

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2021

or

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

For the transition period from _____ to _____

Commission File Number: **001-38493**



EXP WORLD HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

98-0681092

(IRS Employer
Identification No.)

2219 Rimland Drive, Suite 301

Bellingham, WA 98226

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(360) 685-4206**

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

**Common Stock, par value \$0.00001 per
share**

(Title of Each Class)

EXPI

(Trading Symbol)

NASDAQ

(Name of each exchange on which registered)

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging Growth Company

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

Indicate by check whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

There were 147,537,072 shares of the registrant's Common Stock, \$0.00001 par value, outstanding as of September 30, 2021.

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FORWARD LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not based on historical facts but rather represent current expectations and assumptions of future events. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Many of these risks and other factors are beyond our ability to control or predict. Forward-looking statements can be identified by words such as “believe,” “expect,” “anticipate,” “estimate,” “project,” “plan,” “should,” “intend,” “may,” “will,” “could,” “can,” “would,” “potential,” “seek,” “goal” and similar expressions. These risks and uncertainties, as well as other risks and uncertainties that could cause our actual results to differ significantly from management’s expectations, are described in greater detail in “Risk Factors” in Part I, Item 1A, and elsewhere in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Forward-looking statements are based on currently available operating, financial and market information and are inherently uncertain. Investors should not place undue reliance on forward-looking statements, which speak only as of the date they are made and are not guarantees of future performance. Actual future results and trends may differ materially from such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future developments or otherwise, except as may be required by law.

PART 1 – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

EXP WORLD HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)
(UNAUDITED)

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 98,064	\$ 100,143
Restricted cash	69,406	27,781
Accounts receivable, net of allowance for credit losses of \$1,901 and \$1,879, respectively	129,843	76,951
Prepays and other assets	8,828	7,350
TOTAL CURRENT ASSETS	306,141	212,225
Property, plant, and equipment, net	13,186	7,848
Operating lease right-of-use assets	2,639	819
Other noncurrent assets	3,009	-
Intangible assets, net	7,693	8,350
Deferred tax assets	36,020	-
Goodwill	12,945	12,945
TOTAL ASSETS	\$ 381,633	\$ 242,187
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 8,555	\$ 3,957
Customer deposits	69,406	27,781
Accrued expenses	110,268	62,750
Current portion of long-term payable	906	1,416
Current portion of lease obligation - operating lease	345	746
TOTAL CURRENT LIABILITIES	189,480	96,650
Long-term payable, net of current portion	1,736	2,876
Long-term lease obligation - operating lease, net of current portion	849	74
TOTAL LIABILITIES	192,065	99,600
EQUITY		
Common Stock, \$0.00001 par value 900,000,000 shares authorized; 153,549,867 issued and 147,537,072 outstanding in 2021; 146,677,786 issued and 144,143,292 outstanding in 2020	1	1
Additional paid-in capital	347,670	218,492
Treasury stock, at cost: 6,012,795 and 2,534,494 shares held, respectively	(180,097)	(37,994)
Accumulated earnings (deficit)	20,800	(39,162)
Accumulated other comprehensive income	187	247
Total eXp World Holdings, Inc. stockholders' equity	188,561	141,584
Equity attributable to noncontrolling interest	1,007	1,003
TOTAL EQUITY	189,568	142,587
TOTAL LIABILITIES AND EQUITY	\$ 381,633	\$ 242,187

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

EXP WORLD HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands, except share amounts and per share data)
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenues	\$ 1,110,480	\$ 564,017	\$ 2,694,200	\$ 1,188,963
Operating expenses				
Commissions and other agent-related costs	1,030,937	517,169	2,481,254	1,079,739
General and administrative expenses	64,615	30,130	171,636	82,145
Sales and marketing expenses	3,761	1,495	8,701	3,326
Total operating expenses	1,099,313	548,794	2,661,591	1,165,210
Operating income	11,167	15,223	32,609	23,753
Other expense				
Other expense, net	239	80	159	129
Equity in losses of unconsolidated affiliates	(2)	-	5	34
Total other expense, net	237	80	164	163
Income before income tax expense	10,930	15,143	32,445	23,590
Income tax (benefit) expense	(12,884)	225	(33,258)	295
Net income	23,814	14,918	65,703	23,295
Net loss attributable to noncontrolling interest	7	52	14	115
Net income attributable to eXp World Holdings, Inc.	\$ 23,821	\$ 14,970	\$ 65,717	\$ 23,410
Earnings per share				
Basic	\$ 0.16	\$ 0.11	\$ 0.45	\$ 0.17
Diluted	\$ 0.15	\$ 0.10	\$ 0.42	\$ 0.16
Weighted average shares outstanding				
Basic	146,862,978	138,513,465	145,610,008	135,207,101
Diluted	157,345,924	150,917,721	157,838,134	147,091,720
Comprehensive income:				
Net income	\$ 23,814	\$ 14,918	\$ 65,703	\$ 23,295
Comprehensive loss attributable to noncontrolling interests	7	52	14	115
Net income attributable to eXp World Holdings, Inc.	23,821	14,970	65,717	23,410
Other comprehensive income:				
Foreign currency translation (loss) gain, net of tax	(131)	(76)	(60)	(129)
Comprehensive income attributable to eXp World Holdings, Inc.	\$ 23,690	\$ 14,894	\$ 65,657	\$ 23,281

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

EXP WORLD HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(In thousands)
(UNAUDITED)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Common stock:				
Balance, beginning of period	\$ 1	\$ 1	\$ 1	\$ 1
Balance, end of period	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Treasury stock:				
Balance, beginning of period	(126,906)	(20,610)	(37,994)	(8,623)
Repurchases of common stock	(53,191)	(9,343)	(142,103)	(21,330)
Balance, end of period	<u>(180,097)</u>	<u>(29,953)</u>	<u>(180,097)</u>	<u>(29,953)</u>
Additional paid-in capital:				
Balance, beginning of period	295,035	160,643	218,492	130,682
Shares issued for stock options exercised	938	2,244	2,695	4,710
Agent growth incentive stock compensation	6,483	2,980	15,184	8,878
Agent equity stock compensation	41,838	19,929	101,691	39,226
Stock option compensation	3,376	1,879	9,608	4,179
Balance, end of period	<u>347,670</u>	<u>187,675</u>	<u>347,670</u>	<u>187,675</u>
Accumulated earnings (deficit):				
Balance, beginning of period	2,734	(61,853)	(39,162)	(70,293)
Net income	23,821	14,970	65,717	23,410
Dividends declared and paid	(5,755)	-	(5,755)	-
Balance, end of period	<u>20,800</u>	<u>(46,883)</u>	<u>20,800</u>	<u>(46,883)</u>
Accumulated other comprehensive income:				
Balance, beginning of period	318	147	247	200
Foreign currency translation loss	(131)	(76)	(60)	(129)
Balance, end of period	<u>187</u>	<u>71</u>	<u>187</u>	<u>71</u>
Noncontrolling interest:				
Balance, beginning of period	1,015	204	1,003	161
Net loss	(8)	(52)	(15)	(115)
Contributions by noncontrolling interests	-	-	19	106
Balance, end of period	<u>1,007</u>	<u>152</u>	<u>1,007</u>	<u>152</u>
Total equity	<u>\$ 189,568</u>	<u>\$ 111,063</u>	<u>\$ 189,568</u>	<u>\$ 111,063</u>

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

EXP WORLD HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(UNAUDITED)

	Nine Months Ended September 30,	
	2021	2020
OPERATING ACTIVITIES		
Net income	\$ 65,703	\$ 23,295
Reconciliation of net income to net cash provided by operating activities:		
Depreciation expense	3,572	2,403
Amortization expense - intangible assets	939	382
Amortization expense - long-term payable	-	152
Allowance for credit losses on receivables	22	1,209
Equity in loss of unconsolidated affiliates	5	34
Agent growth incentive stock compensation expense	18,129	10,476
Stock option compensation	9,608	4,179
Agent equity stock compensation expense	101,691	39,226
Deferred income taxes	(36,020)	
Changes in operating assets and liabilities:		
Accounts receivable	(52,913)	(66,490)
Prepays and other assets	(1,510)	494
Customer deposits	41,625	15,128
Accounts payable	4,597	16
Accrued expenses	44,561	58,702
Long-term payable	(150)	-
Other operating activities	(1,446)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	198,413	89,206
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(9,159)	(3,691)
Acquisition of businesses	(1,500)	(1,362)
Intangible assets acquired	-	(573)
Investments in unconsolidated affiliates	(3,004)	(25)
NET CASH (USED IN) INVESTING ACTIVITIES	(13,663)	(5,651)
FINANCING ACTIVITIES		
Repurchase of common stock	(142,103)	(21,330)
Proceeds from exercise of options	2,695	4,710
Transactions with noncontrolling interests	19	106
Dividends declared and paid	(5,755)	-
NET CASH (USED IN) FINANCING ACTIVITIES	(145,144)	(16,514)
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	(60)	(129)
Net change in cash, cash equivalents and restricted cash	39,546	66,912
Cash, cash equivalents and restricted cash, beginning balance	127,924	47,074
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, ENDING BALANCE	\$ 167,470	\$ 113,986
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid for income taxes	\$ 1,060	\$ 676
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Termination of lease liabilities	\$ 346	\$ 200
Lease liabilities arising from obtaining right-of-use assets	2,381	33
Property, plant and equipment purchases in accounts payable	150	111
Liabilities incurred associated with a business acquisition	-	1,500
Liabilities assumed in business acquisition	-	140

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

eXp World Holdings, Inc.
Notes to the Condensed Consolidated Financial Statements
(UNAUDITED)

(Amounts in thousands, except share amounts and per share data or noted otherwise)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

eXp World Holdings, Inc. (collectively with its subsidiaries, the “Company” or “eXp”) was incorporated in the State of Delaware on July 30, 2008. Through various operating subsidiaries, the Company primarily operates a cloud-based real estate brokerage operating throughout the United States and most of the Canadian provinces. Since the fourth quarter of 2019, the Company expanded operations into the United Kingdom (U.K.), Australia, South Africa, India, Mexico, Portugal, France, Puerto Rico, Brazil, Italy, Hong Kong, Colombia, Spain, Israel, Germany and Panama. Our real estate brokerage is now one of the largest and fastest growing real estate brokerage companies in the United States by agent count, and is continuing to expand internationally. The Company focuses on a number of cloud-based technologies in order to grow a global brokerage without the burden of physical bricks and mortar or redundant staffing costs.

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

These interim financial statements should be read in conjunction with the audited consolidated financial statements and related notes contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2020, filed with the SEC on March 11, 2021 (“2020 Annual Report”).

In our opinion, the accompanying interim unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation. On January 15, 2021, the Company’s Board of Directors approved a two-for-one stock split in the form of a stock dividend to stockholders of record as of January 29, 2021 (the “Stock Split”). The Stock Split was effected on February 12, 2021. All shares, restricted stock units (“RSU”), stock options, and per share information have been retroactively adjusted to reflect the stock split. Operating results for the three and nine month periods ended September 30, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of eXp World Holdings, Inc., its wholly-owned subsidiaries, and including those entities in which we have a variable interest of which we are the primary beneficiary. If the Company has a variable interest in an entity but it is not the primary beneficiary of the entity or exercises control over the operations and has less than 50% ownership, it will use the equity method or the cost method of accounting for investments. Entities in which the Company has less than a 20% investment and where the Company does not exercise significant influence are accounted for under the cost method. Intercompany transactions and balances are eliminated upon consolidation.

Variable interest entities and noncontrolling interests

A company is deemed to be the primary beneficiary of a variable interest entity (“VIE”) and must consolidate the entity if the company has both: (i) the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance, and (ii) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Joint ventures

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity through a jointly controlled entity. Joint control exists when strategic, financial, and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control. Joint ventures are accounted for using the equity method and are recognized initially at cost.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements

and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to allowance for credit losses, legal contingencies, income taxes, revenue recognition, stock-based compensation, goodwill, and deferred income tax asset valuation allowances. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

Reclassifications

When necessary, the Company will reclassify certain amounts in prior-period financial statements to conform to the current period's presentation. No material reclassifications occurred during the current period.

Restricted cash

Restricted cash consists of cash held in escrow by the Company on behalf of real estate buyers. The Company recognizes a corresponding customer deposit liability until the funds are released. Once the cash transfers from escrow, the Company reduces the respective customers' deposit liability.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the condensed consolidated balance sheets that sum to the total of the same such amounts shown on the condensed consolidated statements of cash flows.

	<u>Cash and cash equivalents</u>	<u>Restricted cash</u>	<u>Total</u>
Balance, December 31, 2019	\$ 40,087	\$ 6,987	\$ 47,074
Balance, September 30, 2020	\$ 91,871	\$ 22,115	\$ 113,986
Balance, December 31, 2020	\$ 100,143	\$ 27,781	\$ 127,924
Balance, September 30, 2021	\$ 98,064	\$ 69,406	\$ 167,470

Recently Adopted Accounting Principles and Change in Accounting Principle

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12 – *Income Taxes* (Topic 740) ("ASU 2019-12"). ASU 2019-12 removes certain exceptions for investments, intraperiod allocations and interim calculations and adds guidance to reduce complexity in accounting for income taxes. ASU 2019-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020; early adoption is permitted. The adoption of ASU 2019-12 had no material impact on the Company's condensed consolidated financial statements and related disclosures.

Recently Issued Accounting Pronouncements

In March 2020, the FASB issued guidance which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions that reference the London Inter-Bank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform. This guidance is optional for a limited period of time to ease the potential burden in accounting for, or recognizing the effects of, reference rate reform on financial reporting. This guidance is effective from March 12, 2020 through December 31, 2022. Entities may elect to adopt the amendments for contract modifications as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. In January 2021, the FASB amended this Update to clarify certain optional expedients and exceptions for contract modifications and hedge accounting that apply to derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. The Company does not have any material contracts, hedging or other transactions that reference LIBOR, and we do not expect to utilize the expedients and exceptions provided in this guidance.

3. EXPECTED CREDIT LOSSES

The Company is exposed to credit losses primarily through trade and other financing receivables arising from revenue transactions. The Company uses the aging schedule method to estimate current expected credit losses ("CECL") based on days of delinquency, including information about past events and current economic conditions. The Company's accounts receivable is separated into three categories to evaluate allowance under the CECL impairment model. The receivables in each category share similar risk characteristics. The three categories include agent non-commission based fees, agent short-term advances, and commissions receivable for real estate property settlements.

The Company analyzed uncollectible accounts for the three categories of receivables and concluded that only agent non-commission based fees receivables and agent short-term advances carry any risk of expected credit losses. Current economic conditions and forecasts of future economic conditions do not affect expected credit losses of uncollectable real estate property settlements. The collection of these payments is in-substance guaranteed because they represent commission payments on closed transactions, and the Company has no historical experience or expectation of losses related to these receivables. Receivables from real estate property settlements totaled \$125,490 and \$73,838 as of September 30, 2021 and December 31, 2020 respectively. As of September 30, 2021 and December 31, 2020 agent non-commission based fees receivable and short-term advances totaled \$6,254 and \$4,992, of which the Company recognized expected credit losses of \$1,901 and \$1,879, respectively.

The Company increases the allowance for expected credits losses when the Company determines all or a portion of a receivable is uncollectable. The Company recognizes recoveries as a decrease to the allowance for expected credit losses.

Changes in the allowance were not material for the three and nine months ended September 30, 2021.

4. PLANT, PROPERTY AND EQUIPMENT, NET

Plant, property and equipment, net consisted of the following:

	September 30, 2021	December 31, 2020
Computer hardware and software	\$ 19,358	\$ 13,828
Furniture, fixture, and equipment	20	20
Total depreciable property and equipment	19,378	13,848
Less: accumulated depreciation	(10,308)	(6,738)
Depreciable property, net	9,070	7,110
Assets under development	4,116	738
Property, plant, and equipment, net	\$ 13,186	\$ 7,848

For the three months ended September 30, 2021 and 2020, depreciation expense was \$1,376 and \$852, respectively. For the nine months ended September 30, 2021 and 2020, depreciation expense was \$3,572 and \$2,403, respectively.

5. GOODWILL AND INTANGIBLE ASSETS

Goodwill was \$12,945 and \$12,945 as of September 30, 2021 and December 31, 2020. The Company has a risk of future impairment to the extent that individual reporting unit performance does not meet projections. Additionally, if current assumptions and estimates, including projected revenues and income growth rates, terminal growth rates, competitive and consumer trends, market-based discount rates, and other market factors, are not met, or if valuation factors outside of the Company's control change unfavorably, the estimated fair value of goodwill could be adversely affected, leading to a potential impairment in the future. For the three and nine months ended September 30, 2021, no events occurred that indicated it was more likely than not that goodwill was impaired.

Definite-lived intangible assets were as follows:

	September 30, 2021			December 31, 2020		
	Gross Amount	Accumulated Amortization	Net Carrying Amount	Gross Amount	Accumulated Amortization	Net Carrying Amount
Trade name	\$ 2,868	(\$ 482)	\$ 2,386	\$ 2,868	(\$ 267)	\$ 2,601
Existing technology	1,678	(1,005)	673	1,396	(415)	981
Non-competition agreements	125	(118)	7	125	(87)	38
Customer relationships	1,895	(314)	1,581	1,895	(170)	1,725
Licensing agreement	210	-	210	210	(41)	169
Intellectual property	2,836	-	2,836	2,836	-	2,836
Total intangible assets	\$ 9,612	(\$ 1,919)	\$ 7,693	\$ 9,330	(\$ 980)	\$ 8,350

Definite-lived intangible assets are amortized using the straight-line method over an asset's estimated useful life. Amortization expense for definite-lived intangible assets for the three months ended September 30, 2021 and 2020 was \$318 and \$152, respectively. Amortization expense for definite-lived intangible assets for the nine months ended September 30, 2021 and 2020 was \$939 and \$382, respectively. The Company has no indefinite-lived assets.

6. LEASES

The Company's lease portfolio consists of office leases with lease terms ranging from less than one year to seven years, with the weighted average lease term being three years.

Certain leases provide for increases in future lease payments once the term of the lease has expired, as defined in the lease agreements. These leases generally also include real estate taxes.

Short term leases, having a lease term at commencement of 12 months or less, are not capitalized and the expenses are recognized in the period incurred.

Included below is other information regarding leases for the periods presented:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Other information				
Operating lease expense	\$ 147	\$ 103	\$ 358	\$ 328
Short-term lease expense	13	2	37	12
Cash paid for operating leases	1,397	103	1,858	327
Weighted-average remaining lease term (years) – operating leases ⁽¹⁾	7.0	3.8	7.0	3.8
Weighted-average discount rate – operating leases	5.043%	4.851%	5.043%	4.851%

⁽¹⁾ The Company's lease terms include options to extend the lease when it is reasonably certain the Company will exercise its option. Additionally, the Company considered any historical and economic factors in determining if a lease renewal or termination option would be exercised.

As of September 30, 2021, expirations of lease obligations by fiscal year were as follows:

<u>Period Ending December 31,</u>	
Remaining 2021	\$ 84
2022	281
2023	166
2024	90
2025	90
2026 and thereafter	495
Total lease payments	1,206
Less: interest	(12)
Total operating lease liabilities	\$ 1,194

7. DEBT

The Company issued unsecured promissory notes in the aggregate principal amount of \$1.5 million in connection with the acquisition of Showcase Web Sites, L.L.C. ("Showcase") in July 2020. The promissory notes accrue interest of 8% per annum, and interest is payable monthly beginning six months after the closing date.

On March 2, 2021, the Company repaid all outstanding promissory notes issued to the previous owners of Showcase and notes payable assumed as part of the acquisition. The repayments totaled approximately \$1.7 million representing the principal balance plus accrued interest and unpaid fees. The repayments of the notes payable did not result in a gain or loss on early extinguishment.

8. STOCKHOLDERS' EQUITY

The following table represents a share reconciliation of the Company's common stock issued for the periods presented:

(Shares of Common Stock)	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Common stock:				
Balance, beginning of quarter	151,146,986	141,160,576	146,677,786	132,398,616
Shares issued for stock options exercised	337,234	1,306,046	2,682,142	5,706,624
Agent growth incentive stock compensation	990,147	937,768	1,615,173	1,607,204
Agent equity stock compensation	1,075,500	1,241,594	2,574,766	4,933,540
Balance, end of quarter	153,549,867	144,645,984	153,549,867	144,645,984

The Company's stockholder approved equity plans described below are administered under the 2013 Stock Option Plan and the 2015 Equity Incentive Plan. Although a limited number of awards under the plan remain outstanding, no awards have been granted under the 2013 Stock Option Plan since 2015. The purpose of the equity plans is to retain the services of valued employees, directors, officers, agents, and consultants and to incentivize such persons to make contributions to the Company and motivate excellent performance.

Agent Equity Program

The Company provides agents and brokers the opportunity to elect to receive 5% of commissions earned from each completed real estate transaction in the form of common stock (the “Agent Equity Program” or “AEP”). If agents and brokers elect to receive portions of their commissions in common stock, they are entitled to receive the equivalent number of shares of common stock, based on the fixed monetary value of the commission payable. The Company recognizes a 10% discount on these issuances as an additional cost of sales charge during the periods presented.

During the three months ended September 30, 2021 and 2020, the Company issued 1,075,500 and 1,241,594 shares of common stock, respectively, to agents and brokers with a value of \$41,838 and \$19,929, respectively, inclusive of discount. During the nine months ended September 30, 2021 and 2020, the Company issued 2,574,766 and 4,933,540 shares of common stock, respectively, to agents and brokers with a value of \$101,691 and \$39,226, respectively, inclusive of discount.

Agent Growth Incentive Program

The Company administers an equity incentive program whereby agents and brokers become eligible to receive awards of the Company’s common stock through agent attraction and performance benchmarks (the “Agent Growth Incentive Program” or “AGIP”). The incentive program encourages greater performance and awards agents with common stock based on achievement of performance milestones. Awards typically vest after performance benchmarks are reached and three years of subsequent service is provided to the Company. Share-based performance awards are based on a fixed-dollar amount of shares based on the achievement of performance metrics. As such, the awards are classified as liabilities until the number of share awards becomes fixed once the performance metric is achieved.

For the three months ended September 30, 2021, the Company’s stock compensation attributable to the Agent Growth Incentive Program was \$6,817 of which the total amount of stock compensation attributable to liability classified awards was \$1,830. For the nine months ended September 30, 2021, the Company’s stock compensation attributable to the Agent Growth Incentive Program was \$18,129 of which the total amount of stock compensation attributable to liability classified awards was \$4,453. Stock compensation expense related to the Agent Growth Incentive Program is included in general and administrative expense in the condensed consolidated statements of comprehensive income (loss).

The following table illustrates changes in the Company’s stock compensation liability for the periods presented:

	<u>Amount</u>
Balance, December 31, 2020	\$ 2,093
Stock grant liability increase at March 31, 2021	1,221
Stock grant liability increase at June 30, 2021	1,402
Stock grants reclassified from liability to equity at September 30, 2021	(1,496)
Stock grant liability increase at September 30, 2021	1,830
Balance, September 30, 2021	<u>\$ 5,050</u>

Stock Option Awards

During the three months ended September 30, 2021, and 2020, the Company granted 176,263 and 2,255,416 stock options, respectively, to employees with an estimated grant date fair value of \$23.26 and \$9.07 per share, respectively. For the nine months ended September 30, 2021, and 2020, the Company granted 370,594 and 3,441,772 stock options, respectively, to employees with an estimated grant date fair value of \$24.05 and \$10.67 per share, respectively. The fair value was calculated using a Black Scholes-Merton option pricing model.

Stock Repurchase Plan

In December 2018, the Company’s board of directors (the “Board”) approved a stock repurchase program authorizing the Company to purchase up to \$25.0 million of its common stock, which was later amended in November 2019 and again in June 2020 increasing the authorized repurchase amount to \$75.0 million. In December 2020, the Board approved another amendment to the repurchase plan, increasing the total amount authorized to be purchased from \$75.0 million to \$400.0 million. Purchases under the repurchase program may be made in the open market or through a 10b5-1 plan and are expected to comply with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The timing and number of shares repurchased depends upon market conditions. The repurchase program does not require the Company to acquire a specific number of shares. The cost of the shares that are repurchased is funded from cash and cash equivalents on hand.

For accounting purposes, common stock repurchased under the stock repurchase programs is recorded based upon the settlement date of the applicable trade. Such repurchased shares are held in treasury and are presented using the cost method. These shares are not retired and are considered issued but not outstanding. The following table shows the changes in treasury stock for the periods presented:

(Shares of Treasury Stock)	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Treasury stock:				
Balance, beginning of quarter	4,725,296	2,047,778	2,534,494	925,364
Repurchases of common stock	1,287,499	321,974	3,478,301	1,444,388
Balance, end of quarter	<u>6,012,795</u>	<u>2,369,752</u>	<u>6,012,795</u>	<u>2,369,752</u>

9. EARNINGS PER SHARE

Basic earnings per share is computed based on net income attributable to eXp stockholders divided by the basic weighted-average shares outstanding during the period. Dilutive earnings per share is computed consistently with the basic computation while giving effect to all dilutive potential common shares and common share equivalents that were outstanding during the period. The Company uses the treasury stock method to reflect the potential dilutive effect of unvested stock awards and unexercised options. The Company uses the if-converted method to reflect the potential dilutive effect of a \$1.0 million payment obligation relating to the November 2018 acquisition of Virbela, LLC, that may be paid in cash or common stock in November 2021.

The following table sets forth the calculation of basic and diluted earnings per share attributable to common stock during the periods presented:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Numerator:				
Net income attributable to common stock	\$ 23,821	\$ 14,970	\$ 65,717	\$ 23,410
Denominator:				
Weighted average shares - basic	146,862,978	138,513,465	145,610,008	135,207,101
Dilutive effect of common stock equivalents	10,482,946	12,404,256	12,228,126	11,884,619
Weighted average shares - diluted	<u>157,345,924</u>	<u>150,917,721</u>	<u>157,838,134</u>	<u>147,091,720</u>
Earnings (loss) per share:				
Earnings per share attributable to common stock- basic	\$ 0.16	\$ 0.11	\$ 0.45	\$ 0.17
Earnings per share attributable to common stock- diluted	0.15	0.10	0.42	0.16

For the three months ended September 30, 2021 and 2020 total outstanding shares of common stock excluded 132,704 and 154,870 shares, respectively, from the computation of diluted earnings per share because their effect would have been anti-dilutive.

For the nine months ended September 30, 2021 and 2020 total outstanding shares of common stock excluded 75,680 and 162,063 shares, respectively, from the computation of diluted earnings per share because their effect would have been anti-dilutive.

10. INCOME TAXES

Our quarterly tax provision is computed by applying the estimated annual effective tax rate to the year-to-date pre-tax income or loss and adjust for discrete tax items in the period. Our provision for (benefit from) income taxes amounted to (\$12.9) million and \$0.2 million for the three months ended September 30, 2021 and 2020, respectively, and (\$33.3) million and \$0.3 million for the nine months ended September 30, 2021 and 2020, respectively. The increase in income tax benefit was primarily attributable to the release of the valuation allowance and higher deductible stock-based compensation.

We periodically evaluate the realizability of our deferred tax assets based on all available evidence, both positive and negative. The realization of the net deferred tax assets is dependent on our ability to generate sufficient future taxable income during the periods prior to the expiration of tax attributes to fully utilize these assets. As of June 30, 2021, based on our assessment of the realizability of our net deferred tax assets, we reached the conclusion that our valuation allowance on our US federal and state net deferred tax assets was no longer needed and therefore we recorded a valuation allowance release of \$13 million, as a discrete item. As of September 30, 2021, the valuation allowance release discrete item amounted to \$22 million due to the change in the annual forecast of the pre-tax income.

11. FAIR VALUE MEASUREMENT

The fair value of a financial instrument is the amount that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. The fair value hierarchy prioritizes the quality and reliability of the information used to determine fair values. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is defined into the following three categories:

- Level 1 – Inputs are quoted market prices in active markets for identical assets or liabilities (these are observable market inputs).
- Level 2 – Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability (includes quoted market prices for similar assets or identical or similar assets in markets in which there are few transactions, prices that are not current or prices that vary substantially).
- Level 3 – Inputs are unobservable inputs that reflect the entity's own assumptions in pricing the asset or liability (used when little or no market data is available).

The Company holds funds in a money market account, which are considered Level 1 assets. The Company values its money market funds at fair value on a recurring basis.

As of September 30, 2021 and December 31, 2020, the fair value of the Company's money market funds was \$43,385 and \$53,380, respectively.

There have been no transfers between Level 1, Level 2 and Level 3 in the period presented. The Company did not have any Level 2 or Level 3 financial assets or liabilities in the period presented.

12. SEGMENT INFORMATION

Historically, management has not made operating decisions and assessed performance based on geographic locations. Rather, the chief operating decision-maker makes operating decisions and assesses performance based on the products and services of the identified operating segments. While management does consider real estate and brokerage services, the acquired technology and affiliated services provided to be identified operating segments, the profits and losses and assets of the technology and affiliated services business units are not material.

Operating Segments

The Company primarily operates as a cloud-based real estate brokerage. The real estate brokerage business represents 99.2% and 99.6% of the total revenue of the Company for the three months ended September 30, 2021 and 2020, respectively. The real estate brokerage business represents 99.3% and 99.7% of the total revenue of the Company for the nine months ended September 30, 2021 and 2020, respectively. The real estate brokerage business represents 99.2% and 98.9% of the total assets of the Company as of September 30, 2021 and December 31, 2020, respectively.

The Company offers software subscriptions to customers to access its virtual reality software platform. Additionally, the Company offers professional services for implementation and consulting services. However, the operations and assets of the technology segment are not managed by the Company's chief operating decision-maker as a separate reportable segment.

Services provided through First Cloud and Silverline are in the emerging stages of development as contributing segments and are not material to the Company's total revenue, total net income or total assets as of September 30, 2021 and 2020, respectively.

The Company aggregates the identified operating segments for reporting purposes and has one reportable segment.

Geographical Information

The Company primarily operates within the real estate brokerage markets in the United States and Canada. During the previous two years, the Company expanded operations into the U.K., Australia, South Africa, India, Mexico, Portugal, France, Puerto Rico, Brazil, Italy, Hong Kong, Colombia, Spain, Israel, Panama and Germany.

The Company's management analyzes geographical locations on a forward-looking basis to identify growth opportunities. For the three months ended September 30, 2021 and 2020, approximately 8% and 6%, respectively, of the Company's total revenue was generated outside of the U.S. For the nine months ended September 30, 2021 and 2020, approximately 8% and 5%, respectively, of the Company's total revenue was generated outside of the U.S. Assets held outside of the U.S. were 9% and 7% as of September 30, 2021 and December 31, 2020

The Company's technology services and affiliated services are currently provided primarily in the U.S.

13. SUBSEQUENT EVENTS

On October 26, 2021, the Company's Board of Directors declared a dividend of \$0.04 per share which is expected to be payable on November 29, 2021, to stockholders of record as of the close of business on November 15, 2021. The ex-dividend date is November 12, 2021. The dividend will be paid in cash.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read together with our condensed consolidated financial statements and related notes included elsewhere in this report. Management's Discussion and Analysis of Financial Conditions and Results of Operations contain forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements. See "Item 1 A. – Risk Factors" in our 2020 Annual Report for a discussion of certain risks, uncertainties and assumptions associated with these statements.

This MD&A is divided into the following sections:

- Overview
- Market Conditions and Industry Trends
- Key Business Metrics
- Recent Business Developments
- Results of Operations
- Non-U.S. GAAP Financial Measures
- Liquidity and Capital Resources
- Critical Accounting Policies and Estimates

All dollar amounts are in USD thousands except share amounts and per share data and as otherwise noted.

OVERVIEW

eXp World Holdings empowers the new economy through its people, platforms and personal and professional development solutions. Through our brokerage, eXp Realty, we operate one of the world's fastest-growing real estate brokerages. We are focused on being the most agent-centric company on the planet and offer our agents a generous commission model, and a thriving community built on our proprietary and unique cloud-based brokerage and collaboration suite.

While we do not consider acquisitions a critical element of our ongoing business, we seek opportunities to expand and enhance our portfolio of solutions.

Strategy

Our strategy is to grow organically in North America and certain international markets by increasing our independent agent and broker network. Through our cloud-based operations and technology platform, we strive to achieve customer-focused efficiencies that allow us to increase market share and attain strong returns as we scale our business within the markets in which we operate. By building partnerships and strategically deploying capital, we seek to grow the business and enter into attractive verticals and associated businesses.

Throughout 2021, we continued to make progress in achieving our strategic goals, including an 82% increase in our agent count, going from 35,877 agents as of September 30, 2020 to 65,269 agents as of September 30, 2021. The expected outcome of these activities will be to better position us to deliver on our full potential, to provide a platform for future growth opportunities, and to achieve our long-term financial goals.

MARKET CONDITIONS AND INDUSTRY TRENDS

Our business is dependent on the economic conditions within the markets for which we operate. Changes in these conditions can have a positive or negative impact on our business. The economic conditions influencing the housing markets primarily include economic growth, interest rates, unemployment, consumer confidence, mortgage availability and supply and demand.

In periods of economic growth, demand typically increases resulting in accelerated home sales transactions and rising home sales prices. Similarly, a decline in economic growth, increasing interest rates and declining consumer confidence generally decreases demand. Additionally, regulations imposed by local, state, and federal government agencies, and geopolitical instability, can also negatively impact the housing markets for which we operate.

For the period ended September 30, 2021, the COVID-19 pandemic has continued to be contained due to the rate of inoculation and efficacy of vaccines. However, there is still volatility and uncertainty surrounding the outlook of the global economy due to inconsistencies in lifting restrictions across geographic markets and new variants to the virus. We believe that the economy will continue

to rebound depending on the continued pace, rate, and effectiveness of lifting public health restrictions on businesses and individuals and how quickly people become comfortable engaging in public activities.

According to National Association of Realtors (“NAR”), the housing market is past the recovery phase from the initial downturn during the beginnings of the COVID-19 pandemic. Current home sales are now at a pre-pandemic level, which is due to a significant increase in demand. The sizable shift to remote work, which has led to current homeowners looking for larger homes and vacation homes, and the continued historic low interest rates have accelerated housing demand. As of September 2021, existing home sales increased 7% on a seasonally adjusted annual rate. This is mostly driven by some improvement in supply; however, housing inventory is still down year-over-year. While the demand is driving home prices up, more buyers are waiting on more inventory and prices to stabilize. According to NAR housing statistics, total housing inventory at the end of September 2021 was down 13.0% from the same time in prior year with only 2.4 months of inventory supply, while the existing-home median price reached a historic record high of \$352.8 as of September 2021, which is a 13.3% increase from the same period in 2020. The demand for homebuying remains high. NAR reported that pending home sales rebounded in August by 8%, which is a positive indicator of continued housing demand. This NAR index measures housing contract activity and is based on signed real estate contracts for existing single-family homes and condos. The Company continues to monitor the macro and microeconomic environments but sees the demand for housing continuing throughout the year due to continued low interest rates and overall promising economic outlook.

The Company is positioned to continue to grow in light of a series of fluctuations in economic activity. The Company continued its growth trajectory through the third quarter of 2021 with a year-over-year increase in revenue of 127% and an increase in agent count of 82%. However, the Company continues to monitor the continued course of COVID-19, specifically in key areas of operations and the spread of new variants and the overall economic conditions affecting the real estate market through the end of 2021.

Regardless of whether the housing market continues to grow or slows, we believe that we are positioned to leverage our low-cost, high-engagement model, affording agents and brokers increased income and ownership opportunities while offering a scalable solution to brokerage owners looking to survive and thrive in a series of fluctuations in economic activity.

National Housing Inventory

Throughout 2020 and into 2021, increased demand and low mortgage interest rates caused inventory levels to decline to record lows. With continued overall uncertainty of the overall economy, fewer individuals are listing their homes. Additionally, construction of new homes has slowed due to increased costs of raw materials, tight labor market, and delays in the supply chains as the global economy continues to recover. Due to these factors, and others, year-over-year inventory has decreased further. According to NAR, inventory of existing homes for sale in the U.S. was 1.27 million as of September 2021 (preliminary) compared to 1.46 million at the end of September 2020. NAR indicated the need for new home construction due to the high demand of homes and the record-low inventory levels.

Mortgage Interest Rates

According to NAR, mortgage interest rates on commitments for 30-year, conventional, fixed-rate mortgages averaged 2.9% for the third quarter of 2021 compared to 3.0% for the third quarter of 2020. Mortgage rates are forecasted to increase minimally to 3.3% throughout the end of 2021, with an expected increase in interest rates in 2022 to 3.6%. Low mortgage rates are expected to continue to contribute to overall high demand for homebuying.

Housing Affordability Index

According to NAR, the composite housing affordability index decreased to 151.3 for August 2021 (preliminary) from 165.8 for August 2020. The housing affordability index continues to be at favorable levels. When the index is above 100, it indicates that a family earning the median income has sufficient income to purchase a median-priced home, assuming a 20% down payment and ability to qualify for a mortgage. The favorable housing affordability index is due to favorable mortgage rate conditions. However, the steady year-over-year decline is attributable to the increase in the average home price due to low inventory levels driving up demand.

Home Sales Transactions

According to NAR, seasonally adjusted existing home sale transactions increased to 6.3 million for September 2021 (preliminary) compared to 6.4 million for September 2020. NAR anticipates transactions to continue with current pace; however, due to low inventory levels, recovery may not be sustainable.

According to NAR, the nationwide existing home sales median price for September 2021 (preliminary) was \$352.8 compared to \$311.5 in September 2020. Due to low supply and high demand, the average sale price is expected to continue to increase, year over year, through the end of 2021.

KEY BUSINESS METRICS

Management uses our results of operations, financial condition, cash flows, and key business metrics related to our business and industry to evaluate our performance and make strategic decisions.

The following table outlines the key business metrics that we periodically review:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	<i>(in thousands, except transactions and agent count)</i>			
Performance:				
Agent count	65,269	35,877	65,269	35,877
Transactions	130,029	75,392	319,338	156,927
Volume	\$ 46,623,702	\$ 23,608,704	\$ 111,248,926	\$ 47,562,826
Revenue	\$ 1,110,480	\$ 564,017	\$ 2,694,200	\$ 1,188,963
Gross margin	7.2%	8.3%	7.9%	9.2%
Adjusted EBITDA	\$ 23,054	\$ 21,818	\$ 64,857	\$ 41,193

⁽¹⁾ Adjusted EBITDA is not a measurement of our financial performance under generally accepted accounting principles in the U.S. and should not be considered as an alternative to net income, operating income, or any other measures derived in accordance with U.S. GAAP. For a definition of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income, see “Non-U.S. GAAP Financial Measures”.

We periodically evaluate trends in certain metrics to track the Company’s performance.

Our strength is attracting real estate agent and broker professionals that contribute to our growth. Brokerage real estate transactions are recorded when our agents and brokers represent buyers and/or sellers in the purchase or sale, respectively, of a home. The number of real estate transactions is a key driver of our revenue and profitability. Real estate transaction volume represents the total sales value for all homes sold by our agents and brokers and is influenced by several market factors, including, but not limited to, the pricing and quality of our services and market conditions that affect home sales, such as macroeconomic factors, local inventory levels, mortgage interest rates, and seasonality. Real estate transaction revenue represents the commission revenue earned by the Company for closed brokerage real estate transactions.

We continue to increase our agents and brokers significantly in the United States and Canada through the execution of our growth strategies. Since 2019, we expanded operations to the U.K., Australia, South Africa, India, Mexico, Portugal, France, Puerto Rico, Brazil, Italy, Hong Kong, Colombia, Spain, Israel, Panama and Germany. The rate of growth of our agent and broker base is difficult to predict and is subject to many factors outside of our control, including macroeconomic factors affecting the real estate industry in general. With the favorable economic outlook and our unique business model, we anticipate to continuously grow for the remainder of the year.

Settled home sales transactions and volume resulted from closed real estate transactions and typically change directionally with changes in the market’s existing home sales transactions as reported by NAR, as disproportionate variances are representative of company-specific improvements or shortfalls to the norm. Our home sale transaction growth was directly related to the growth of our agent base over the prior comparative period.

We utilize gross margin, a financial statement measure based on U.S. GAAP to assess eXp’s financial performance from period to period. Gross margin is calculated from U.S. GAAP reported amounts and equals the difference between revenue and cost of sales (i.e., gross profit) as a percentage of total revenue. Commissions and other agent-related costs represent the cost of sales for the Company. The cost of sales does not include depreciation, amortization, or stock compensation expenses as the Company’s assets are not directly used in the production of revenue. Gross margin is based on the information provided in our results of operations or our consolidated statements of comprehensive income (loss), and is an important measure of our potential profitability and brokerage performance. For the three months ended September 30, 2021 and 2020, gross margin was 7.2% and 8.3%, respectively. For the nine months ended September 30, 2021 and 2020, gross margin was 7.9% and 9.2%, respectively. Gross margin decreased year-over-year primarily due to rising home prices and increased demand which resulted in agents reaching their commission capping requirements sooner, entitling them to a higher percentage of the home sale commission. We continue to monitor our gross margin through efforts to improve our cost structure.

Management also reviews Adjusted EBITDA, which is a non-U.S. GAAP financial measure, to understand and evaluate our core operating performance. Adjusted EBITDA has grown significantly for the three and nine months ended September 30, 2021 and 2020 due to our revenue growth and improved leverage of our cost structure.

RECENT BUSINESS DEVELOPMENTS

Real Estate Brokerage Initiatives

Global Expansion of Our Real Estate Cloud Brokerage

During the fourth quarter of 2020, the Company expanded into South Africa, India, Mexico, Portugal and France. In addition, the Company expanded into Puerto Rico, Brazil, Italy, Hong Kong, Colombia, Spain, Israel, Panama, and Germany in the first nine months of 2021. The Company continues to pursue growth opportunities into new global markets. In addition to the international expansion, the Company also continues to focus on growth in the United States and existing international markets.

Agent and Employee Experience

The Company has embarked on an initiative to better understand both its agents and employees' experience. In doing so, we have adopted many of the principles of the Net Promoter Score® ("NPS") across many aspects of our organization. NPS is a measure of customer satisfaction and is measured on a scale between -100 and 100. An NPS above 50 is considered excellent. The Company's cumulative agent NPS was 71 through the third quarter of 2021. Whether the overall question is "How likely are you to recommend eXp to your colleagues, friends, or family?" or more granular inquiries as to specific workflows or service offerings, we believe this will ensure we are delivering on the most important values to our agents and employees. In turn, this often leads to enthusiastic fans of eXp who will promote our Company and continue leading us through strong organic growth.

This also ties into one of our core values of transparency. While we strive for high satisfaction, it is equally important to investigate a low or unfavorable trending of NPS scores. As NPS scores are often leading indicators to agents and employees' future actions, we are able to learn quickly what may be a "pain point" or product that is not meeting its desired objective. We then take that information and translate it into action with an effort to remediate the specific root cause(s) driving the lower score. This fast and iterative approach has already led to improvements in such parts of our business such as agent onboarding, commission transaction processing, and employee benefits.

Agent Ownership

The Company maintains an equity incentive program whereby agents and brokers of eXp Realty can become eligible to receive awards of the Company's common stock through the achievement of production and agent attraction benchmarks. The equity incentive program continues to be a key element in creating a culture of agent-ownership.

Our agent compensation plans represent a key lever in our strategy to attract and retain independent agents and brokers. The costs attributable to these plans are also a significant component of our commission structure and results of operations. Agents and brokers can elect to receive 5% of their commission payable in the form of Company common stock issued at a 10% discount. Our operational strategy and the importance of the agent compensation plans to our strategy have not changed. Our stock repurchase program and agent growth incentive program are more fully disclosed in Note 8 – Stockholders' Equity to the condensed consolidated financial statements.

Technology Products and Services

We continue developing the core Virbela software platform and its underlying infrastructure through our subsidiary, eXp World Technologies, LLC, to accommodate for the increasing use and scale required to support our eXp Realty division. In 2019, we released a new product centered on the concept of an open campus whereby small and independent organizations may utilize sub spaces as part of a larger campus similar to collaborative environments that currently exist in the physical brick-and-mortar world. In the first quarter of 2020, Virbela began offering virtual events services. Given the current environment due to the COVID-19 pandemic, there is an acute need for virtual workplace collaboration. For the period ended September 30, 2021, Virbela continues to see growing demand from organizations exploring remote and hybrid operating models, including global Fortune-2000 firms with the need to connect distributed teams. As a result, Virbela continues to invest in product and infrastructure improvements, along with new feature development. Lastly, we expect to continue to service existing and new business-to-business enterprise-level contracts in the coming year.

Affiliated Services

Recent acquisitions and partnerships have allowed us to begin offering to customers more products and services complementary to our real estate brokerage business. These affiliated services include mortgage origination, title, escrow, and settlement services, which we can now provide as a more inclusive offering in addition to our brokerage services. We anticipate continued growth and investment in these service offerings through 2021; however, actual performance will depend directly on utilization by eXp Realty agents and brokers and the on-going and fluctuating government implemented restrictions due to the COVID-19 pandemic. Overall, these services are de minimis to our overall operations.

Results of Operations

Three Months Ended September 30, 2021 compared to the Three Months Ended September 30, 2020

	Three Months Ended September 30, 2021	% of Revenue	Three Months Ended September 30, 2020	% of Revenue	Change 2021 vs. 2020	
					\$	%
Statement of Operations Data:						
Revenues	\$ 1,110,480	100%	\$ 564,017	100%	\$ 546,463	97%
Operating expenses						
Commissions and other agent-related costs	1,030,937	93%	517,169	92%	513,768	99%
General and administrative expenses	64,615	6%	30,130	5%	34,485	114%
Sales and marketing expenses	3,761	-%	1,495	-%	2,266	152%
Total operating expenses	1,099,313	99%	548,794	97%	550,519	100%
Operating income	11,167	1%	15,223	3%	(4,056)	(27)%
Other expense						
Other expense, net	239	-%	80	-%	159	199%
Equity in losses of unconsolidated affiliates	(2)	-%	-	-%	(2)	N/A
Other expense, net	237	-%	80	-%	157	196%
Income before income tax expense	10,930	1%	15,143	3%	(4,213)	(28)%
Income tax (benefit) expense	(12,884)	(1)%	225	-%	(13,109)	(5,826)%
Net income	23,814	2%	14,918	3%	8,896	60%
Add back: Net loss attributable to noncontrolling interest						
Net income attributable to eXp World Holdings, Inc.	23,821	2%	14,970	3%	8,851	59%
Adjusted EBITDA ⁽¹⁾	\$ 23,054	2%	\$ 21,818	4%	\$ 1,236	6%
Earnings per share						
Basic	\$ 0.16		\$ 0.11		\$ 0.05	45%
Diluted	\$ 0.15		\$ 0.10		\$ 0.05	50%
Weighted average shares outstanding						
Basic	146,862,978		138,513,465			
Diluted	157,345,924		150,917,721			

⁽¹⁾ Adjusted EBITDA is not a measurement of our financial performance under U.S. GAAP and should not be considered as an alternative to net income, operating income or any other measures derived in accordance with U.S. GAAP. For a definition of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income, see "Non-U.S. GAAP Financial Measures."

Revenue

Our total revenues were \$1.1 billion for the three months ended September 30, 2021 compared to \$564.0 million for the same period in 2020, an increase of \$546.5 million, or 97%. Total revenues increased for the third quarter of 2021 primarily as a result of an increase in real estate brokerage commissions, which is directly attributable to increases in our agent count and closed transactions compared to the same period in 2020. Additionally, the average home sale price for eXp closed transactions increased 15% to \$359 during the three months ended September 30, 2021 from \$313 for the same period in 2020.

Commission and Other Agent Related Costs

Commission and other agent-related costs were \$1.0 billion for the three months ended September 30, 2021 compared to \$517.2 million for the same period in 2020, an increase of \$513.8 million, or 99%. Commissions and other agent related costs increased as a result of an increase in our agent count and closed transactions compared to the same period in 2020. Rising home prices and increased demand also contributed to agents reaching their commission capping requirements sooner, entitling them to a higher percentage of the home sale commission.

General and Administrative Expense

General and administrative expenses were \$64.6 million for the three months ended September 30, 2021 compared to \$30.1 million for the same period in 2020, an increase of \$34.5 million or 114%. General and administrative expenses include costs related to wages,

including stock compensation, and other general overhead expenses. General and administrative expenses increased primarily as a result of an increase of \$21.3 million in compensation and personnel related expenses including salaries, employee benefits, and payroll taxes and payroll processing fees, an increase of \$3.3 million in computer and software expenses, and an increase of \$4.7 million in stock compensation expense. These increased costs are a result of the Company's growth in agent count and real estate transaction volumes, and the investment of employee and technology in supporting the growth in 2021.

Sales and Marketing

Sales and marketing expenses increased to \$3.8 million for the three months ended September 30, 2021 compared to \$1.5 million the same period in 2020. This is due to an increase of \$1.2 million in advertising as we continue to expand our real estate operations and software services.

Other Expense

There were no significant changes in other expense for the three months ended September 30, 2021 compared to the same period in 2020.

Income Tax Benefit (Expense)

The Company's provision for (benefit from) income taxes amounted to (\$12.9) million and \$0.2 million for the three months ended September 30, 2021 and 2020, respectively, which represented effective tax rates of negative 117.90% and 1.38%, respectively. The increase in income tax benefit was primarily attributable to the release of the valuation allowance and higher deductible stock-based compensation.

Nine Months Ended September 30, 2021 compared to the Nine Months Ended September 30, 2020

	Nine Months Ended September 30, 2021	% of Revenue	Nine Months Ended September 30, 2020	% of Revenue	Change 2021 vs. 2020	
					\$	%
Statement of Operations Data:						
Revenues	\$ 2,694,200	100%	\$ 1,188,963	100%	\$ 1,505,237	127%
Operating expenses						
Commissions and other agent-related costs	2,481,254	92%	1,079,739	91%	1,401,515	130%
General and administrative expenses	171,636	6%	82,145	7%	89,491	109%
Sales and marketing expenses	8,701	-%	3,326	-%	5,375	162%
Total operating expenses	2,661,591	99%	1,165,210	98%	1,496,381	128%
Operating income	32,609	1%	23,753	2%	8,856	37%
Other expense						
Other expense, net	159	-%	129	-%	30	23%
Equity in losses of unconsolidated affiliates	5	-%	34	-%	(29)	(85)%
Total other expense, net	164	-%	163	-%	1	1%
Income before income tax expense	32,445	1%	23,590	2%	8,855	38%
Income tax (benefit) expense	(33,258)	(1)%	295	-%	(33,553)	(11,374)%
Net income	65,703	2%	23,295	2%	42,408	182%
Add back: Net loss attributable to noncontrolling interest	14	-%	115	-%	(101)	(88)%
Net income attributable to eXp World Holdings, Inc.	65,717	2%	23,410	2%	42,307	181%
Adjusted EBITDA ⁽¹⁾	\$ 64,857	2%	\$ 41,193	3%	\$ 23,664	57%
Earnings per share						
Basic	\$ 0.45		\$ 0.17		\$ 0.28	165%
Diluted	\$ 0.42		\$ 0.16		\$ 0.26	163%
Weighted average shares outstanding						
Basic	145,610,008		135,207,101			
Diluted	157,838,134		147,091,720			

(1) Adjusted EBITDA is not a measurement of our financial performance under U.S. GAAP and should not be considered as an alternative to net income, operating income or any other measures derived in accordance with U.S. GAAP. For a definition of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income, see “Non-U.S. GAAP Financial Measures.”

Revenue

Our total revenues were \$2.7 billion for the nine months ended September 30, 2021 compared to \$1.2 billion for the same period in 2020, an increase of \$1.5 billion, or 127%. Total revenues increased for the nine month period primarily as a result of an increase in real estate brokerage commissions, which is directly attributable to increases in our agent count and closed transactions compared to the same period in 2020. Additionally, the average home sale price for eXp closed transactions increased 15% to \$348 during the nine months ended September 30, 2021 from \$303 for the same period in 2020.

Commission and Other Agent Related Costs

Commission and other agent-related costs were \$2.5 billion for the nine months ended September 30, 2021 compared to \$1.1 billion for the same period in 2020, an increase of \$1.4 billion, or 130%. Commissions and other agent related costs increased as a result of an increase in our agent count and closed transactions compared to the same period in 2020. Rising home prices and increased demand also contributed to agents reaching their commission capping requirements sooner, entitling them to a higher percentage of the home sale commission.

General and Administrative Expense

General and administrative expenses were \$171.6 million for the nine months ended September 30, 2021 compared to \$82.1 million for the same period in 2020, an increase of \$89.5 million or 109%. General and administrative expenses include costs related to wages, including stock compensation, and other general overhead expenses. General and administrative expenses increased primarily as a result of an increase of \$53.3 million in personnel related expenses including salaries, employee benefits, and payroll taxes and payroll processing fees, an increase of \$9.1 million in computer and software expenses, and an increase of \$13.2 million in stock compensation expense. These increased costs are a result of the Company’s growth in agent count and real estate transaction volumes, and the investment of employee and technology in supporting the growth in 2021.

Sales and Marketing

Sales and marketing expenses increased to \$8.7 million from \$3.3 million for the nine months ended September 30, 2021 compared to the same period in 2020, an increase of \$5.4 million or 162%. This is due to an increase of \$2.0 million in advertising and lead capture costs as we continue to expand our real estate operations and software services.

Other Expense

There were no significant changes in other expense for the nine months ended September 30, 2021 compared to the same period in 2020.

Income Tax Benefit (Expense)

The Company’s provision for (benefit from) income taxes amounted to (\$33.3) million and \$0.3 million for the nine months ended September 30, 2021 and 2020, respectively, which represented an effective tax rate of negative 102.46% and 1.22%, respectively. The decrease in income tax expense was primarily attributable to the release of the valuation allowance and higher deductible stock-based compensation.

NON-U.S. GAAP FINANCIAL MEASURES

To supplement our consolidated financial statements, which are prepared and presented in accordance with U.S. GAAP, we use Adjusted EBITDA, a non-U.S. GAAP financial measure, to understand and evaluate our core operating performance. This non-GAAP financial measure, which may be different than similarly titled measures used by other companies, is presented to enhance investors’ overall understanding of our financial performance and should not be considered a substitute for, or superior to, the financial information prepared and presented in accordance with U.S. GAAP.

We define the non-U.S. GAAP financial measure of Adjusted EBITDA to mean net income (loss), excluding other income (expense), income tax benefit (expense), depreciation, amortization, and impairment charges, stock-based compensation expense, and stock option expense.

We believe that Adjusted EBITDA provides useful information about our financial performance, enhances the overall understanding of our past performance and future prospects, and allows for greater transparency with respect to a key metric used by our management for financial and operational decision-making. We believe that Adjusted EBITDA helps identify underlying trends in our business that otherwise could be masked by the effect of the expenses that we exclude in Adjusted EBITDA. In particular, we believe the exclusion

of stock and stock option expenses, provides a useful supplemental measure in evaluating the performance of our underlying operations and provides better transparency into our results of operations.

We are presenting the non-U.S. GAAP measure of Adjusted EBITDA to assist investors in seeing our financial performance through the eyes of management, and because we believe this measure provides an additional tool for investors to use in comparing our core financial performance over multiple periods with other companies in our industry.

Adjusted EBITDA should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with U.S. GAAP. There are a number of limitations related to the use of Adjusted EBITDA compared to Net Income (Loss), the closest comparable U.S. GAAP measure. Some of these limitations are that:

- Adjusted EBITDA excludes stock-based compensation expense related to our agent growth incentive program and stock option expense, which have been, and will continue to be for the foreseeable future, significant recurring expenses in our business and an important part of our compensation strategy; and
- Adjusted EBITDA excludes certain recurring, non-cash charges such as depreciation of fixed assets, amortization of intangible assets, and impairment charges related to these long-lived assets, and, although these are non-cash charges, the assets being depreciated, amortized, or impaired may have to be replaced in the future.

The following tables present a reconciliation of Adjusted EBITDA to net loss, the most comparable U.S. GAAP financial measure, for each of the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income	\$ 23,814	\$ 14,918	\$ 65,703	\$ 23,295
Other expense, net	237	80	164	163
Income tax (benefit) expense	(12,884)	225	(33,258)	295
Depreciation and amortization ⁽¹⁾	1,694	1,005	4,511	2,785
Stock compensation expense ⁽²⁾	6,817	3,711	18,129	10,476
Stock option expense	3,376	1,879	9,608	4,179
Adjusted EBITDA	\$ 23,054	\$ 21,818	\$ 64,857	\$ 41,193

⁽¹⁾ Amortization of stock liability is included in the "Other expense (income)" line item.

⁽²⁾ This includes agent growth incentive stock compensation expense and stock compensation expense related to business acquisitions.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are our cash and cash equivalents on hand and cash flows generated from our business operations. Our ability to generate sufficient cash flow from operations or to access certain capital markets, including banks, is necessary to fund our operations and capital expenditures, repurchase our common stock, and meet obligations as they become due. At present, our cash and cash equivalents balances and cash flows from operations have strengthened primarily due to transaction volume growth and improved cost leverage over the prior five years attributable to the expansion of our independent agent and broker network and, to a lesser extent, increased average prices of home sales.

Currently, our primary use of cash on hand is to sustain and grow our business operations, including, but not limited to, commission and revenue share payments to agents and brokers and cash outflows for operating expenses. Our current capital deployment strategy for 2021 is to utilize excess cash on hand to support our growth initiatives into select markets and enhance our technology platforms and for repurchases of our common stock. As of September 30, 2021, the Company is not party to any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures, or capital resources. In addition, the Company has no known material cash requirements as of September 30, 2021 relating to capital expenditures, commitments, or human capital (except commissions to agents and brokers concurrent with settled real estate transactions). The cash requirements for the upcoming fiscal year relating to our leases and our debt associated with acquisitions is insignificant. For information regarding the Company's expected cash requirement related to leases, see Note 6 – Leases to the condensed consolidated financial statements. Cash requirements associated with our acquisitions include a \$1.0 million payment of cash or common stock of the Company to the previous owners of Virbela, LLC due in November 2021. During the first quarter of 2021, the Company paid \$1.5 million of principal amount outstanding for the full settlement of the promissory notes issued to the previous owners of Showcase, which were due in installment payments during 2021.

We believe that our existing balances of cash and cash equivalents and cash flows expected to be generated from our operations will be sufficient to satisfy our operating requirements for at least the next twelve months. Our future capital requirements will depend on many factors, including our level of investment in technology, our rate of growth into new markets, and cash used to repurchase shares of the Company's common stock. Our capital requirements may be affected by factors which we cannot control such as the changes in the

residential real estate market, interest rates, and other monetary and fiscal policy changes to the manner in which we currently operate. In order to support and achieve our future growth plans, we may need or seek advantageously to obtain additional funding through equity or debt financing. We believe that our current operating structure will facilitate sufficient cash flows from operations to satisfy our expected long-term liquidity requirements beyond the next twelve months.

We currently do not hold any bank debt, nor have we issued any debt instruments through public offerings or private placements. If we are unable to raise additional capital when desired, our business, results of operations, and financial condition would likely suffer. As of September 30, 2021, our cash and cash equivalents totaled \$98.1 million. Cash equivalents are comprised of financial instruments with an original maturity of 90 days or less from the date of purchase; primarily money market funds. We currently do not possess any marketable securities.

Net Working Capital

Net working capital is calculated as the Company’s total current assets less its total current liabilities. The following table presents our net working capital as of September 30, 2021 and December 31, 2020:

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Current assets	\$ 306,141	\$ 212,225
Current liabilities	(189,480)	(96,650)
Net working capital	<u>\$ 116,661</u>	<u>\$ 115,575</u>

For the nine months ended September 30, 2021, net working capital increased to \$116.7 million, or 1%, compared to December 31, 2020 primarily due to an increase in agent and commission receivables directly related to the increase in revenue.

Cash Flows

The following table presents our cash flows for the nine months ended September 30, 2021 and 2020:

	<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>
Cash provided by operating activities	\$ 198,413	\$ 89,206
Cash used in investment activities	(13,663)	(5,651)
Cash used in financing activities	(145,144)	(16,514)
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	(60)	(129)
Net change in cash, cash equivalents and restricted cash	<u>\$ 39,546</u>	<u>\$ 66,912</u>

For the nine months ended September 30, 2021, cash provided by operating activities increased \$109.2 million compared to the same period in 2020. The change resulted primarily from the increased real estate transactions volume, increase in customer deposits, and higher participation by our agents and brokers in our agent stock compensation programs.

For the nine months ended September 30, 2021, cash used in our investing activities increased due to higher capital expenditures and acquisition-related payments.

For the nine months ended September 30, 2021, the increase in cash flows used in financing activities primarily were related to repurchases of our common stock and payment of cash dividend, partially offset by proceeds received from the exercise of stock options.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2020, which provides a description of our critical accounting policies. There were no changes to critical accounting policies or estimates as reflected in our 2020 Annual Report. For additional information regarding our critical accounting policies and estimates, see the Critical Accounting Policies and Estimates section of MD&A included in our 2020 Annual Report.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our exposures to market risk since December 31, 2020. For details on the Company's interest rate and foreign currency exchange, see “Item 7A. Quantitative and Qualitative Information About Market Risks” in our 2020 Annual Report.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2021 pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on the evaluation of our disclosure controls and procedures as of September 30, 2021, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2021.

Changes in Internal Control Over Financial Reporting

In addition, no significant changes in the Company’s internal control over financial reporting occurred during the quarter ended September 30, 2021, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting. As the Company’s workforce already operates in a remote environment, there was no material impact of COVID-19 on our day-to-day operations or our internal control over financial reporting.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of September 30, 2021. In making its evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control — Integrated Framework (2013).

Under standards established by the Public Company Accounting Oversight Board of the United States, a material weakness is a significant deficiency, or combination of significant deficiencies, that results in there being a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

Inherent Limitations on Effectiveness of Internal Controls

Our management, including the Principal Executive Officer, the Principal Financial Officer, and the Principal Accounting Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II – OTHER INFORMATION**Item 1. LEGAL PROCEEDINGS**

From time to time, we are involved in ordinary routine litigation incidental to the conduct of our business, including matters that may be certified as class or collective actions.

On June 1, 2021, the Company received a subpoena issued by the staff of the Division of Enforcement of the Securities and Exchange Commission (the “SEC Staff”) requesting certain documentation and information relating to the Company and to its commission and agent compensation practices during 2018 and 2019. The Company is fully cooperating with the SEC Staff regarding this non-public, fact-finding inquiry. The SEC Staff has informed the Company that this inquiry should not be construed as an indication that any violations of law have occurred or that the SEC Staff has formed an opinion concerning the Company’s agent compensation practices. The Company does not believe that the inquiry will have a material impact on the Company’s financial condition, results of operations or cash flow, but can provide no assurance concerning the timing or outcome of the inquiry.

There are no other legal proceedings pending or, to our knowledge, threatened that we believe could have a material adverse impact on our business, reputation, results of operations or financial condition.

Item 1A. RISK FACTORS

There were no material changes to the risk factors reported in Part I, “Item 1A. Risk Factors” of 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**Issuer Purchases of Equity Securities**

The following table provides information about repurchases of our common stock through the quarter ended September 30, 2021:

<u>Period</u>	<u>Total number of shares purchased</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of publicly announced plans or programs ⁽¹⁾</u>	<u>Approximate dollar value of shares that may yet be purchased under the plans or programs</u>
7/1/2021 - 7/31/2021	607,357	\$ 36.64	607,357	\$ 269,236,049
8/1/2021 - 8/31/2021	466,917	45.30	466,917	248,250,861
9/1/2021 - 9/30/2021	213,225	46.60	213,225	238,263,017
Total	<u>1,287,499</u>	<u>\$ 42.85</u>	<u>1,287,499</u>	

⁽¹⁾ The repurchase program began on January 2, 2019 and was set to expire on June 28, 2019. On June 12, 2019, the Company, under authorization from the Board of Directors, amended the plan. The amended plan extended the repurchase program through December 31, 2019. On November 26, 2019, the Company announced the approval to increase the authorization limits of the Company’s stock repurchase program by the Board. The Board agreed to extend the stock repurchase program through the fourth quarter of 2020 and to increase the authorization for the stock repurchase program from \$25.0 million to \$75.0 million of the Company’s common stock. The Company discontinued the repurchase program in March 2020 and subsequently reinstated it in June 2020 with a maximum authorization of \$75.0 million. In December 2020, the Board approved an increase to the total amount of its buyback program from \$75.0 million to \$400.0 million. The stock repurchase program is more fully disclosed in Note 8 – Stockholders’ Equity to the condensed consolidated financial statements.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

Exhibit Number	Exhibit Description
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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.

Date: November 3, 2021

eXp World Holdings, Inc.
(Registrant)

/s/ Jeff Whiteside

Jeff Whiteside

Chief Financial Officer (Principal Financial Officer)

**Certification of the Chief Executive Officer pursuant to Rule
13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Glenn Sanford, hereby certify that:

1. I have reviewed this quarterly report on Form 10-Q of eXp World Holdings, 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 in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (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.

Date: November 3, 2021

By: /s/ Glenn Sanford

Glenn Sanford
Chief Executive Officer (Principal Executive Officer)

**Certification of the Chief Financial Officer pursuant to Rule
13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jeff Whiteside, hereby certify that:

1. I have reviewed this quarterly report on Form 10-Q of eXp World Holdings, 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 in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (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.

Date: November 3, 2021

By: /s/ Jeff Whiteside

Jeff Whiteside

Chief Financial Officer (Principal Financial Officer)

**Certification of Chief Executive Officer pursuant to 18 U.S.C.
1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the quarterly report of eXp World Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Glenn Sanford, as Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2021

By: /s/ Glenn Sanford

Glenn Sanford

Chief Executive Officer (Principal Executive Officer)

**Certification of Chief Financial Officer pursuant to 18 U.S.C.
1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the quarterly report of eXp World Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeff Whiteside, as Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2021

By: /s/ Jeff Whiteside

Jeff Whiteside

Chief Financial Officer

(Principal Financial Officer)
