a straight-line basis over the life of the collaboration agreement.

The Company excludes all sales taxes assessed to our 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) Recently issued 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 does not believe the adoption of this standard will have a material impact on its condensed consolidated financial statements.

**(c) Recently adopted accounting pronouncements**

*Accounting Standards Update No. 2020-10—Codification Improvements*

Issued in October 2020, this release updates various codification topics by clarifying or improving disclosure requirements to align with the SEC’s regulations. The Company adopted ASU 2020-10 as of the reporting period beginning January 1, 2021. The adoption of this update did not have a material effect on the Company’s condensed consolidated financial statements.

*Accounting Standards Update No. 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)—Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*

Issued in January 2020, the amendments in this update affect all entities that apply the guidance in Topics 321, 323, and 815 and (1) elect to apply the measurement alternative or (2) enter into a forward contract or purchase an as option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting. The Company applies the guidance included in Topic 815 to its derivative liabilities but does not intend on applying the new measurement alternative included in the update. The new standard is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Adoption of this standard did not have a material impact on the Company’s condensed consolidated financial statements.

*Accounting Standards Update No. 2019-12—Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*

Issued in December 2019, the amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The amendments in this update simplify *the accounting for income taxes by removing certain exceptions to guidance in Topic 740. The specific areas of potential simplification were submitted by stakeholders as part of the FASB’s simplification initiative.* Adoption of this standard did not have a material impact on the Company’s condensed consolidated financial statements.

### Note 3. Potentially Dilutive Securities

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

	Three months ended March 31,	
	2021	2020
<b>Basic and diluted numerator:</b>		
Net loss attributable to XpresSpa Group, Inc.	\$ (1,056)	\$ (10,616)
Less: deemed dividend on warrants and preferred stock	—	(308)
Net loss attributable to common shareholders	<u>\$ (1,056)</u>	<u>\$ (10,924)</u>
<b>Basic and diluted denominator:</b>		
Basic and diluted weighted average shares outstanding	101,058,500	6,276,012
Basic and diluted net loss per share	<u>\$ (0.01)</u>	<u>\$ (1.74)</u>
<b>Net loss per share data presented above excludes from the calculation of diluted net loss the following potentially dilutive securities, as they had an anti-dilutive impact:</b>		
Both vested and unvested options to purchase an equal number of shares of Common Stock		
	3,022,185	45,964
Unvested RSUs to issue an equal number of shares of Common Stock	105,125	20,000
Warrants to purchase an equal number of shares of Common Stock	37,988,940	8,832,776
Preferred stock on an as converted basis	—	802,079
Convertible notes on an as converted basis	—	15,551,497
<b>Total number of potentially dilutive securities excluded from the calculation of loss per share attributable to common shareholders</b>	<u>41,116,250</u>	<u>25,252,316</u>

### Note 4. 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 March 31, 2021 and December 31, 2020 is as follows:

	March 31, 2021	December 31, 2020
Cash denominated in United States dollars	\$ 100,959	\$ 88,636
Cash denominated in currency other than United States dollars	1,683	1,158
Restricted cash	701	701
Other	7	7
<b>Total cash, cash equivalents and restricted cash</b>	<u>\$ 103,350</u>	<u>\$ 90,502</u>

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. At March 31, 2021 and December 31, 2020, deposits in excess of FDIC limits were \$101,103 and \$88,556, respectively. As of March 31, 2021 and December 31, 2020, the Company held cash balances in overseas accounts, totaling \$1,683 and \$1,158 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 5. Intangible Assets**

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

	March 31, 2021			December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade name	\$ 1,339	\$ (953)	\$ 386	\$ 1,339	\$ (899)	\$ 440
Software	694	(309)	385	694	(264)	430
Total intangible assets	<u>\$ 2,033</u>	<u>\$ (1,262)</u>	<u>\$ 771</u>	<u>\$ 2,033</u>	<u>\$ (1,163)</u>	<u>\$ 870</u>

The Company’s trade name relates to the value of the XpresSpa trade name, and software relates to certain capitalized third-party costs related to a new point-of-sale system and website.

The Company’s intangible assets are amortized over their expected useful lives. The Company recorded amortization expense of \$99 and \$570 during the three months ended March 31, 2021 and 2020.

Based on the intangible assets balance as of March 31, 2021, 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 2021	303
2022	400
2023	67
2024	1
Total	<u>\$ 771</u>

**Note 6. 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 range from three to nineteen months and began in March 2020. The Company received minimum guaranteed payment concessions of approximately \$472 and \$75 in the three months ended March 31, 2021 and March 31, 2020, respectively, and \$2,504 in the twelve months ended March 31, 2021. The company expects to receive additional rent concessions while our 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 three months ended March 31, 2021 and 2020 were as follows:

	<b>Three months ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>		
Operating cash flows from operating leases	\$ (1,073)	\$ (628)
Leased assets obtained in exchange for new and modified operating lease liabilities	\$ (334)	\$ —
Leased assets surrendered in exchange for termination of operating lease liabilities	\$ 9	\$ —

As of March 31, 2021, operating leases contain the following future minimum commitments:

<b>Calendar Years ending December 31,</b>	<b>Amount</b>
Remaining 2021	\$ 2,783
2022	2,927
2023	2,050
2024	1,409
2025	810
Thereafter	1,443
<b>Total future lease payments</b>	<b>11,422</b>
Less: interest expense at incremental borrowing rate	(2,196)
<b>Net present value of lease liabilities</b>	<b>\$ 9,226</b>

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

Weighted average remaining lease term:	4.3 years
Weighted average discount rate used to determine present value of operating lease liability:	10.26 %

Cash paid for minimum annual rental obligations was \$150 and \$600 for the three months ended March 31, 2021 and 2020, respectively.

Variable lease payments calculated monthly as a percentage of product and services revenue were \$97 and \$415 for the three months ended March 31, 2021 and 2020, respectively.

**Note 7. Debt**

Total Debt as of March 31, 2021 and December 31, 2020 is comprised of the following:

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Promissory note, unsecured	\$ 5,653	\$ 5,653
Total debt	<u>\$ 5,653</u>	<u>\$ 5,653</u>

*Paycheck Protection Program*

On May 1, 2020, the Company entered into a U.S. Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) promissory note in the principal amount of \$5,653 payable to Bank of America, NA (the “Bank of America”) evidencing a PPP loan (the “PPP Loan”). The PPP Loan bears interest at a rate of 1% per annum. No payments will be 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 will be 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 maturity date is May 2, 2022. The principal amount of the PPP Loan is subject to forgiveness under the PPP upon the Company’s request to the extent that PPP Loan proceeds are used to pay expenses permitted by the PPP. Bank of America may forgive interest accrued on any principal forgiven if the SBA pays the interest. At this time, there can be no assurance that any part of the PPP Loan will be forgiven. The PPP Loan contains customary borrower default provisions and lender remedies, including the right of Bank of America to require immediate repayment in full the outstanding principal balance of the PPP Loan with accrued interest. As of March 31, 2021, \$51 of interest has been accrued and is included in *Accounts payable, accrued expenses and other* in the condensed consolidated balance sheet.

**Note 8. Stockholders’ Equity***Warrants*

The following table represents the activity related to the Company’s warrants during the three months ended March 31, 2021.

	<b>No. of Warrants</b>	<b>Exercise price range</b>
December 31, 2020	48,044,381	\$ 0.525 – 300.00
Granted	1,168,088	\$ 1.70 - 2.125
Exercised	<u>(11,223,529)</u>	\$ 1.70 - 2.125
March 31, 2021	<u>37,988,940</u>	\$ 0.525 - 300.00

During the three months ended March 31, 2021, holders of the Company’s December 2020 Investor Warrants, December 2020 Placement Agent Warrants and December 2020 Placement Agent Tail Fee Warrants exercised warrants for a total of 11,223,529 common shares. The Company received gross proceeds of approximately \$19,161. In accordance with the placement agent agreements with H.C. Wainwright & Co., LLC and Palladium, the Company paid cash fees of \$2,154 and issued 842,588 warrants to H.C. Wainwright & Co., LLC at an exercise price of \$2.125 per share and 325,500 warrants to Palladium at an exercise price of \$1.70 per share.

*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 RSU’s to the Company’s directors, employees and consultants. Under the 2020 Equity Incentive Plan (the “2020 Plan”), a maximum of 5,000,000 shares of Common Stock may be issued, subject to receiving shareholder

approval which was subsequently obtained on October 28, 2020. 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, the Company's XpresTest subsidiary created a stock-based compensation plan available to grant stock options, restricted stock and RSUs to the subsidiary'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 March 31, 2021. 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 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 March 31, 2021, there is \$98 of unrecognized stock-based compensation related to the XpresTest Plan. During May 2021, the company repurchased seven common shares exercised pursuant to the XpresTest Plan, for the grantees to defray their tax liabilities related to the XpresTest Plan RSAs award.

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:	\$	1.26 - 5.01
Exercise price:	\$	1.26 - 5.01
Expected volatility:		123 %
Expected dividend yield:		0 %
Annual average risk-free rate:		0.37 %
Expected term:		5.38 years

Total following table sets forth the Company's Equity Incentive activities for the three months ended March 31, 2021:

	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, 2020	—	\$ —	28.75	\$ 11,390.35	1,353,888	\$ 3.82	\$ 1.53 - 2,460.00
Granted	140,167	1.19	120.00	5,227.20	1,668,297	1.56	1.19 - 1.61
Exercised/Vested	(35,042)	1.19	(122.50)	5,324.17	—	—	
Outstanding as of March 31, 2021	<u>105,125</u>	\$ 1.19	<u>26.25</u>	\$ 11,524.78	<u>3,022,185</u>	\$ 2.57	\$ 1.19 - 2,460.00
Exercisable as of March 31, 2021					<u>732,116</u>	\$ 5.04	\$ 1.19 - 2,460.00

Total stock-based compensation for the three-month periods ended March 31, 2021 and 2020 is \$1,005 and \$72, respectively.



**Note 9. 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 March 31, 2021 and December 31, 2020:

	Balance	Fair value measurement at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>As of March 31, 2021:</b>				
<b>Recurring fair value measurements</b>				
Equity securities:				
Route1, Inc.	\$ 1,867	\$ —	\$ 1,867	\$ —
Total equity securities	1,867	—	1,867	—
Total recurring fair value measurements	<u>\$ 1,867</u>	<u>\$ —</u>	<u>\$ 1,867</u>	<u>\$ —</u>
<b>As of December 31, 2020</b>				
<b>Recurring fair value measurements</b>				
Equity securities:				
Route1	\$ 1,768	\$ —	\$ 1,768	\$ —
Total equity securities	1,768	—	1,768	—
Total recurring fair value measurements	<u>\$ 1,768</u>	<u>\$ —</u>	<u>\$ 1,768</u>	<u>\$ —</u>

Equity securities pertain to common shares in Route1, Inc. obtained in the 2018 sale of Group Mobile to Route 1, Inc. On March 22, 2021, the Company executed a cashless exercise of warrants to purchase 3,000,000 common shares of Route 1, Inc.. In exchange, the Company received 1,355,443 common shares of Route 1, Inc., bringing the total number of shares owned to 3,855,443. For the three months ended March 31, 2021, we recorded an unrealized gain of \$99 in connection with the remeasurement of the common shares of Route 1, Inc.

In addition to the above, the Company's financial instruments as of March 31, 2021 and December 31, 2020 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 10. 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. The income tax provision for the three-month period ended March 31, 2021 reflects a de minimis estimated global annual effective tax rate.

As of March 31, 2021, deferred tax assets generated from the Company's activities in the United States 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 losses generated for tax years beginning 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.

The Company had de minimis income tax expense for the three-month period ended March 31, 2021. This was attributable primarily to operating results in conjunction with a full valuation allowance. 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. The Company does not expect to record any additional material provisions for unrecognized tax benefits in the next year.

#### **Note 11. Commitments and Contingencies**

##### ***Litigation and legal proceedings***

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 \$1,963 and \$2,221 as of March 31, 2021 and December 31, 2020, respectively, 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.

##### *Cordial*

Effective October 2014, XpresSpa terminated its former Airport Concession Disadvantaged Business Enterprise ("ACDBE") partner, Cordial Endeavor Concessions of Atlanta, LLC ("Cordial"), in several store locations at Hartsfield-Jackson Atlanta International Airport.

Cordial filed a series of complaints with the City of Atlanta, both before and after the termination, in which Cordial alleged, among other things, that the termination was not valid and that XpresSpa unlawfully retaliated against Cordial when Cordial raised concerns about the joint venture. In response to the numerous complaints it received from Cordial, the City of Atlanta required the parties to engage in two mediations.

After the termination of the relationship with Cordial, XpresSpa sought to substitute two new ACDBE partners in place of Cordial.

In April 2015, Cordial filed a complaint with the United States Federal Aviation Administration ("FAA"), which oversees the City of Atlanta with regard to airport ACDBE programs, and, in December 2015, the FAA instructed that the City of Atlanta review XpresSpa's request to substitute new partners in lieu of Cordial and Cordial's claims of retaliation. In response to the FAA instruction, pursuant to a corrective action plan approved by the FAA, the City of Atlanta held a hearing in February 2016 and ruled in favor of XpresSpa on such substitution and claims of retaliation. Cordial submitted a further complaint to the FAA claiming that the City of Atlanta was biased against Cordial and that the City of Atlanta's decision was wrong. In August 2016, the parties met with the FAA. On October 4, 2016, the FAA sent a letter to the City of Atlanta directing that the City of Atlanta retract previous findings on Cordial's allegations and engage an independent third party to investigate issues previously decided by Atlanta. The FAA also directed that the City of Atlanta determine monies potentially due to Cordial.

On January 3, 2017, XpresSpa filed a lawsuit in the Supreme Court of the State of New York, County of New York, against Cordial and several related parties. The lawsuit alleges breach of contract, unjust enrichment, breach of fiduciary duty, fraudulent inducement, fraudulent concealment, tortious interference, and breach of good faith and fair dealing. XpresSpa is seeking damages, declaratory judgment, and rescission/termination of certain agreements, disgorgement of revenue, fees and costs, and various other relief. On February 21, 2017, the defendants filed a motion to dismiss. On March 3, 2017, XpresSpa filed a first amended complaint against the defendants. On April 5, 2017, Cordial filed a motion to dismiss. On September 12, 2017, the Court held a hearing on the motion to dismiss. On November 2, 2017, the Court granted the motion to dismiss which was entered on November 13, 2017. On December 22, 2017, XpresSpa filed a notice of appeal, and on September 24, 2018, XpresSpa perfected its appellate rights and submitted a brief to the Supreme Court of New York, First Department appellate court. Oral argument on the appeal went forward on March 20, 2019.

On March 30, 2018, Cordial filed a lawsuit against XpresSpa Group, a subsidiary of XpresSpa Group, and several additional parties in the Superior Court of Fulton County, Georgia, alleging the violation of Cordial's civil rights, tortious interference, breach of fiduciary duty, civil conspiracy, conversion, retaliation, and unjust enrichment. Cordial threatened to seek punitive damages, attorneys' fees and litigation expenses, accounting, indemnification, and declaratory judgment as to the status of the membership interests of XpresSpa and Cordial in the joint venture and Cordial's right to profit distributions and management fees from the joint venture. On May 4, 2018, the defendants moved the lawsuit to the United States District Court for the Northern District of Georgia. On August 9, 2018, the Court granted an additional extension of time for the defendants' response until September 7, 2018, and thereafter provided another extension pending the Court's consideration of XpresSpa's Motion to Stay all action in the Georgia lawsuit, pending resolution of the New York lawsuit and the FAA action. On October 29, 2018, XpresSpa's Motion to Stay was denied. Prior to resolution of the Motion to Stay, Cordial filed a Motion for Temporary Restraining Order ("TRO Motion"), seeking to enjoin the defendants and specifically XpresSpa, from, among other things, distributing any cash flow, net profits, or management fees, or otherwise expending resources beyond necessary operating expenses. XpresSpa filed an opposition and, in a decision entered December 26, 2018, the Court denied Cordial's TRO Motion entirely. Defendants filed a Motion to Dismiss the Complaint in its entirety on November 20, 2018.

A Director's Determination was issued by the FAA in connection with the Part 16 Complaint ("Part 16 Proceeding") filed by Cordial against the City of Atlanta ("City") in 2017 ("Director's Determination"). The Company and Cordial were not parties to the FAA action, and had no opportunity to present evidence or otherwise be heard in such action. The Director's Determination concluded that the City was not in compliance with certain Federal obligations concerning the federal government's ACDBE program, including relating to the City's oversight of the Joint Venture Operating Agreement between the Company and Cordial, Cordial's termination, and Cordial's retaliation and harassment claims, and the City was ordered to achieve compliance in accordance with the Director's Determination. The Director's Determination does not constitute a Final Agency Decision and it is not subject to judicial review, pursuant to 14 CFR § 16.247(b)(2). Because the Company is not a party to the Part 16 Proceeding, the Company would not be considered "a party adversely affected by the Director's Determination" with a right of appeal to the FAA Assistant Administrator for Civil Rights.

On August 7, 2019, the Company filed a response, advising the U.S. District Court that: (i) the Company is not party to the FAA proceeding and therefore had no opportunity to present evidence or otherwise be heard in such action; (ii) as non-party, the Company is not bound by the Director's Determination; and (iii) the FAA cannot dictate the interpretation or enforceability of the contract between Cordial and the Company, which is the subject of the U.S. District Court action initiated by Cordial and the New York State Court action initiated by the Company.

On August 16, 2019, the Court entered an Order granting, in part, the Company's Motion to Dismiss. The Court dismissed all federal claims alleged in the Complaint against all Defendants, declined to exercise supplemental jurisdiction pursuant to 28 U.S.C. § 1367(c) over the remaining state law claims alleged in the Complaint, and remanded the case to the Superior Court of Fulton County. Plaintiffs filed an appeal of the federal court's decision to the Eleventh Circuit Court of Appeals, and the case was docketed on October 15, 2019.

In response to the numerous complaints it received from Cordial, the City of Atlanta required the parties to engage in mediation. On November 22, 2019, a Mutual Release and Settlement Agreement (the "Settlement Agreement") and a Confidential Payment Agreement (the "Payment Agreement") have been executed by the applicable parties. Pursuant to the terms of the settlement, all pending litigation was dismissed. Also, pursuant to the Settlement Agreement terms, the City agreed to approve new five-year

leases for the Company and Cordial to operate as joint venture partners for spas located on Concourse A and Concourse C of the Hartsfield-Jackson Atlanta International Airport ("together, "Leases"). The City has approved the new Leases, and the Leases have been executed by the Company and the City. The parties are in the process of negotiating and completing an operating agreement. Such negotiations have been deferred during the XpresSpa spa location shutdowns due to the pandemic. Pursuant to the Payment Agreement, the Company has recorded an expense, made payments and accrued the balance of the amounts due thereunder, and has included that balance in *Accounts payable, accrued expenses and other current liabilities*.

*In re Chen et al.*

In March 2015, four former XpresSpa employees who worked at XpresSpa locations in John F. Kennedy International Airport and LaGuardia Airport filed a putative class and collective action wage-hour litigation in the United States District Court, Eastern District of New York. *In re Chen et al.*, CV 15-1347 (E.D.N.Y.). Plaintiffs claim that they and other spa technicians around the country were misclassified as exempt commissioned salespersons under Section 7(i) of the federal Fair Labor Standards Act ("FLSA"). Plaintiffs also assert class claims for unpaid overtime on behalf of New York spa technicians under the New York Labor Law, and discriminatory employment practices under New York State and City laws. On July 1, 2015, the plaintiffs moved to have the court authorize notice of the FLSA misclassification claim sent to all employees in the spa technician job classification at XpresSpa locations around the country in the last three years. Defendants opposed the motion. On February 16, 2016, the Magistrate Judge assigned to the case issued a Report & Recommendation, recommending that the District Court Judge grant the plaintiffs' motion. On March 1, 2016, the defendants filed Opposition to the Magistrate Judge's Report & Recommendation, arguing that the District Court Judge should reject the Magistrate Judge's findings. On September 23, 2016, the court ruled in favor of the plaintiffs and conditionally certified the class. The parties held a mediation on February 28, 2017 and reached an agreement on a settlement in principle. On September 6, 2017, the parties entered into a settlement agreement. On September 15, 2017, the parties filed a motion for settlement approval with the Court. XpresSpa subsequently paid the agreed-upon settlement amount to the settlement claims administrator to be held in escrow pending a fairness hearing and final approval by the Court. On March 30, 2018, the Court entered a Memorandum and Order denying the motion without prejudice to renewal due to questions and concerns the Court had about certain settlement terms. On April 24, 2018, the parties jointly submitted a supplemental letter to the Court advocating for the fairness and adequacy of the settlement and appeared in Court on April 25, 2018 for a hearing to discuss the settlement terms in greater detail with the assigned Magistrate Judge. At the conclusion of the hearing, the Court still had questions about the adequacy and fairness of the settlement terms, and the Judge asked that the parties jointly submit additional information to the Court addressing the open issues. The parties submitted such information to the Court on May 18, 2018.

On August 21, 2019, the Court issued an Order denying the parties' motion for preliminary approval of the revised settlement, as the Court still had concerns about several of the settlement terms. At the December 6, 2019 status conference with the Court, the Court reiterated its denial of preliminary approval of the proposed settlement agreement. The Court instructed a notice of pendency to be disseminated to putative collective members. Notice was sent out in early February 2020 and approximately 415 individuals have joined the case. On June 6, 2020, the Company participated in a status conference with the Court, and the parties discussed the possibility of entering into a new settlement agreement that addresses the Court's concerns. On or about August 5, 2020, the parties entered into settlement agreements and sought a preliminary approval order from the Court. On March 30, 2021, the Court issued an Order conditionally granting the motion for preliminary approval subject to resolution of certain issues pertaining to administration of the settlement. On April 6, 2021, Plaintiffs' counsel wrote to the Court regarding their proposed resolution on such issues. Once the Court acts on this application the Company anticipates that notice of the settlement will be sent to the class members within approximately 30 days.

*Kainz v. FORM Holdings Corp. et al.*

On March 20, 2019, a second suit was commenced in the United States District Court for the Southern District of New York against FORM, seven of its directors and former directors, as well as a managing director of Mistral Equity Partners ("Mistral"). The individual plaintiff, a shareholder of XpresSpa Holdings, LLC at the time of the merger with FORM in December 2016, alleges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 by making false statements concerning, *inter alia*, the merger and the independence of FORM's board of directors, violated Section 12(2) of the Securities Act of 1933, breached the merger agreement by making false and misleading statements

concerning the merger and fraudulently induced the plaintiff into signing the joinder agreement related to the merger. On May 8, 2019, the Company and its directors and the managing director of Mistral filed a motion to dismiss the complaint. On June 5, 2019, plaintiffs opposed the motion and filed a cross-motion for a partial stay. Defendants' motion to dismiss was fully briefed as of June 19, 2019.

On November 13, 2019, the matter was dismissed in its entirety. On December 12, 2019, plaintiff filed a motion for reconsideration to vacate the order and judgment, dismissing the action, and for leave to amend the complaint. The motion was fully briefed as of February 6, 2020. On April 1, 2020, the Court denied plaintiff's motion in full. On April 10, 2020, plaintiff filed a notice of appeal to the United States Court of Appeals for the Second Circuit. On June 1, 2020 plaintiff filed his appellate brief. On June 16, 2020, the Second Circuit entered the parties' non-dispositive stipulation, dismissing certain defendant-appellees, including the Company. On July 6, 2020, the remaining defendants filed their opposition brief. On July 27, 2020, the plaintiff filed their reply brief. On July 28, 2020, the Second Circuit marked plaintiff's reply brief as defective because it was filed a week late. Subsequently, plaintiff has moved to request permission to file a late reply brief. On January 11, 2021, the judgment of the Court was affirmed by the Second Circuit court.

#### *Route1*

On or about May 23, 2018, Route1 Inc., Route1 Security Corporation (together, "Route1") and Group Mobile Int'l, LLC ("Group Mobile") commenced a legal proceeding against the Company in the Ontario Superior Court of Justice.

Route1 and Group Mobile sought damages of \$567,000 in relation to alleged breaches of a Membership Purchase Agreement entered into between Route1 and the Company on or about March 7, 2018, pursuant to which Route1 acquired the Company's 100% membership interest in Group Mobile. The Company counterclaimed against the Plaintiffs for amounts owed to the Company in relation to the sale of Excluded Inventory (as defined in the Membership Purchase Agreement) and sought damages thereon. The Company delivered a draft amended counterclaim to the Plaintiffs on or around November 2019 seeking, among other things, damages. The Company sought Plaintiffs' consent to amend its counterclaim. Examinations for discovery were scheduled to take place in Toronto, Canada in June 2020.

The action settled at mediation on or about September 17, 2020. The parties agreed to dismiss the claim and the counterclaim, subject to XpresSpa's right to commence an application to seek rectification of certain shares and warrants that were issued in connection with the Membership Purchase Agreement. On September 21, 2020, the Ontario Superior Court of Justice entered an Order dismissing, without costs, the action and counterclaim. XpresSpa was granted the Order seeking the rectification of the shares and warrant and that matter was completed in March 2021.

#### *Rodger Jenkins and Gregory Jones v. XpresSpa Group, Inc.*

In March 2019, Rodger Jenkins and Gregory Jones filed a lawsuit against the Company in the United States District Court for the Southern District of New York. The lawsuit alleges breach of contract of the stock purchase agreement related to the Company's acquisition of Excalibur Integrated Systems, Inc. and seeks specific performance, compensatory damages and other fees, expenses, and costs. When this action was first commenced, the plaintiffs had demanded cash or stock in the sum of \$750. On or about January 3, 2020, the court granted the plaintiffs' motion to amend their pleading to increase their total demand to \$1,500.

On December 11, 2020, the court issued its decision and order on the parties' respective motions for summary judgment in which the court: (a) awarded plaintiffs damages in the sum of \$750, plus prejudgment interest; (b) granted that portion of the Company's motion dismissing Jenkins's claim for \$600 based on his having executed a written waiver of his right to receive that sum; and (c) denied both sides' motions with respect to Jones's claim to recover \$150 and directed Jones's claim to be tried. The court has stated that the trial on the remaining portion of Jones's claim will occur in May 2021. We remain confident in the Company's defenses to the remaining portion of Jones's claim. We further believe that the Company has meritorious arguments with respect to the claims already decided against the Company, and, accordingly, the Company plans to appeal all unfavorable rulings following the trial of Jones's remaining claim.

*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 \$100 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 in principle. The parties are currently in the process of preparing/finalizing settlement papers.

In addition to those matters specifically set forth herein, the Company and its subsidiaries are involved in various other claims and legal actions that arise in the ordinary course of business. The Company does not believe that the ultimate resolution of these actions will have a material adverse effect on the Company's financial position, results of operations, liquidity, or capital resources. However, a significant increase in the number of these claims, or one or more successful claims under which the Company incurs greater liabilities than the Company currently anticipates, could materially adversely affect the Company's business, financial condition, results of operations and cash flows.

In the event that an action is brought against the Company or one of its subsidiaries, the Company will investigate the allegation and vigorously defend itself.

**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 12. Segment Information**

We analyze the results of our business through our two reportable segments: XpresSpa and XpresTest. 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 chief operating decision maker evaluates the operating results and performance of our 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.

For the three months ended March 31, 2021, Customers A, B, C, D and E comprised approximately 15%, 30%, 12%, 21% and 15%, respectively, of the Company's net sales. As of March 31, 2021, Customers A, B, C, and D comprised approximately 20%, 44%, 14%, and 13%, respectively of the Company's accounts receivable.

	<b>For the three months ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Revenue</b>		
XpresSpa	\$ 333	\$ 7,588
XpresTest	8,179	—
Corporate and other	-	130
<b>Total revenue</b>	<b>\$ 8,512</b>	<b>\$ 7,718</b>
<b>Operating (loss) income</b>		
XpresSpa	\$ (1,567)	\$ (2,716)
XpresTest	2,177	—
Corporate and other	(1,531)	(1,232)
<b>Total operating loss</b>	<b>\$ (921)</b>	<b>\$ (3,948)</b>
	<b>March 31,</b>	<b>March 31,</b>
	<b>2021</b>	<b>2020</b>
<b>Assets</b>		
XpresSpa	\$ 9,047	\$ 25,112
XpresTest	7,083	—
Corporate and other	103,690	4,078
<b>Total assets</b>	<b>\$ 119,820</b>	<b>\$ 29,190</b>

## **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, 2020 filed on March 31, 2021, as subsequently amended on April 30, 2021 (the “2020 Annual Report”) 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. (“XpresSpa Group”) is a leading global travel health and wellness services holding company. XpresSpa Group currently has two reportable operating segments: XpresSpa and XpresTest.

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”), 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 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, we provide office space, equipment, supplies, non-licensed staff, and management services in return for a management fee.

Furthermore, XpresSpa Group is developing a travel health and wellness brand that is positioned for a post-pandemic world. We anticipate delivering on-demand access to integrated healthcare through technology and personalized services, while leveraging XpresSpa’s historic travel wellness experience and XpresTest’s healthcare expertise under the XpresCheck brand. We see this concept evolution as an opportunity in a new niche industry where XpresSpa Group can leverage technology in addition to its existing real estate and airport experience, providing travelers with peace of mind and access to integrated care. Over the long-term, we envision that digital channels will provide growth opportunities beyond our airport locations, achieved through subscription-based services that provide care and tools supporting travel health and wellness. Furthermore, we anticipate offering upstream content that can be monetized through affiliate revenue as well as curated retail through ecommerce.

### ***COVID-19 Update***

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.” Substantially all of our XpresSpa locations remain closed. We intend to reopen



XpresSpa spa locations on a location-by-location basis and resume normal operations at such selected locations once restrictions are lifted and airport traffic returns to sufficient levels to support operations at a unit level.

Since the time of the temporary closure of our XpresSpa locations, we successfully launched our XpresCheck™ Wellness Centers, offering such testing services, as described above. Also, we continue to evaluate alternative testing protocols and work in partnership with airlines for safe travels.

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

### **Recent Developments**

#### **XpresCheck™ Wellness Centers**

Through our XpresCheck™ Wellness Centers and under the terms of MSAs with physicians' practices, we offer diagnostic testing services. We currently have 13 such clinics in 11 airports across 10 states. Since December 31, 2020, we announced the opening of the following XpresCheck™ Wellness Centers to provide diagnostic COVID-19 testing:

On January 12, 2021, we opened our second XpresCheck™ Wellness Center at Boston's Logan International Airport. It contains four separate testing rooms to provide diagnostic COVID-19 testing.

On January 20, 2021, we announced the opening of an XpresCheck™ Wellness Center at Salt Lake City International Airport. It contains four separate testing rooms to provide diagnostic COVID-19 testing.

On February 16, 2021, we announced the opening of our second XpresCheck testing facility at Newark Liberty International Airport. It contains four separate testing rooms to provide diagnostic COVID-19 testing.

On March 8, 2021, we announced the opening of an XpresCheck™ Wellness Center at Houston George Bush Intercontinental Airport. It contains four separate testing rooms to provide diagnostic COVID-19 testing.

On March 15, 2021, we announced the opening of XpresCheck™ Wellness Centers at Dulles International and Reagan National Airports in Virginia, containing nine and four separate testing rooms, respectively, to provide diagnostic COVID-19 testing.

On April 8, 2021, we announced the opening of an XpresCheck™ Wellness Center at Seattle-Tacoma International Airport. It contains eight separate testing rooms to provide diagnostic COVID-19 testing.

On April 21, 2021, we announced the opening of an XpresCheck™ Wellness Center at San Francisco International Airport. It contains nine separate testing rooms to provide diagnostic COVID-19 testing.

#### **Airport Rent Concessions**

We have received rent concessions from landlords on a majority of our XpresSpa 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 range from three to nineteen months and began in March 2020. We received minimum guaranteed payment concession of approximately \$472 and \$75 in the three months ended March 31, 2021 and March 31, 2020, respectively, and \$2,504 in the twelve months ended March 31, 2021. We expect to realize additional rent concessions while our XpresSpa spas remain closed.

**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 loss presented in accordance with GAAP for the three-month periods ended March 31, 2021 and 2020 to Adjusted EBITDA (loss) is presented in the table below.

### Q1 2021 Results of Operations and Adjusted EBITDA (loss)

(amounts in thousands)

	<b>Three months ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Revenue:</b>		
Managed services fees	\$ 8,174	\$ —
Services	265	6,686
Products	65	891
Other	8	141
<b>Total revenue</b>	<b>8,512</b>	<b>7,718</b>
<b>Cost of sales</b>		
Labor	1,215	4,476
Occupancy	481	1,410
Product and other operating costs	2,463	1,282
<b>Total cost of sales</b>	<b>4,159</b>	<b>7,168</b>
Depreciation and amortization	744	1,265
Impairment/disposal of assets	22	—
General and administrative	4,508	3,233
<b>Total operating expense</b>	<b>9,433</b>	<b>11,666</b>
<b>Loss from operations</b>	<b>(921)</b>	<b>(3,948)</b>
Interest income (expense)	12	(1,061)
Loss on revaluation of warrants and conversion options	—	(5,369)
Other non-operating income (expense), net	102	(346)
<b>Loss from operations before income taxes</b>	<b>(807)</b>	<b>(10,724)</b>
Income tax expense	(1)	—
<b>Net loss</b>	<b>(808)</b>	<b>(10,724)</b>
Net (income) loss attributable to noncontrolling interests	(248)	108
<b>Net loss attributable to common shareholders</b>	<b>\$ (1,056)</b>	<b>\$ (10,616)</b>
<b>Loss from operations</b>	<b>\$ (921)</b>	<b>\$ (3,948)</b>
<b>Add back:</b>		
Depreciation and amortization	744	1,265
Impairment/disposal of assets	22	—
Stock-based compensation expense	1,005	72
<b>Adjusted EBITDA</b>	<b>\$ 850</b>	<b>\$ (2,611)</b>

### 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. Substantially all 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™ Wellness Centers. The medical services companies will pay XpresTest a monthly management fee to operate in the XpresCheck™ Wellness Centers. As a result of uncertainties around the cash flows of the XpresCheck™ Wellness Centers during 2020, the Company concluded that the collectability criteria to qualify as a

contract under ASC 606 was not met, and no revenue associated with the monthly management fee was recognized for the year ending December 31, 2020 from the managed services agreements. Based on the reassessment performed for the three months ending March 31, 2021, the Company recognized \$8,178 of revenue, including revenue of \$3,186 related to 2020, for new and existing managed services agreements which meet the collectability criteria.

#### 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 segment include costs related to the XpresCheck™ 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.

#### 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-month period ended March 31, 2021 compared to the three-month period ended March 31, 2020*

#### Revenue

	Three months ended March 31,		
	2021	2020	Inc/(Dec)
Total revenue	\$ 8,512	\$ 7,718	\$ 794

The increase in revenue was almost entirely due to the rapid growth of the XpresTest segment (while the majority of XpresSpa locations remain closed) with the addition of five locations during Q1 2021, and the ability to recognize \$3,186 of catch-up revenue associated with 2020 XpresTest segment on underlying MSAs meeting the collectability criteria during Q1 2021.

#### Cost of sales

	Three months ended March 31,		
	2021	2020	Inc/(Dec)
Cost of sales	\$ 4,159	\$ 7,168	\$ (3,009)

The decrease in cost of sales was due to the decrease in variable costs associated with the decline in XpresSpa revenues and decreases in occupancy costs as a result of rent concessions received from airports. These costs were partially offset by cost of sales of \$2,679, incurred in the XpresCheck™ Wellness Centers pursuant to the XpresTest managed services agreements.

#### Depreciation and amortization

	Three months ended March 31,		
	2021	2020	Inc/(Dec)
Depreciation and amortization	\$ 744	\$ 1,265	\$ (521)

The decrease in depreciation and amortization of approximately 41.2% was primarily due to impairments and disposals of assets recorded in 2020 resulting in lower depreciation and amortization of leasehold improvements in the current period. This decrease was partially offset by depreciation and amortization related to the recently opened XpresCheck™ Wellness Centers of \$469.

**General and administrative**

	<b>Three months ended March 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>Inc/(Dec)</b>
General and administrative	\$ 4,508	\$ 3,233	\$ 1,275

The increase of approximately 39.4% was primarily due to start-up costs associated with the XpresTest segment and the XpresCheck™ Wellness Centers as well as additional legal fees related to the resolution of certain XpresSpa litigation matters, offset by reduced variable costs related to the closed XpresSpa locations and the realized benefits of cost cutting and control initiatives instituted throughout 2020, primarily in salaries, occupancy, and professional fees.

**Loss on revaluation of warrants and conversion options:**

	<b>Three months ended March 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>Inc/(Dec)</b>
Loss on revaluation of warrants and conversion options	\$ —	\$ (5,369)	\$ 5,369

Loss on revaluation of warrants and conversion options represents the loss resulting from the mark to market adjustments of our derivative liabilities related to convertible notes that were converted into equity in 2020. Therefore, this loss did not recur in Q1 2021. The gain or loss was mainly due to the decrease or increase, respectively, in our stock price at certain fair value measurement dates relative to the conversion price of warrants and convertible debt to Common Stock.

**Other non-operating income (expense), net**

	<b>Three months ended March 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>Inc/(Dec)</b>
Other non-operating income (expense), net	\$ 102	\$ (346)	\$ 448

The following is a summary of the transactions included in other non-operating (income) expense, net for the three months ended March 31, 2021 and 2020:

	<b>Three months ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Loss on extinguishment of debt	\$ —	\$ (265)
Gain on equity investment	99	—
Other	3	(81)
<b>Total</b>	<b>\$ 102</b>	<b>\$ (346)</b>

**Interest expense**

	<b>Three months ended March 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>Inc/(Dec)</b>
Interest (income) expense	\$ (12)	\$ 1,061	\$ (1,073)

Interest expense decreased as a result of a significantly lower interest rate associated with the remaining debt obligations offset by interest income. See Note 7. *Debt* to the condensed consolidated financial statements for additional information.

## **Liquidity and Capital Resources**

As of March 31, 2021, we had cash and cash equivalents, excluding restricted cash, of \$102,649, total current assets of \$107,789, total current liabilities of \$13,842, and positive working capital of \$93,947, compared to a positive working capital of \$78,302 as of December 31, 2020.

During the three months ended March 31, 2021, holders of our December 2020 Investor Warrants, December 2020 Placement Agent Warrants and December 2020 Placement Agent Tail Fee Warrants exercised warrants for a total of 11,223,529 common shares. We received gross proceeds of approximately \$19,161. In accordance with the placement agent agreements with H.C. Wainwright & Co., LLC and Palladium, we paid cash fees of \$2,154 and issued 842,588 warrants to H.C. Wainwright & Co., LLC at an exercise price of \$2.125 per share and 325,500 warrants to Palladium at an exercise price of \$1.70 per share. See *Note 8. Stockholders' Equity* to the condensed consolidated financial statements for related discussion.

However, 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 ultimate duration and severity of the ongoing COVID-19 pandemic are 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, 2020, 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 (Principal Financial and Accounting Officer), as appropriate, to allow timely decisions regarding required disclosure.

As of March 31, 2021, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Our evaluation as of December 31, 2019 identified a material weaknesses in our internal control over financial reporting, which remained unmitigated as of March 31, 2021, as noted below in Report of Management on Internal Control over Financial Reporting. Based on our evaluation, our chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were not effective as of March 31, 2021 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 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;
- 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 will test and evaluate 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;
- 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;
- 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 March 31, 2021, 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 March 31, 2021 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 extensively 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 March 31, 2021 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 11. “*Commitments and Contingencies*” in our notes to the condensed consolidated financial statements included in “Item 1. Financial Statements.”

**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, 2020.

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

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

<b>Exhibit No.</b>	<b>Description</b>
<a href="#">10.1†</a>	<a href="#">Form of XpresTest, Inc. Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.45 to the Company's Annual Report on Form 10-K/A filed with the SEC on April 30, 2021)</a>
<a href="#">31.1*</a>	<a href="#">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</a>
<a href="#">31.2*</a>	<a href="#">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</a>
<a href="#">32**</a>	<a href="#">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</a>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

  

*	<b>Filed herewith.</b>
**	<b>Furnished herein.</b>
†	<b>Management contract or compensatory plan or arrangement.</b>

**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: May 17, 2021

By: /s/ Douglas Satzman

**Douglas Satzman**  
**Chief Executive Officer**  
**(Principal Executive Officer)**

Date: May 17, 2021

By: /s/ James A Berry

**James A. Berry**  
**Chief Financial Officer**  
**(Principal Financial and Accounting Officer)**

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

I, Douglas Satzman, 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: May 17, 2021

/s/ DOUGLAS SATZMAN

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**Chief Executive Officer**  
**(Principal Executive Officer)**

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

I, James A. Berry, 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: May 17, 2021

/s/ JAMES A. BERRY  
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**Chief Financial Officer**  
**(Principal Financial and Accounting Officer)**

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**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 March 31, 2021 (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: May 17, 2021

/s/ DOUGLAS SATZMAN

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**Douglas Satzman**  
**Chief Executive Officer**  
**(Principal Executive Officer)**

/s/ JAMES A. BERRY

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**James A. Berry**  
**Chief Financial Officer**  
**(Principal Financial and Accounting Officer)**

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