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RE/MAX Holdings, Inc.
Form 10-Q
August 04, 2017
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 June 30, 2017.

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 001-36101

RE/MAX Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

80-0937145
(I.R.S. Employer
Identification Number)

5075 South Syracuse Street
Denver, Colorado
(Address of principal executive offices)

80237
(Zip Code)

(303) 770-5531

(Registrant's telephone number, including area code)

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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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 definition 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	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

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

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

The number of outstanding shares of the registrant’s Class A common stock, par value \$0.0001 per share, and Class B common stock, par value \$0.0001, as of July 31, 2017 was 17,696,991 and 1, respectively.

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PART I. – FINANCIAL INFORMATION

Item 1. Financial Statements

RE/MAX HOLDINGS, INC.

Condensed Consolidated Balance Sheets

(In thousands, except share and per share amounts)

(Unaudited)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 70,317	\$ 57,609
Accounts and notes receivable, current portion, less allowances of \$6,141 and \$5,535, respectively	20,580	19,419
Income taxes receivable	2,193	—
Other current assets	2,972	4,186
Total current assets	96,062	81,214
Property and equipment, net of accumulated depreciation of \$12,623 and \$12,196, respectively	2,987	2,691
Franchise agreements, net	99,036	109,140
Other intangible assets, net	9,332	9,811
Goodwill	127,081	126,633
Deferred tax assets, net	102,933	105,770
Other assets, net of current portion	1,729	1,894
Total assets	\$ 439,160	\$ 437,153
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 344	\$ 855
Accounts payable to affiliates	14	145
Accrued liabilities	8,034	13,268
Income taxes payable	52	379
Deferred revenue and deposits	18,003	16,306
Current portion of debt	2,350	2,350
Current portion of payable pursuant to tax receivable agreements	11,390	13,235
Total current liabilities	40,187	46,538
Debt, net of current portion	227,551	228,470
Payable pursuant to tax receivable agreements, net of current portion	85,574	85,574
Deferred tax liabilities, net	143	133
Other liabilities, net of current portion	15,741	15,729
Total liabilities	369,196	376,444
Commitments and contingencies (note 13)		

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Stockholders' equity:

Class A common stock, par value \$0.0001 per share, 180,000,000 shares authorized; 17,696,991 shares issued and outstanding as of June 30, 2017; 17,652,548 shares issued and outstanding as of December 31, 2016	2	2
Class B common stock, par value \$0.0001 per share, 1,000 shares authorized; 1 share issued and outstanding as of June 30, 2017 and December 31, 2016	—	—
Additional paid-in capital	447,478	447,001
Retained earnings	22,828	16,808
Accumulated other comprehensive income (loss), net of tax	188	(28)
Total stockholders' equity attributable to RE/MAX Holdings, Inc.	470,496	463,783
Non-controlling interest	(400,532)	(403,074)
Total stockholders' equity	69,964	60,709
Total liabilities and stockholders' equity	\$ 439,160	\$ 437,153

See accompanying notes to unaudited condensed consolidated financial statements.

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RE/MAX HOLDINGS, INC.

Condensed Consolidated Statements of Income

(In thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,	2016	June 30,	2016
	2017		2017	
Revenue:				
Continuing franchise fees	\$ 23,284	\$ 19,846	\$ 46,249	\$ 38,753
Annual dues	8,320	8,046	16,556	15,950
Broker fees	12,555	10,384	20,789	17,585
Franchise sales and other franchise revenue	4,660	5,128	13,454	13,921
Brokerage revenue	—	—	—	112
Total revenue	48,819	43,404	97,048	86,321
Operating expenses:				
Selling, operating and administrative expenses	20,637	18,842	47,431	42,074
Depreciation and amortization	5,397	3,872	11,392	7,593
(Gain) loss on sale or disposition of assets, net	(12)	(11)	(25)	96
Total operating expenses	26,022	22,703	58,798	49,763
Operating income	22,797	20,701	38,250	36,558
Other expenses, net:				
Interest expense	(2,462)	(2,091)	(4,816)	(4,372)
Interest income	25	35	50	86
Foreign currency transaction gains	39	20	16	184
Loss on early extinguishment of debt	—	—	—	(136)
Total other expenses, net	(2,398)	(2,036)	(4,750)	(4,238)
Income before provision for income taxes	20,399	18,665	33,500	32,320
Provision for income taxes	(4,762)	(4,285)	(7,792)	(7,544)
Net income	\$ 15,637	\$ 14,380	\$ 25,708	\$ 24,776
Less: net income attributable to non-controlling				
interest	8,108	7,419	13,266	12,875
Net income attributable to RE/MAX Holdings,				
Inc.	\$ 7,529	\$ 6,961	\$ 12,442	\$ 11,901

Net income attributable to RE/MAX Holdings,
Inc.

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per share of Class A common stock				
Basic	\$ 0.43	\$ 0.39	\$ 0.70	\$ 0.68
Diluted	\$ 0.42	\$ 0.39	\$ 0.70	\$ 0.67
Weighted average shares of Class A common stock				
outstanding				
Basic	17,696,842	17,636,590	17,679,936	17,610,470
Diluted	17,723,802	17,668,995	17,720,564	17,653,433
Cash dividends declared per share of Class A common stock	\$ 0.18	\$ 0.15	\$ 0.36	\$ 0.30

See accompanying notes to unaudited condensed consolidated financial statements.

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RE/MAX HOLDINGS, INC.

Condensed Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Net income	\$ 15,637	\$ 14,380	\$ 25,708	\$ 24,776
Change in cumulative translation adjustment	368	—	463	564
Other comprehensive income, net of tax	368	—	463	564
Comprehensive income	16,005	14,380	26,171	25,340
Less: comprehensive income attributable to non-controlling interest	8,303	7,419	13,513	13,176
Comprehensive income attributable to RE/MAX Holdings, Inc., net of tax	\$ 7,702	\$ 6,961	\$ 12,658	\$ 12,164

See accompanying notes to unaudited condensed consolidated financial statements.

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RE/MAX HOLDINGS, INC.

Condensed Consolidated Statement of Stockholders' Equity

(In thousands, except share amounts)

(Unaudited)

	Class A		Class B		Additional		Accumulated	Non-	Total
	common stock		common stock		paid-in	Retained	other	controlling	stockholders'
	Shares	Amount	Shares	Amount	capital	earnings	(loss), net of tax	interest	equity
Balances, January 1, 2017	17,652,548	\$ 2	1	\$ —	\$ 447,001	\$ 16,808	\$ (28)	\$ (403,074)	\$ 60,709
Net income	—	—	—	—	—	12,442	—	13,266	25,708
Distributions to non-controlling unitholders	—	—	—	—	—	—	—	(10,971)	(10,971)
Equity-based compensation expense and related dividend equivalents	58,426	—	—	—	1,293	(53)	—	—	1,240
Dividends to Class A common stockholders	—	—	—	—	—	(6,369)	—	—	(6,369)
Change in accumulated other comprehensive income	—	—	—	—	—	—	216	247	463
Payroll taxes related to net settled restricted stock units	(13,983)	—	—	—	(816)	—	—	—	(816)
Balances, June 30, 2017	17,696,991	\$ 2	1	\$ —	\$ 447,478	\$ 22,828	\$ 188	\$ (400,532)	\$ 69,964

See accompanying notes to unaudited condensed consolidated financial statements.

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RE/MAX HOLDINGS, INC.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended	
	June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 25,708	\$ 24,776
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,392	7,593
Bad debt expense	587	109
Loss on early extinguishment of debt	—	136
Equity-based compensation expense	1,293	1,311
Deferred income tax expense	2,701	2,529
Fair value adjustments to contingent consideration	(170)	—
Other, net	231	319
Changes in operating assets and liabilities	(8,801)	(9,741)
Net cash provided by operating activities	32,941	27,032
Cash flows from investing activities:		
Purchases of property, equipment and software	(1,290)	(2,106)
Capitalization of trademark costs	(33)	(16)
Acquisitions, net of cash acquired of \$0 and \$131, respectively	—	(9,869)
Other investing activity, net	—	54
Net cash used in investing activities	(1,323)	(11,937)
Cash flows from financing activities:		
Payments on debt	(1,175)	(13,734)
Distributions paid to non-controlling unitholders	(10,971)	(8,912)
Dividends and dividend equivalents paid to Class A common stockholders	(6,422)	(5,285)
Payments on capital lease obligations	(5)	(51)
Proceeds from exercise of stock options	—	101
Payment of payroll taxes related to net settled restricted stock units	(816)	(360)
Net cash used in financing activities	(19,389)	(28,241)
Effect of exchange rate changes on cash	479	508
Net increase (decrease) in cash and cash equivalents	12,708	(12,638)
Cash and cash equivalents, beginning of year	57,609	110,212
Cash and cash equivalents, end of period	\$ 70,317	\$ 97,574
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 4,904	\$ 4,251
Net cash paid for income taxes	\$ 7,564	\$ 5,957
Schedule of non-cash investing and financing activities:		
Note receivable received as consideration for sale of brokerage operations assets	\$ —	\$ 150

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Capital lease for property and equipment	—	33
Increase in accounts payable for capitalization of trademark costs and purchases of property, equipment and software	\$ 199	\$ 625

See accompanying notes to unaudited condensed consolidated financial statements.

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Business and Organization

RE/MAX Holdings, Inc. (“RE/MAX Holdings”) was formed as a Delaware corporation on June 25, 2013. On October 7, 2013, RE/MAX Holdings completed an initial public offering (the “IPO”) of its shares of Class A common stock. RE/MAX Holdings’ only business is to act as the sole manager of RMCO, LLC (“RMCO”). As of June 30, 2017, RE/MAX Holdings owns 58.49% of the common membership units in RMCO, while RIHI, Inc. (“RIHI”) owns the remaining 41.51% of common membership units in RMCO. RE/MAX Holdings and its consolidated subsidiaries, including RMCO, are referred to hereinafter as the “Company.”

The Company is a franchisor in the real estate industry, franchising real estate brokerages globally under the RE/MAX brand (“RE/MAX”) and mortgage brokerages within the United States (“U.S.”) under the Motto Mortgage brand. RE/MAX, founded in 1973, has over 115,000 agents operating in over 7,000 offices and a presence in more than 100 countries and territories. Motto Mortgage (“Motto”), founded in 2016, is the first nationally franchised mortgage brokerage in the U.S. The Company sold certain operating assets and liabilities of its owned brokerage offices during 2015 and the first quarter of 2016 to existing RE/MAX franchisees (See Note 5, Acquisitions and Dispositions, for a discussion of the 2016 sales). Since then, the Company is 100% franchised, no longer operates any real estate brokerage offices and no longer recognizes brokerage revenue (which consisted of fees assessed by the Company’s owned brokerages for services provided to their affiliated real estate agents). While the Company operates through both RE/MAX and Motto, due to the immateriality of revenue earned by Motto, the Company discloses only one reportable segment.

The Company’s revenue is derived as follows:

Continuing franchise fees which consist of fixed contractual fees paid monthly by regional franchise owners and franchisees based on the number of RE/MAX agents in the respective franchised region or office and the number of Motto offices (no significant continuing franchise fees were generated by Motto during the periods presented);

Annual dues from RE/MAX agents;

Broker fees, which consist of fees paid by regional RE/MAX franchise owners and franchisees for real estate commissions paid by customers when an agent sells a home;

Franchise sales and other franchise revenue which consist of fees from initial sales and renewals of RE/MAX and Motto franchises, regional franchise fees, preferred marketing arrangements, approved supplier programs and event-based revenue from training and other programs; and

Brokerage revenue prior to the sale of the Company’s brokerage offices during 2015 and the first quarter of 2016.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated balance sheet at December 31, 2016, which was derived from the audited consolidated financial statements at that date, and the unaudited interim condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) and with Article 10 of Regulation S-X. In compliance with those instructions, certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The accompanying condensed consolidated financial statements are presented on a consolidated basis and include the accounts of RE/MAX Holdings and its consolidated subsidiaries. All significant intercompany accounts and transactions have been eliminated. In the opinion of management, the accompanying condensed consolidated financial

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

statements reflect all normal and recurring adjustments necessary to present fairly the Company's financial position as of June 30, 2017 and December 31, 2016, the results of its operations and comprehensive income for the three and six months ended June 30, 2017 and 2016, cash flows for the six months ended June 30, 2017 and 2016, and changes in its stockholders' equity for the six months ended June 30, 2017. Interim results may not be indicative of full year performance. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements within the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

During 2016, the Company completed the acquisitions of six independent regions. Their results of operations, cash flows and financial positions are included in the consolidated financial statements from their respective dates of acquisition. See Note 5, Acquisitions and Dispositions, for additional information.

Reclassifications

Certain items in the accompanying condensed consolidated financial statements as of December 31, 2016 have been reclassified to conform to the current year's presentation. These reclassifications did not affect the Company's consolidated results of operations.

Use of Estimates

The preparation of condensed consolidated 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 condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

As of June 30, 2017, RE/MAX Holdings owns 58.49% of the common membership units in RMCO and, as its managing member, RE/MAX Holdings controls RMCO's operations, management and activities. As a result, RE/MAX Holdings consolidates RMCO and records a non-controlling interest in the accompanying Condensed Consolidated Balance Sheets and records net income attributable to the non-controlling interest and comprehensive income attributable to the non-controlling interest in the accompanying Condensed Consolidated Statements of Income and Condensed Consolidated Statements of Comprehensive Income, respectively.

New Accounting Pronouncements Not Yet Adopted

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-04, Intangibles – Goodwill and Other (Topic 350), which simplifies the subsequent measurement of goodwill by eliminating step two from the goodwill impairment test. ASU 2017-04 is effective for annual and interim impairment tests beginning January 1, 2020 for the Company and is required to be adopted using a prospective approach. Early adoption is allowed for annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements and related disclosures.

Also in January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies when transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective for fiscal years, and interim reporting periods within those years, beginning January 1, 2018 for the Company and is required to be adopted using a prospective approach. Early adoption is permitted for transactions not previously reported in issued financial statements. The Company has not yet determined the effect of the standard on its consolidated financial statements and related disclosures.

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which clarifies classification for certain cash receipts and cash payments on the consolidated statement of cash flow. ASU 2016-15 is effective for fiscal years, and interim reporting periods within those years, beginning January 1, 2018 for the Company. Early adoption is permitted in any interim or annual reporting period. The standard requires a retrospective transition method for each period presented. Under the new guidance, the contingent consideration payments related to the purchase of Full House Mortgage Connection, Inc. (“Full House”) will be classified as financing outflows up to the \$6.3 million acquisition date fair value and any cash payments paid in excess of the acquisition date fair value will be classified as operating outflows. (See Note 5 Acquisitions and Dispositions). The Company expects no other material impact on its financial statements and related disclosures upon the adoption of this standard.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize the assets and liabilities that arise from all leases on the consolidated balance sheets. ASU 2016-02 is required to be adopted by the Company on January 1, 2019. Early adoption is permitted in any interim or annual reporting period. The standard requires a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company has not yet determined the effect of the standard on its consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), with several subsequent amendments, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The Company will adopt this standard on January 1, 2018. The Company expects the adoption of the new guidance to change the timing of recognition of franchise sales and franchise renewal revenue. Currently the Company recognizes revenue upon completion of a sale or renewal. Under the new guidance, franchise sales and renewal revenue, which are included in Franchise Sales and Other Franchise Revenue in the Consolidated Statement of Income, will be recognized over the contractual term of the franchise agreement. The Company currently anticipates that it will utilize the full retrospective transition method, however, this expectation may change following the completion of its evaluation of the impact of this guidance on its consolidated financial statements and related disclosures.

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

3. Non-controlling Interest

RE/MAX Holdings is the sole managing member of RMCO and operates and controls all of the business affairs of RMCO. The ownership of the common units in RMCO is summarized as follows:

	June 30, 2017		December 31, 2016	
	Shares	Ownership %	Shares	Ownership %
Non-controlling unitholders ownership of common units in RMCO	12,559,600	41.51	% 12,559,600	41.57 %
RE/MAX Holdings, Inc. outstanding Class A common stock (equal to RE/MAX Holdings, Inc. common units in RMCO)	17,696,991	58.49	% 17,652,548	58.43 %
Total common units in RMCO	30,256,591	100.00	% 30,212,148	100.00 %

The weighted average ownership percentages for the applicable reporting periods are used to calculate the net income attributable to RE/MAX Holdings. A reconciliation of "Income before provision for income taxes" to "Net Income attributable to RE/MAX Holdings, Inc." and "Net Income attributable to non-controlling interest" in the accompanying Condensed Consolidated Statements of Income for the periods indicated is detailed as follows (in thousands, except for percentages):

	Three Months Ended June 30, 2017			2016		
	RE/MAX Holdings, Inc.	Non-controlling interest	Total	RE/MAX Holdings, Inc.	Non-controlling interest	Total
Weighted average ownership percentage of RMCO (a)	58.49 %	41.51 %	100.00 %	58.42 %	41.58 %	100.00 %
Income before provision for income taxes	\$ 11,959	\$ 8,440	\$ 20,399	\$ 10,900	\$ 7,765	\$ 18,665
Provision for income taxes (b)(c)	(4,430)	(332)	(4,762)	(3,939)	(346)	(4,285)
Net income	\$ 7,529	\$ 8,108	\$ 15,637	\$ 6,961	\$ 7,419	\$ 14,380

Six Months Ended June 30,
2017

2016

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	RE/MAX Holdings, Inc.	Non-controlling interest	Total	RE/MAX Holdings, Inc.	Non-controlling interest	Total
Weighted average ownership percentage of RMCO (a)	58.47 %	41.53 %	100.00 %	58.37 %	41.63 %	100.00 %
Income before provision for income taxes	\$ 19,583	\$ 13,917	\$ 33,500	\$ 18,865	\$ 13,455	\$ 32,320
Provision for income taxes (b)(c)	(7,141)	(651)	(7,792)	(6,964)	(580)	(7,544)
Net income	\$ 12,442	\$ 13,266	\$ 25,708	\$ 11,901	\$ 12,875	\$ 24,776

(a) The weighted average ownership percentage of RMCO differs slightly from the allocation of income before provision for income taxes between RE/MAX Holdings and the non-controlling interest as there are certain relatively insignificant expenses recorded at RE/MAX Holdings.

(b) The provision for income taxes attributable to RE/MAX Holdings is primarily comprised of U.S. federal and state income taxes on its proportionate share of the pass-through income from RMCO. However, it also includes its share of taxes imposed directly on RE/MAX, LLC and its consolidated subsidiaries ("RE/MAX, LLC"), a wholly-owned subsidiary of RMCO, related primarily to tax liabilities in certain foreign jurisdictions.

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(c) The provision for income taxes attributable to the non-controlling interest represents its share of taxes imposed on RE/MAX, LLC related primarily to tax liabilities in certain foreign jurisdictions.

Distributions and Other Payments to Non-controlling Unitholders

Under the terms of RMCO's fourth amended and restated limited liability company operating agreement (the "New RMCO, LLC Agreement"), RMCO makes cash distributions to non-controlling unitholders. The distributions paid or payable to or on behalf of non-controlling unitholders under the New RMCO, LLC Agreement are summarized as follows (in thousands):

	Six Months Ended	
	June 30,	
	2017	2016
Tax and other distributions	\$ 6,450	\$ 5,144
Dividend distributions	4,521	3,768
Total distributions to non-controlling unitholders	\$ 10,971	\$ 8,912

On August 2, 2017, the Company declared a distribution to non-controlling unitholders of \$2,261,000, which is payable on August 30, 2017.

Payments Pursuant to the Tax Receivable Agreements

As of June 30, 2017, the Company reflected a total liability of \$96,964,000 representing the payments due to RIHI and Oberndorf Investments LLC ("Oberndorf") under the terms of the tax receivable agreements (the "TRAs") (see current and non-current portion of "Payable pursuant to tax receivable agreements" in the accompanying Condensed Consolidated Balance Sheets).

As of June 30, 2017, the Company estimates that amounts payable pursuant to the TRAs within the next 12-month period will be approximately \$11,390,000, of which \$2,623,000 is related to RE/MAX Holdings' 2014 federal and state tax returns, \$2,705,000 is related to RE/MAX Holdings' 2015 federal and state tax returns and the remainder is related to RE/MAX Holdings' 2016 federal and state tax returns. To determine the current amount of the payments due to RIHI and Oberndorf, the Company estimated the amount of taxable income that RE/MAX Holdings generated as well as the amount of the specified deductions subject to the TRAs which were realized by RE/MAX Holdings in its federal and state tax returns. This amount was then used as a basis for determining the Company's increase in estimated tax cash savings as a result of such deductions on which 85% is owed as a current TRA obligation (i.e.

payable within 12 months of the Company's year-end). These calculations are performed pursuant to the terms of the TRAs. The Company paid \$1,931,000 and \$1,344,000 pursuant to the terms of the TRAs during the six months ended June 30, 2017 and 2016, respectively.

4. Earnings Per Share and Dividends

Earnings Per Share

Basic earnings per share ("EPS") measures the performance of an entity over the reporting period. Diluted EPS measures the performance of an entity over the reporting period while giving effect to all potentially dilutive common shares that were outstanding during the period. The treasury stock method is used to determine the dilutive potential of stock options and restricted stock units.

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The following is a reconciliation of the numerator and denominator used in the basic and diluted EPS calculations (in thousands, except share and per share information):

	Three Months Ended		Six Months Ended	
	June 30,	2016	June 30,	2016
	2017		2017	
Numerator				
Net income attributable to RE/MAX Holdings, Inc.	\$ 7,529	\$ 6,961	\$ 12,442	\$ 11,901
Denominator for basic net income per share of Class A common stock				
Weighted average shares of Class A common stock outstanding	17,696,842	17,636,590	17,679,936	17,610,470
Denominator for diluted net income per share of Class A common stock				
Weighted average shares of Class A common stock outstanding	17,696,842	17,636,590	17,679,936	17,610,470
Add dilutive effect of the following:				
Stock options	—	4,360	—	10,047
Restricted stock units	26,960	28,045	40,628	32,916
Weighted average shares of Class A common stock outstanding, diluted	17,723,802	17,668,995	17,720,564	17,653,433
Earnings per share of Class A common stock				
Net income attributable to RE/MAX Holdings, Inc. per share of Class A common stock, basic	\$ 0.43	\$ 0.39	\$ 0.70	\$ 0.68
Net income attributable to RE/MAX Holdings, Inc. per share of Class A common stock, diluted	\$ 0.42	\$ 0.39	\$ 0.70	\$ 0.67

There were no anti-dilutive shares for the three and six months ended June 30, 2017 and 2016. The one share of Class B common stock outstanding does not share in the earnings of RE/MAX Holdings and is therefore not a participating security. Accordingly, basic and diluted net income per share of Class B common stock has not been presented.

Dividends

During each of the three months ended March 31, 2017 and June 30, 2017, the Company's Board of Directors declared a quarterly dividend of \$0.18 per share on all outstanding shares of Class A common stock, or \$6,369,000 in total dividends. Of this amount, \$3,184,000 was paid on March 22, 2017 and \$3,185,000 was paid on May 31, 2017. The Company made corresponding distributions to non-controlling unitholders of \$2,261,000 on each of March 22, 2017 and May 31, 2017. During both the three months ended March 31, 2016 and June 30, 2016, the Company's Board of

Directors declared a quarterly dividend of \$0.15 per share on all outstanding shares of Class A common stock, or \$5,285,000 in total dividends. Of this amount, \$2,638,000 was paid on March 23, 2016 and \$2,647,000 was paid on June 2, 2016. The Company made corresponding distributions to non-controlling unitholders of \$1,884,000 on each of March 23, 2016 and June 2, 2016. On August 2, 2017, the Company's Board of Directors declared a quarterly dividend of \$0.18 per share on all outstanding shares of Class A common stock, which is payable on August 30, 2017 to shareholders of record at the close of business on August 16, 2017.

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

5. Acquisitions and Dispositions

Acquisitions

RE/MAX of Georgia, Inc., RE/MAX of Kentucky/Tennessee, Inc. and RE/MAX of Southern Ohio, Inc.

On December 15, 2016, RE/MAX, LLC acquired certain assets of RE/MAX of Georgia, Inc. (“RE/MAX of Georgia”), RE/MAX of Kentucky/Tennessee, Inc. (“RE/MAX of Kentucky/Tennessee”), and RE/MAX of Southern Ohio, Inc. (“RE/MAX of Southern Ohio”), collectively (“RE/MAX Regional Services”) including the regional franchise agreements issued by the Company permitting the sale of RE/MAX franchises in the states of Georgia, Kentucky and Tennessee and in Southern Ohio for cash consideration of \$50,400,000. RE/MAX, LLC acquired these assets in order to expand its owned and operated regional franchising operations. The Company funded the acquisition by refinancing its 2013 Senior Secured Credit Facility (See Note 8, Debt) and using cash from operations.

RE/MAX of New Jersey, Inc.

On December 1, 2016, RE/MAX, LLC acquired certain assets and assumed certain liabilities of RE/MAX of New Jersey, Inc. (“RE/MAX of New Jersey”), including the regional franchise agreements issued by the Company permitting the sale of RE/MAX franchises in the state of New Jersey for cash consideration of \$45,000,000. RE/MAX, LLC acquired these assets and liabilities in order to expand its owned and operated regional franchising operations. The Company used cash generated from operations to fund the acquisition.

Full House Mortgage Connection, Inc.

Motto Franchising, LLC (“Motto Franchising”), a wholly-owned subsidiary of RE/MAX, LLC, was formed and developed to franchise mortgage brokerages. On September 12, 2016, Motto Franchising acquired certain assets of Full House, a franchisor of mortgage brokerages that created concepts used to develop Motto, for initial cash consideration of \$8,000,000. Motto Franchising, as a franchisor, grants each franchisee a license to use the Motto Mortgage brand, trademark, promotional and operating materials and concepts. The Company used cash generated from operations to initially fund the acquisition. Additional cash consideration may be required based on future revenues generated. The contingent purchase consideration and its subsequent valuation is more fully described in Note 9, Fair Value Measurements.

The following table summarizes the consideration at acquisition (in thousands):

Cash consideration	\$ 8,000
Contingent purchase consideration (See Note 9)	6,300
Total purchase price	\$ 14,300

RE/MAX of Alaska, Inc.

On April 1, 2016, RE/MAX, LLC acquired certain assets of RE/MAX of Alaska, Inc. (“RE/MAX of Alaska”), including the regional franchise agreements issued by the Company permitting the sale of RE/MAX franchises in the state of Alaska for cash consideration of \$1,500,000. RE/MAX, LLC acquired these assets in order to expand its owned and operated regional franchising operations. The Company used cash generated from operations to fund the acquisition.

RE/MAX of New York, Inc.

On February 22, 2016, RE/MAX, LLC acquired certain assets of RE/MAX of New York, Inc. (“RE/MAX of New York”), including the regional franchise agreements issued by the Company permitting the sale of RE/MAX franchises in the state of New York for cash consideration of \$8,500,000. RE/MAX, LLC acquired these assets in order to expand its owned and operated regional franchising operations. The Company used cash generated from operations to fund the acquisition.

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The following table summarizes the allocation of the purchase price to the fair value of assets acquired and liabilities assumed for the aforementioned acquisitions (in thousands):

	RE/MAX Regional Services(a)	RE/MAX of New Jersey(a)	Full House	RE/MAX of Alaska	RE/MAX of New York	Total
Cash and cash equivalents	\$ -	\$ 335	\$ -	\$ -	\$ 131	\$ 466
Franchise agreements	28,000	28,200	-	529	5,000	61,729
Non-compete agreement	-	-	2,500	-	-	2,500
Other assets	-	-	-	-	340	340
Goodwill	22,400	16,800	11,800	971	3,029	55,000
Other liabilities	-	(335)	-	-	-	(335)
Total purchase price	\$ 50,400	\$ 45,000	\$ 14,300	\$ 1,500	\$ 8,500	\$ 119,700

(a) Purchase price allocation remains preliminary.

Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information reflects the consolidated results of operations of the Company as if the acquisitions of RE/MAX Regional Services, RE/MAX of New Jersey, Full House, RE/MAX of Alaska and RE/MAX of New York had occurred on January 1, 2016. The historical financial information has been adjusted to give effect to events that are (1) directly attributed to the acquisitions, (2) factually supportable and (3) expected to have a continuing impact on the combined results, including additional amortization expense associated with the valuation of the acquired franchise agreements. This unaudited pro forma information should not be relied upon as necessarily being indicative of the historical results that would have been obtained if the acquisitions had actually occurred on that date, nor of the results that may be obtained in the future (in thousands, except per share information).

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Total revenue	\$ 46,309	\$ 92,293
Net income attributable to RE/MAX Holdings, Inc. (a)	\$ 7,058	\$ 10,965

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Basic earnings per common share	\$ 0.40	\$ 0.62
Diluted earnings per common share	\$ 0.40	\$ 0.62

(a) Six months ended June 30, 2016 includes the net impact of \$1.0 million in professional fees and debt extinguishment costs incurred related to the amendment of the Company's credit facility. See Note 8, Debt, for a discussion of the credit facility.

Dispositions

STC Northwest, LLC d/b/a RE/MAX Northwest Realtors

On January 20, 2016, the Company sold certain operating assets and liabilities related to three owned brokerage offices located in the U.S., of STC Northwest, LLC d/b/a RE/MAX Northwest Realtors, a wholly owned subsidiary of the Company. The Company recognized a loss on the sale of the assets and the liabilities transferred of approximately \$90,000 during the first quarter of 2016, which is reflected in "(Gain) loss on sale or disposition of assets, net" in the accompanying Condensed Consolidated Statements of Income. In connection with this sale, the Company transferred separate office franchise agreements to the purchaser, under which the Company will receive ongoing monthly continuing franchise fees and broker fees.

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

6. Intangible Assets and Goodwill

The following table provides the components of the Company's intangible assets, other than goodwill (in thousands, except weighted average amortization period in years):

	Weighted Average Amortization Period	As of June 30, 2017			As of December 31, 2016		
		Initial Cost	Accumulated Amortization	Net Balance	Initial Cost	Accumulated Amortization	Net Balance
Franchise agreements	12.2	\$ 193,877	\$ (94,841)	\$ 99,036	\$ 224,167	\$ (115,027)	\$ 109,140
Other intangible assets:							
Software (a)	4.6	\$ 13,577	\$ (7,821)	\$ 5,756	\$ 13,207	\$ (7,154)	\$ 6,053
Trademarks	14.2	3,137	(1,874)	1,263	3,102	(1,782)	1,320
Non-compete	10.0	2,500	(187)	2,313	2,500	(62)	2,438
Total other intangible assets	7.8	\$ 19,214	\$ (9,882)	\$ 9,332	\$ 18,809	\$ (8,998)	\$ 9,811

(a) As of June 30, 2017 and December 31, 2016, capitalized software development costs of \$742,000 and \$356,000, respectively, were information technology infrastructure projects not yet complete and ready for their intended use and thus were not subject to amortization.

Amortization expense for the three months ended June 30, 2017 and 2016 was \$5,189,000 and \$3,656,000, respectively. Amortization expense for the six months ended June 30, 2017 and 2016 was \$10,989,000 and \$7,170,000, respectively.

As of June 30, 2017, the estimated future amortization expense for the next five years related to intangible assets is as follows (in thousands):

As of June 30, 2017:	
Remainder of 2017	\$ 8,669
2018	14,906

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2019	14,744
2020	14,542
2021	14,098
	\$ 66,959

The following table presents changes to goodwill for the six months ended June 30, 2017 (in thousands):

Balance, January 1, 2017	\$ 126,633
Change in purchase price allocations for 2016 acquisitions	335
Effect of changes in foreign currency exchange rates	113
Balance, June 30, 2017	\$ 127,081

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

7. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 2017	December 31, 2016
Accrued payroll and related employee costs	\$ 4,282	\$ 7,035
Accrued taxes	844	1,554
Accrued professional fees	1,001	1,382
Lease-related accruals	354	353
Other	1,553	2,944
	\$ 8,034	\$ 13,268

8. Debt

Debt, net of current portion, consists of the following (in thousands):

	June 30, 2017	December 31, 2016
2016 Senior Secured Credit Facility	\$ 233,238	\$ 234,412
Less unamortized debt issuance costs	(1,929)	(2,076)
Less unamortized debt discount costs	(1,408)	(1,516)
Less current portion	(2,350)	(2,350)
	\$ 227,551	\$ 228,470

Maturities of debt are as follows (in thousands):

As of June 30, 2017:	
Remainder of 2017	\$ 1,175
2018	2,350
2019	2,350
2020	2,350
2021	2,350
Thereafter	222,663

\$ 233,238

Senior Secured Credit Facility

On December 15, 2016, RE/MAX, LLC, entered into a credit agreement with JPMorgan Chase Bank, N.A., as administrative agent, and various lenders party thereto (the “2016 Senior Secured Credit Facility”), which amended and restated a prior credit agreement (the “2013 Senior Secured Credit Facility”). The 2016 Senior Secured Credit Facility consists of a \$235,000,000 term loan facility which matures on December 15, 2023 and a \$10,000,000 revolving loan facility which must be repaid on December 15, 2021. Borrowings under the term loans and revolving loans, if any outstanding, accrue interest at LIBOR (as long as LIBOR is not less than the floor of 0.75%) plus a maximum applicable margin of 2.75%. As of June 30, 2017, the interest rate was 4.05%.

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Mandatory principal payments of approximately \$588,000 are due quarterly until the facility matures on December 15, 2023. RE/MAX, LLC may make optional prepayments on the term loan facility at any time without penalty; however, no such optional prepayments were made during the six months ended June 30, 2017.

Under the 2013 Senior Secured Credit Facility, RE/MAX, LLC was required to make additional principal payments out of excess cash flow. RE/MAX, LLC made an excess cash flow prepayment of \$12,727,000 on March 31, 2016. RE/MAX, LLC accounted for the mandatory principal excess cash flow prepayments as early extinguishments of debt and recorded a loss during the six months ended June 30, 2016 of \$136,000 related to unamortized debt discount and issuance costs.

Under the 2016 Senior Secured Credit Facility no additional mandatory prepayment and commitment reduction is required if the total leverage ratio as defined by the 2016 Senior Secured Credit Facility as of the last day of such fiscal year is less than 2.75 to 1.0. RE/MAX, LLC's total leverage ratio was less than 2.75 to 1.0 as of June 30, 2017, and RE/MAX, LLC does not expect to make an excess cash flow principal prepayment within the next 12-month period.

As of June 30, 2017, RE/MAX, LLC had \$229,901,000 of term loans outstanding, net of an unamortized discount and issuance costs, and no revolving loans outstanding under our 2016 Senior Secured Credit Facility. Whenever amounts are drawn under the revolving line of credit, the 2016 Senior Secured Credit Facility requires compliance with a leverage ratio and an interest coverage ratio. A commitment fee of 0.5% per annum accrues on the amount of unutilized revolving line of credit.

9. Fair Value Measurements

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, the Company follows a three-tier fair value hierarchy, which is described in detail in the Company's Annual Report on Form 10-K for the year-ended December 31, 2016.

A summary of the Company's liabilities measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016 is as follows (in thousands):

	As of June 30, 2017				As of December 31, 2016			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Liabilities								
Contingent consideration	\$ 6,230	\$ -	\$ -	\$ 6,230	\$ 6,400	\$ -	\$ -	\$ 6,400

The Company is required to pay additional purchase consideration totaling eight percent of gross revenues generated by Motto each year for the next ten years with no limitation as to the maximum payout. The consideration is payable following each anniversary, beginning October 1, 2017 and ending September 30, 2026. The acquisition date fair value of the contingent purchase consideration represents the forecasted discounted cash payments that the Company expects to pay Full House with respect to the acquired business. The Company measures this liability each reporting period and recognizes changes in fair value, if any, in earnings of the Company. Any changes are included in "Selling, operating and administrative expenses" in the accompanying Condensed Consolidated Statements of Income. Increases or decreases in the fair value of the contingent purchase consideration can result from changes in discount rates as well as the timing and amount of forecasted cash payments derived from anticipated gross revenues.

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The table below presents a reconciliation of all assets and liabilities of the Company measured at fair value on a recurring basis using significant unobservable inputs for the period from January 1, 2017 to June 30, 2017 (in thousands):

	Fair Value of Contingent Consideration Liability
Balance at January 1, 2017	\$ 6,400
Fair value adjustments	(170)
Balance at June 30, 2017	\$ 6,230

The Company assesses categorization of assets and liabilities by level at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer. There were no transfers between Levels I, II and III during the six months ended June 30, 2017.

The following table summarizes the carrying value and fair value of the 2016 Senior Secured Credit Facility as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	Fair Value	Level	December 31, 2016	Fair Value	Level
	Carrying Amounts	2		Carrying Amounts	2	
Senior Secured Credit Facility	\$ 229,901	\$ 233,821		\$ 230,820	\$ 233,240	

10. Income Taxes

RE/MAX Holdings is subject to U.S. federal and state income taxation on its allocable portion of the income of RMCO. The "Provision for income taxes" in the accompanying Condensed Consolidated Statements of Income for the three and six months ended June 30, 2017 and 2016 is based on an estimate of the Company's annualized effective income tax rate. The Company's effective tax rate includes a rate benefit attributable to the fact that the Company's subsidiaries operate as a series of limited liability companies which are not themselves subject to federal income tax. Accordingly, the portion of the Company's subsidiaries earnings attributable to the non-controlling interest are not subject to U.S. federal and state income tax as the income is passed through to the non-controlling interest holders. The "Provision for income taxes" is comprised of a provision for income taxes attributable to RE/MAX Holdings and to entities other than RE/MAX Holdings. The provision for income taxes attributable to RE/MAX Holdings is primarily comprised of U.S. federal and state income taxes on its proportionate share of the pass-through income from RMCO. However, it also includes its share of taxes imposed directly on RE/MAX, LLC, related

primarily to tax liabilities in certain foreign jurisdictions. The provision for income taxes attributable to the non-controlling interest represents its share of taxes imposed on RE/MAX, LLC related to tax liabilities primarily in certain foreign jurisdictions.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. As of June 30, 2017, the Company does not believe it has any significant uncertain tax positions.

The Company and its subsidiaries file, or will file, income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. RMCO is not subject to federal income taxes as it is a flow-through entity, however, RMCO is required to file an annual U.S. Return of Partnership Income.

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

11. Equity-Based Compensation

The Company's Board of Directors adopted the RE/MAX Holdings, Inc. 2013 Omnibus Incentive Plan (the "2013 Incentive Plan"), under which 3,576,466 shares are currently authorized. (See below for shares available for grant at June 30, 2017.) The 2013 Incentive Plan provides for the grant of incentive stock options to the Company's employees, and for the grant of shares of RE/MAX Holdings Class A common stock, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs") which may have time-based or performance-based vesting criteria, dividend equivalent rights, cash-based awards and any combination thereof to employees, directors and consultants of the Company.

The Company recognizes equity-based compensation expense in "Selling, operating and administrative expenses" in the accompanying Condensed Consolidated Statements of Income. The Company recognizes corporate income tax benefits relating to the exercise of options and vesting of restricted stock units in "Provision for income taxes" in the accompanying Condensed Consolidated Statements of Income.

Employee stock-based compensation expense under the Company's 2013 Incentive Plan was as follows (in thousands):

Three	Six
Months	Months
Ended	Ended
June 30,	June 30,
2017	