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RE/MAX Holdings, Inc.
Form 10-Q
November 04, 2016
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, 2016.

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, or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting 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

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 October 31, 2016 was 17,645,696 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)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 101,981	\$ 110,212
Accounts and notes receivable, current portion, less allowances of \$5,642 and \$4,483, respectively	17,662	16,769
Income taxes receivable	672	—
Assets held for sale	—	354
Other current assets	3,627	4,079
Total current assets	123,942	131,414
Property and equipment, net of accumulated depreciation of \$13,426 and \$13,183, respectively	2,530	2,395
Franchise agreements, net of accumulated amortization of \$111,008 and \$100,499, respectively	57,059	61,939
Other intangible assets, net of accumulated amortization of \$8,664 and \$8,929, respectively	9,321	4,941
Goodwill	87,731	71,871
Deferred tax assets, net	105,682	109,365
Other assets, net of current portion	2,062	1,861
Total assets	\$ 388,327	\$ 383,786
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 393	\$ 449
Accounts payable to affiliates	35	66
Accrued liabilities	10,593	16,082
Income taxes payable	138	451
Deferred revenue and deposits	17,041	16,501
Current portion of debt	11,789	14,805
Current portion of payable pursuant to tax receivable agreements	7,225	8,478
Liabilities held for sale	—	351
Other current liabilities	8	71
Total current liabilities	47,222	57,254
Debt, net of current portion	174,819	185,552
Payable pursuant to tax receivable agreements, net of current portion	91,557	91,557
Deferred tax liabilities, net	134	120
Other liabilities, net of current portion	15,913	9,889
Total liabilities	329,645	344,372

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Commitments and contingencies (note 12)

Stockholders' equity:

Class A common stock, par value \$0.0001 per share, 180,000,000 shares authorized; 17,645,696 shares issued and outstanding as of September 30, 2016; 17,584,351 shares issued and outstanding as of December 31, 2015	2	2
Class B common stock, par value \$0.0001 per share, 1,000 shares authorized; 1 share issued and outstanding as of September 30, 2016 and December 31, 2015	—	—
Additional paid-in capital	446,757	445,081
Retained earnings	15,529	4,693
Accumulated other comprehensive income (loss), net of tax	89	(105)
Total stockholders' equity attributable to RE/MAX Holdings, Inc.	462,377	449,671
Non-controlling interest	(403,695)	(410,257)
Total stockholders' equity	58,682	39,414
Total liabilities and stockholders' equity	\$ 388,327	\$ 383,786

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue:				
Continuing franchise fees	\$ 20,938	\$ 18,905	\$ 59,691	\$ 54,833
Annual dues	8,321	8,010	24,271	23,687
Broker fees	10,517	9,321	28,102	24,988
Franchise sales and other franchise revenue	5,783	5,624	19,704	19,535
Brokerage revenue	—	3,250	112	10,551
Total revenue	45,559	45,110	131,880	133,594
Operating expenses:				
Selling, operating and administrative expenses	20,325	20,724	62,399	65,525
Depreciation and amortization	3,889	3,765	11,482	11,384
(Gain) loss on sale or disposition of assets, net	(11)	9	85	(606)
Total operating expenses	24,203	24,498	73,966	76,303
Operating income	21,356	20,612	57,914	57,291
Other expenses, net:				
Interest expense	(2,121)	(2,338)	(6,493)	(7,448)
Interest income	32	36	118	136
Foreign currency transaction (losses) gains	(115)	(201)	69	(1,585)
Loss on early extinguishment of debt	—	—	(136)	(94)
Equity in earnings of investees	—	361	—	963
Total other expenses, net	(2,204)	(2,142)	(6,442)	(8,028)
Income before provision for income taxes	19,152	18,470	51,472	49,263
Provision for income taxes	(4,632)	(3,277)	(12,176)	(8,882)
Net income	\$ 14,520	\$ 15,193	\$ 39,296	\$ 40,381
Less: net income attributable to non-controlling interest	7,609	10,396	20,484	27,907
Net income attributable to RE/MAX Holdings, Inc.	\$ 6,911	\$ 4,797	\$ 18,812	\$ 12,474
Net income attributable to RE/MAX Holdings, Inc. per share of Class A common stock				
Basic	\$ 0.39	\$ 0.39	\$ 1.07	\$ 1.03
Diluted	\$ 0.39	\$ 0.39	\$ 1.06	\$ 1.01
Weighted average shares of Class A common stock outstanding				
Basic	17,645,696	12,333,690	17,622,298	12,127,548
Diluted	17,691,641	12,420,748	17,666,740	12,315,663

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Cash dividends declared per share of Class A common stock	\$ 0.1500	\$ 0.1250	\$ 0.4500	\$ 1.8750
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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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$ 14,520	\$ 15,193	\$ 39,296	\$ 40,381
Change in cumulative translation adjustment	(147)	(580)	417	(1,038)
Other comprehensive (loss) income, net of tax	(147)	(580)	417	(1,038)
Comprehensive income	14,373	14,613	39,713	39,343
Less: comprehensive income attributable to non-controlling interest	7,531	9,988	20,707	27,800
Comprehensive income attributable to RE/MAX Holdings, Inc., net of tax	\$ 6,842	\$ 4,625	\$ 19,006	\$ 11,543

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		Retained	Accumulated other comprehensive income (loss), net of tax	Non- controlling interest	Total
	common stock	common stock		paid-in		earnings			stockholders'
	Shares	Amount	Shares	Amount	capital				equity
Balances, January 1, 2016	17,584,351	\$ 2	1	\$ —	\$ 445,081	\$ 4,693	\$ (105)	\$ (410,257)	\$ 39,414
Net income	—	—	—	—	—	18,812	—	20,484	39,296
Distributions paid to non-controlling unitholders	—	—	—	—	—	—	—	(14,094)	(14,094)
Equity-based compensation expense	—	—	—	—	1,812	—	—	—	1,812
Dividends paid to Class A common stockholders	—	—	—	—	—	(7,932)	—	—	(7,932)
Change in accumulated other comprehensive income (loss)	—	—	—	—	—	—	194	223	417
Issuance of Class A common stock, equity-based compensation plans	71,745	—	—	—	101	—	—	—	101
Payroll taxes related to net settled restricted stock units	(10,400)	—	—	—	(360)	—	—	—	(360)
Cumulative effect adjustment from change in accounting principle	—	—	—	—	123	(44)	—	(51)	28

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Balances, September 30, 2016	17,645,696	\$ 2	1	\$ —	\$ 446,757	\$ 15,529	\$ 89	\$ (403,695)	\$ 58,682
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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)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 39,296	\$ 40,381
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,482	11,384
Bad debt expense	1,177	555
Loss (gain) on sale or disposition of assets, net	85	(606)
Loss on early extinguishment of debt	136	94
Equity-based compensation expense	1,812	1,098
Non-cash interest expense	335	324
Deferred income tax expense and other	3,244	1,831
Changes in operating assets and liabilities:		
Accounts and notes receivable, current portion	(2,044)	(2,113)
Advances from/to affiliates	(44)	302
Other current and noncurrent assets	783	1,584
Other current and noncurrent liabilities	(5,705)	1,411
Income taxes receivable/payable	(653)	2,392
Deferred revenue and deposits, current portion	480	1,315
Payment pursuant to tax receivable agreements	(1,344)	—
Net cash provided by operating activities	49,040	59,952
Cash flows from investing activities:		
Purchases of property, equipment and software	(3,229)	(2,066)
Proceeds from sale of property and equipment	12	17
Capitalization of trademark costs	(35)	(61)
Acquisitions, net of cash acquired of \$131	(17,869)	—
Dispositions	200	20
Cost to sell assets	(146)	(71)
Net cash used in investing activities	(21,067)	(2,161)
Cash flows from financing activities:		
Payments on debt	(14,220)	(8,880)
Capitalized debt amendment costs	—	(555)
Distributions paid to non-controlling unitholders	(14,094)	(38,813)
Dividends paid to Class A common stockholders	(7,932)	(22,454)
Payments on capital lease obligations	(72)	(237)

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Proceeds from exercise of stock options	101	2,032
Payment of payroll taxes related to net settled restricted stock units	(360)	(120)
Net cash used in financing activities	(36,577)	(69,027)
Effect of exchange rate changes on cash	373	(593)
Net decrease in cash and cash equivalents	(8,231)	(11,829)
Cash and cash equivalents, beginning of year	110,212	107,199
Cash and cash equivalents, end of period	\$ 101,981	\$ 95,370
Supplemental disclosures of cash flow information:		
Cash paid for interest and debt amendment costs, net of capitalized interest	\$ 6,195	\$ 7,126
Net cash paid for income taxes	9,492	4,052
Schedule of non-cash investing and financing activities:		
Note receivable received as consideration for sale of brokerage operations assets	\$ 150	\$ 430
Capital leases for property and equipment	33	412
Increase in accounts payable for capitalization of trademark costs and purchases of property, equipment and software	89	381
Contingent consideration issued in a business acquisition	6,300	—

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 and was capitalized on July 8, 2013. On October 7, 2013, RE/MAX Holdings completed an initial public offering (the “IPO”) of 11,500,000 shares of Class A common stock at a public offering price of \$22.00 per share. A portion of the proceeds received by RE/MAX Holdings from the IPO was used to acquire the net business assets of HBN, Inc. (“HBN”) and Tails, Inc. (“Tails”) in the Southwest and Central Atlantic regions of the United States (“U.S.”), respectively, which were subsequently contributed to RMCO, LLC and its consolidated subsidiaries (“RMCO”), and the remaining proceeds were used to purchase common membership units in RMCO.

After completion of the IPO, RE/MAX Holdings owned 39.56% of the common membership units in RMCO. During the fourth quarter of 2015, RIHI, Inc. (“RIHI”) redeemed 5,175,000 common units in RMCO in exchange for newly issued shares of RE/MAX Holdings’ Class A common stock on a one-for-one basis. Immediately upon redemption, RIHI sold its 5,175,000 shares of Class A common stock at \$36.00 per share, less underwriting discounts and commissions (the “Secondary Offering”). As of September 30, 2016, RE/MAX Holdings owns 58.42% of the common membership units in RMCO. RE/MAX Holdings’ only business is to act as the sole manager of RMCO. RE/MAX Holdings and its consolidated subsidiaries, including RMCO, are referred to hereinafter as the “Company.”

The Company is one of the leading franchisors of residential and commercial real estate brokerage services throughout the U.S. and globally. The Company, as a franchisor, grants each broker-owner a license to use the RE/MAX brand, trademark, promotional and operating materials and concepts. Through 2015, the Company operated a small number of real estate brokerage offices in the U.S. As discussed in Note 5, Acquisitions and Dispositions, the Company sold certain operating assets and liabilities of these brokerage offices during 2015 and the first quarter of 2016 and, subsequent thereto, no longer operates any real estate brokerage offices and no longer recognizes brokerage revenue (which consisted of fees assessed by the Company’s previously owned brokerages for services provided to their affiliated real estate agents). Beginning in October 2016, the Company also franchises mortgage brokerages under the “Motto Mortgage” brand, and in connection with launching this business, on September 12, 2016, the Company acquired certain assets of Full House Mortgage Connection, Inc. (“Full House”). See Note 5, Acquisitions and Dispositions, for further detail.

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 agents in the respective franchised region or office.
- Annual dues from agents.
- Broker fees which consist of fees paid by regional 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 franchises, regional franchise fees, preferred marketing arrangements, approved supplier programs and event-based revenue from training and other programs.
- 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, 2015, 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

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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 statements reflect all normal and recurring adjustments necessary to present fairly the Company's financial position as of September 30, 2016 and December 31, 2015, the results of its operations and comprehensive income for the three and nine months ended September 30, 2016 and 2015, changes in its stockholders' equity for the nine months ended September 30, 2016 and results of its cash flows for the nine months ended September 30, 2016 and 2015. 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, 2015.

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. Significant areas in which management uses assumptions include, among other things, the establishment of the allowance for doubtful trade accounts and notes receivable, the determination of the estimated lives of intangible assets, the estimates for amounts accrued for litigation matters, the estimates for determining the fair value of assets acquired and liabilities assumed in business combinations, the estimates related to the accounting for income taxes, the estimates of the fair value of reporting units used in the annual assessment of goodwill, and the amounts due to RIHI and Oberndorf Investments LLC ("Oberndorf") pursuant to the terms of the tax receivable agreements ("TRAs") discussed in more detail in Note 3, Non-controlling Interest. Actual results could differ from those estimates.

Reclassifications

In conjunction with the adoption of several recent accounting pronouncements, certain items in the accompanying condensed consolidated financial statements as of December 31, 2015 and for the nine months ended September 30, 2015 have been reclassified to conform to the current year's presentation. These reclassifications did not affect the Company's consolidated results of operations.

Segment Reporting

During the first quarter of 2016, the Company began to operate in one reportable segment, Real Estate Franchise Services. All prior segment information has been reclassified to reflect the Company's new segment structure. Prior to 2016, the Company operated in two reportable segments, (1) Real Estate Franchise Services and (2) Brokerages. The Real Estate Franchise Services reportable segment comprised the operations of the Company's owned and independent global franchising operations under the RE/MAX brand name, intersegment revenue from the Company's

previously owned brokerages and corporate-wide professional services expenses. The Brokerages reportable segment contained the operations of the Company's previously owned brokerage offices in the U.S., the results of operations of a mortgage brokerage company in which the Company previously owned a non-controlling interest and reflected the elimination of intersegment revenue and other consolidation entries. During 2015 and the first quarter of 2016, the Company sold its 21 previously owned brokerage offices, as discussed in Note 5, Acquisitions and Dispositions. These dispositions resulted in the cessation of operations for the Company's Brokerages reportable segment.

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Principles of Consolidation

As of September 30, 2016, RE/MAX Holdings owns 58.42% 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.

Emerging Growth Company Status

Under the Jumpstart Our Business Startups Act ("JOBS Act"), the Company meets the definition of an emerging growth company. The Company irrevocably elected to opt out of the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act and the Company has not been subject to the requirement of Section 404(b) of the Sarbanes-Oxley Act of 2002 ("SOX"). The Company will no longer qualify as an emerging growth company as of the end of 2016. Therefore, pursuant to Section 404(b) of SOX, the Company will be required to include an opinion from an independent registered public accounting firm regarding the effectiveness of the Company's internal controls over financial reporting in its Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 after December 15, 2017. Early adoption is permitted in any interim or annual reporting period. The standard requires a retrospective transition method for each period presented. The Company has not yet determined the effect of the standard on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which simplifies certain aspects of accounting for share-based payment transactions, including income tax consequences, statutory tax withholding requirements, forfeitures and classification in the statement of cash flows. ASU 2016-09 is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016. Early adoption is permitted in any interim or annual reporting period. The standard requires the guidance related to forfeitures and the timing of when excess tax benefits are recognized to be applied using a modified retrospective transition method, the guidance related to the accounting for income taxes to be applied prospectively, and the guidance related to the presentation of excess tax benefits on the statement of cash flows to be applied either prospectively or retrospectively. The Company early adopted ASU 2016-09 in the first quarter of 2016 and elected to account for forfeitures as they occur. As a result, the Company recorded a cumulative-effect adjustment of \$44,000 to "Retained earnings" in the accompanying Condensed Consolidated Balance

Sheets and Statement of Stockholders' Equity. Furthermore, the Company elected to apply the retrospective transition method to the amendments related to the presentation of excess tax benefits in the statements of cash flows. This resulted in an increase in cash flows provided by operating activities of \$2,411,000 and a net increase of \$2,411,000 in cash flows used in financing activities in the accompanying Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015. During the nine months ended September 30, 2016, the Company recorded a \$201,000 income tax benefit relating to the exercise of stock options and vesting of restricted stock units in "Provision for income taxes" in the accompanying Condensed Consolidated Statements of Income. Prior to 2016, such excess tax benefits were recorded in "Additional paid-in capital" in the accompanying Condensed Consolidated Balance Sheets.

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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 effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2018. 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 November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which requires that deferred tax assets and liabilities be classified as non-current in a classified balance sheet. ASU 2015-17 is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016. The standard permits the use of either the retrospective or prospective transition method and permits early adoption as of the beginning of an interim or annual reporting period. The Company elected to early adopt this standard retrospectively in the first quarter of 2016 and \$3,332,000 previously presented in “Other current assets” was reclassified to “Deferred tax assets, net” in the accompanying Condensed Consolidated Balance Sheets and related disclosures as of December 31, 2015, but the Company’s consolidated results of operations were not affected.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting Measurement-Period Adjustments, which eliminates the requirement for an entity to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is completed. ASU 2015-16 became effective prospectively for the Company on January 1, 2016. The adoption of this standard did not have a significant impact on the Company’s consolidated financial statements and related disclosures.

In June 2015, the FASB issued ASU 2015-10, Technical Corrections and Improvements, which both clarifies and simplifies content in the FASB Accounting Standards Codification and corrects unintended application of U.S. GAAP. ASU 2015-10 became effective for the Company on January 1, 2016. The adoption of this standard did not have a significant impact on the Company’s consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-05, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement, which provides guidance on fees paid in a cloud computing arrangement and clarifies the accounting for a software license element of a cloud computing arrangement. ASU 2015-05 became effective prospectively for the Company on January 1, 2016. The adoption of this standard did not have a significant impact on the consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires an entity to present debt issuance costs related to a debt liability as a direct deduction from the debt liability rather than as an asset. ASU 2015-03 is effective retrospectively for the Company on January 1, 2016. The adoption of this standard resulted in \$1,527,000 of net debt issuance costs previously reported as “Debt issuance costs, net” to be reclassified to “Debt, net of current portion” in the accompanying Condensed Consolidated Balance Sheets and related disclosures as of December 31, 2015, but did not affect the Company’s consolidated results of operations.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), 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. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of the guidance in ASU 2014-09 by one year. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which provides clarification on identifying performance obligations and accounting for licenses of intellectual property. In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which provides clarification on assessing

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. These standards are effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2017. Early application is permitted for annual reporting periods beginning after December 15, 2016, including interim reporting periods within such annual reporting periods. The standard permits the use of either the retrospective or cumulative effect transition method. The Company has not yet selected a transition method nor has it determined the effect of the standard on its consolidated financial statements and related disclosures.

3. Non-controlling Interest

RE/MAX Holdings is the sole managing member of RMCO and subsequent to the IPO, began to operate and control all of the business affairs of RMCO. As a result, RE/MAX Holdings began to consolidate RMCO on October 7, 2013, and because RE/MAX Holdings and RMCO are entities under common control, such consolidation has been reflected for all periods presented. RE/MAX Holdings owns a 58.42% and 58.33% economic interest in RMCO as of September 30, 2016 and December 31, 2015, respectively, and records a non-controlling interest for the remaining 41.58% and 41.67% economic interest in RMCO held by RIHI as of September 30, 2016 and December 31, 2015, respectively. RE/MAX Holdings' economic interest in RMCO increased due to an increase in common units, which were issued concurrently with the issuance of shares of Class A common stock upon the exercise of 28,057 stock options and the vesting of 33,288 restricted stock units, net of shares withheld, as discussed in Note 10, Equity-Based Compensation. RE/MAX Holdings' only sources of cash flow from operations are distributions from RMCO and management fees received pursuant to the management services agreement between RE/MAX Holdings and RMCO. "Net income attributable to non-controlling interest" in the accompanying Condensed Consolidated Statements of Income represents the portion of earnings attributable to the economic interest in RMCO held by the non-controlling unitholders. As of October 7, 2013, "Non-controlling interest" in the accompanying Condensed Consolidated Balance Sheets represented the carryover basis of RIHI's capital account in RMCO. Subsequent thereto, the non-controlling interest balance has been and will continue to be adjusted to reflect tax and other cash distributions made to, and the income allocated to, the non-controlling unitholders, as well as future redemptions of common units in RMCO pursuant to the Fourth Amended and Restated Limited Liability Company Agreement ("RMCO, LLC Agreement"). The ownership of the common units in RMCO is summarized as follows:

	September 30, 2016		December 31, 2015		
	Shares	Ownership %	Shares	Ownership %	
Non-controlling unitholders ownership of common units in RMCO	12,559,600	41.58	% 12,559,600	41.67	%

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RE/MAX Holdings, Inc. outstanding Class A common stock (equal to RE/MAX Holdings, Inc. common units in RMCO)	17,645,696	58.42	%	17,584,351	58.33	%
Total common units in RMCO	30,205,296	100.00	%	30,143,951	100.00	%

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The weighted average ownership percentages for the applicable reporting periods are used to calculate the net income attributable to RE/MAX Holdings. RE/MAX Holdings' weighted average ownership percentage in RMCO was 58.42% and 41.02% for the three months ended September 30, 2016 and 2015, respectively and 58.39% and 40.61% for the nine months ended September 30, 2016 and 2015, respectively. RE/MAX Holdings' economic interest in RMCO increased due to the increase in common units from the issuance of shares of Class A common stock as a result of the Secondary Offering described in Note 1, Business and Organization. A reconciliation of "Net income attributable to RE/MAX Holdings, Inc." in the accompanying Condensed Consolidated Statements of Income for the periods indicated is detailed as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Income before provision for income taxes attributable to RE/MAX Holdings, Inc.	\$ 11,150	\$ 7,576	\$ 30,015	\$ 20,006
Provision for income taxes attributable to RE/MAX Holdings, Inc.	(4,239)	(2,779)	(11,203)	(7,532)
Net income attributable to RE/MAX Holdings, Inc.	\$ 6,911	\$ 4,797	\$ 18,812	\$ 12,474

A reconciliation of the "Provision for income taxes" in the accompanying Condensed Consolidated Statements of Income for the periods indicated is detailed as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Provision for income taxes attributable to RE/MAX Holdings, Inc. (a)	\$ (4,239)	\$ (2,779)	\$ (11,203)	\$ (7,532)
Provision for income taxes attributable to entities other than RE/MAX Holdings, Inc. (b)	(393)	(498)	(973)	(1,350)
Provision for income taxes	\$ (4,632)	\$ (3,277)	\$ (12,176)	\$ (8,882)

(a) The provision for income taxes attributable to RE/MAX Holdings includes all U.S. federal and state income taxes as well as RE/MAX Holdings' proportionate share of the net assets of RMCO of the 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 of \$537,000 and \$346,000 for the three months ended September 30, 2016 and 2015, respectively, and \$1,365,000 and \$924,000 for the nine months ended September 30, 2016 and 2015, respectively.

- (b) The provision for income taxes attributable to entities other than RE/MAX Holdings represents taxes imposed directly on RE/MAX, LLC related to tax liabilities primarily in certain foreign jurisdictions that are allocated to the non-controlling interest.

Distributions and Other Payments to Non-controlling Unitholders

As a limited liability company (treated as a partnership for income tax purposes), RMCO does not incur significant federal, state or local income taxes, as these taxes are primarily the obligations of its members. As authorized by the RMCO, LLC Agreement, RMCO makes cash distributions to non-controlling unitholders. Discretionary cash distributions may be made to non-controlling unitholders based on their ownership percentage in RMCO as determined in accordance with the RMCO, LLC Agreement. These discretionary distributions are paid on a quarterly basis equal to the dividend payments to the stockholders of the Company's Class A common stock or otherwise on a discretionary

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

basis as necessary. In addition, RMCO is generally required to distribute cash on a pro-rata basis to its members to the extent necessary to cover each member's estimated tax liabilities, if any, with respect to their allocable share of RMCO earnings, but only to the extent that any other discretionary distributions from RMCO for the relevant period were otherwise insufficient to enable each member to cover its estimated tax liabilities. Upon completion of its tax returns with respect to the prior year, RMCO may make other discretionary true-up distributions to its members, if cash is available for such purposes, with respect to actual taxable income for the prior year.

The distributions paid or payable to or on behalf of non-controlling unitholders under the RMCO, LLC Agreement are summarized as follows:

	Nine Months Ended September 30,	
	2016	2015
Tax and other discretionary distributions	\$ 8,442	\$ 5,560
Dividend distributions	5,652	33,253
Total distributions	\$ 14,094	\$ 38,813

The dividend distributions are discussed further in Note 4, Earnings Per Share and Dividends. The tax and other discretionary distributions are recorded in "Non-controlling interest" in the accompanying Condensed Consolidated Balance Sheets and Condensed Consolidated Statement of Stockholders' Equity and the paid portion is reported in "Distributions paid to non-controlling unitholders" in the accompanying Condensed Consolidated Statements of Cash Flows.

On November 3, 2016, the Company declared a distribution to non-controlling unitholders of \$1,884,000, which is payable on December 1, 2016.

Payments Pursuant to the Tax Receivable Agreements

At the time of the IPO, RE/MAX Holdings entered into separate TRAs with RMCO's historical owners, RIHI and Weston Presidio V, L.P. ("Weston Presidio"). During the second quarter of 2015, Weston Presidio assigned, transferred and conveyed to Oberndorf all of its rights, title and interest in and to, and all of its liabilities and obligations under, the TRA dated as of October 7, 2013 by and between RE/MAX Holdings and Weston Presidio. In connection therewith, the Company entered into a joinder to the TRA on May 29, 2015 with Western Presidio and Oberndorf (the "Joinder Agreement"). Neither the assignment and transfer nor the Joinder Agreement impacted the financial position, results of operations or cash flows of the Company.

As of September 30, 2016, the Company reflected a liability of \$98,782,000, representing the payments due to RIHI and Oberndorf, under the terms of the TRAs (see current and non-current portion of "Payable pursuant to tax receivable agreements" in the accompanying Condensed Consolidated Balance Sheets).

As of September 30, 2016, the Company estimates that amounts payable pursuant to the TRAs within the next 12-month period will be approximately \$7,225,000, of which \$2,591,000 is related to RE/MAX Holdings' 2014 federal and state tax returns and the remainder is related to RE/MAX Holdings' 2015 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 during 2015 and 2014 and the amount of the specified deductions subject to the TRAs which were realized by RE/MAX Holdings in its 2015 and 2014 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 a current TRA obligation became due (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 \$1,344,000 and \$0 pursuant to the terms of the TRAs during the nine months ended September 30, 2016 and 2015, respectively.

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The timing and amount of the payments to be made under the TRAs are subject to certain contingencies, including RE/MAX Holdings having sufficient taxable income to utilize all of the tax benefits defined in the TRAs. If the Company elects to terminate the TRAs early, the Company would be required to make an immediate cash payment equal to the present value of the anticipated future tax benefits that are the subject of the TRAs, which payment may be made significantly in advance of the actual realization, if any, of such future tax benefits.

Obligations pursuant to the TRAs are obligations of RE/MAX Holdings. They do not impact the non-controlling interest. These obligations are not income tax obligations and have no impact on the “Provision for income taxes” in the accompanying Condensed Consolidated Statements of Income. In general, items of income, gain, loss and deduction are allocated on the basis of the members’ ownership interests pursuant to the RMCO, LLC Agreement after taking into consideration all relevant sections of the Internal Revenue Code.

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Numerator				
Net income attributable to RE/MAX Holdings, Inc.	\$ 6,911	\$ 4,797	\$ 18,812	\$ 12,474
Denominator for basic net income per share of Class A common stock				
Weighted average shares of Class A common stock outstanding	17,645,696	12,333,690	17,622,298	12,127,548
Denominator for diluted net income per share of Class A common stock				
Weighted average shares of Class A common stock outstanding	17,645,696	12,333,690	17,622,298	12,127,548
Add dilutive effect of the following:				
Stock options	—	51,171	6,714	163,777
Restricted stock units	45,945	35,887	37,728	24,338
Weighted average shares of Class A common stock outstanding, diluted	17,691,641	12,420,748	17,666,740	12,315,663
Earnings per share of Class A common stock				
Net income attributable to RE/MAX Holdings, Inc. per share of Class A common stock, basic	\$ 0.39	\$ 0.39	\$ 1.07	\$ 1.03
Net income attributable to RE/MAX Holdings, Inc. per share of Class A common stock, diluted	\$ 0.39	\$ 0.39	\$ 1.06	\$ 1.01

There were no anti-dilutive shares for the three and nine months ended September 30, 2016 and 2015. 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.

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Dividends

The Company's Board of Directors declared quarterly dividends of \$0.15 per share on all outstanding shares of Class A common stock in each of the first three quarters of 2016, or \$7,932,000 in total dividends. Of this amount, \$2,638,000 was paid on March 23, 2016, \$2,647,000 was paid on June 2, 2016, and \$2,647,000 was paid on August 31, 2016. The Company made corresponding distributions to non-controlling unitholders of \$1,884,000 on March 23, 2016, June 2, 2016, and August 31, 2016. The Company's Board of Directors declared quarterly dividends of \$0.125 per share on all outstanding shares of Class A common stock in the first, second and third quarters of 2015, or \$4,571,000 in total dividends. Of this amount, \$1,500,000 was paid on April 8, 2015, \$1,529,000 was paid on June 4, 2015 and \$1,542,000 was paid on September 3, 2015. The Company made corresponding distributions to non-controlling unitholders of \$2,217,000 on April 8, 2015, June 4, 2015 and September 3, 2015. Additionally, during the nine months ended September 30, 2015, the Company's Board of Directors declared a special dividend of \$1.50 per share on all outstanding shares of Class A common stock, or \$17,883,000 in total dividends, which along with a corresponding distribution to non-controlling unitholders of \$26,602,000 was paid on April 8, 2015.

On November 3, 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, which is payable on December 1, 2016 to shareholders of record at the close of business on November 17, 2016.

5. Acquisitions and Dispositions

Acquisitions

Full House Mortgage Connection, Inc.

Motto Franchising, LLC ("Motto"), a wholly-owned subsidiary of RE/MAX, LLC, was formed and developed to franchise mortgage brokerages. On September 12, 2016, Motto acquired certain assets of Full House, a franchisor of mortgage brokerages that created the concept behind Motto. Motto, as a franchisor, grants each franchisee a license to use the Motto Mortgage brand, trademark, promotional and operating materials and concepts. The Company used \$8,000,000 in cash generated from operations to initially fund the acquisition. Additional cash consideration may be required based on future revenues generated, as discussed below. The assets acquired constitute a business and were accounted for as a business combination using the acquisition method. The total purchase price was allocated to the assets acquired based on their estimated acquisition date fair values. The excess of the total purchase price over the fair value of the identifiable assets acquired was recorded as goodwill. The goodwill recognized for Full House is attributable to expected synergies and projected long term revenue growth. All of the goodwill recognized is tax deductible.

Consideration

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

Cash consideration	\$ 8,000
Contingent purchase consideration	6,300
Total purchase price	\$ 14,300

The Company is required to pay additional purchase consideration totaling eight percent of gross revenues generated by the acquired business 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 of \$6,300,000 represents the forecasted discounted cash payments that the Company expects to pay the former owner of Full House with respect to the acquired business. The cash flows were discounted using a risk-adjusted discount rate. The Company will re-measure this liability each reporting period

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

and recognize changes in fair value, if any, in earnings of the Company. 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. The Company's accrued contingent purchase consideration is categorized in Level 3 of the fair value hierarchy. As of September 30, 2016, there was no material change in the fair value of the contingent purchase consideration.

Purchase Price Allocation

The following table summarizes the estimated fair value of the assets acquired at the acquisition date (in thousands):

Non-compete agreement	\$ 2,500
Goodwill	11,800
Total assets acquired	\$ 14,300

The Company will amortize the non-compete agreement over a useful life of 10 years using the straight-line method, which approximates the timing in which the Company expects to receive the benefit from the agreement. As of September 30, 2016, the Company has finalized its purchase allocations related to the acquisition of Full House.

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. RE/MAX, LLC acquired these assets in order to expand its owned and operated regional franchising operations. The Company used \$1,500,000 in cash generated from operations to fund the acquisition. The assets acquired constitute a business and were accounted for using the fair value acquisition method. The total purchase price was allocated to the assets acquired based on their estimated fair values. The excess of the total purchase price over the preliminary fair value of the identifiable assets acquired was recorded as goodwill. The goodwill recognized for RE/MAX of Alaska is attributable to expected synergies and projected long term revenue growth. All of the goodwill recognized is tax deductible.

Purchase Price Allocation

The following table summarizes the preliminary estimated fair value of the assets acquired at the acquisition date (in thousands):

Franchise agreements	\$ 529
Goodwill	971
Total purchase price	\$ 1,500

The regional franchise agreements acquired were preliminarily valued using an income approach and are being amortized over the remaining contractual term of approximately five years using the straight-line method. The preliminary estimated fair value of the assets acquired is subject to adjustments based on the Company's final assessment of the fair values of the franchise agreements, which is the acquired asset with the highest likelihood of changing upon finalization of the valuation process.

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

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

in the state of New York. RE/MAX, LLC acquired these assets in order to expand its owned and operated regional franchising operations. The Company used \$8,500,000 in cash generated from operations to fund the acquisition. The assets acquired constitute a business and were accounted for using the fair value acquisition method. The total purchase price was allocated to the assets acquired based on their estimated fair values. The excess of the total purchase price over the preliminary fair value of the identifiable assets acquired was recorded as goodwill. The goodwill recognized for RE/MAX of New York is attributable to expected synergies and projected long term revenue growth. All of the goodwill recognized is tax deductible.

Purchase Price Allocation

The following table summarizes the preliminary estimated fair value of the assets acquired at the acquisition date (in thousands):

Cash and cash equivalents	\$ 131
Franchise agreements	5,100
Other assets	350
Goodwill	2,919
Total purchase price	\$ 8,500

The regional franchise agreements acquired were preliminarily valued using an income approach and are being amortized over the remaining contractual term of approximately eleven years using the straight-line method. The preliminary estimated fair value of the assets acquired is subject to adjustments based on the Company's final assessment of the fair values of the franchise agreements and other assets, which are the acquired assets with the highest likelihood of changing upon finalization of the valuation process.

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 of New York and RE/MAX of Alaska had occurred on January 1, 2015. 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.

Three Months Ended		Nine Months Ended	
September 30,		September 30,	
2016	2015	2016	2015

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	(In thousands, except per share amounts)			
Total revenue	\$ 45,544	\$ 45,628	\$ 132,285	\$ 134,970
Net income attributable to RE/MAX Holdings, Inc.	\$ 6,914	\$ 4,877	\$ 19,074	\$ 12,600
Basic earnings per common share	\$ 0.39	\$ 0.40	\$ 1.08	\$ 1.04
Diluted earnings per common share	\$ 0.39	\$ 0.39	\$ 1.08	\$ 1.02

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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, broker fees and franchise sales revenue.

Sacagawea, LLC d/b/a RE/MAX Equity Group

On December 31, 2015, the Company sold certain operating assets and liabilities related to 12 owned brokerage offices located in the U.S., of Sacagawea, LLC d/b/a RE/MAX Equity Group, a wholly owned subsidiary of the Company. The Company recognized a gain on the sale of the assets of approximately \$2,794,000 during the fourth quarter of 2015, which is reflected in “(Gain) loss on sale or disposition of assets, net” in the Consolidated Statements of Income included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. 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, broker fees and franchise sales revenue.

RB2B, LLC d/b/a RE/MAX 100

On April 10, 2015, the Company sold certain operating assets and liabilities related to six owned brokerage offices located in the U.S., of RB2B, LLC d/b/a RE/MAX 100, a wholly owned subsidiary of the Company. The Company recognized a gain on the sale of the assets and the liabilities transferred of \$615,000 during the second quarter of 2015, which is reflected in “(Gain) loss on sale or disposition of assets, net” in the accompanying Condensed Consolidated Statements of Income for the nine months ended September 30, 2015. 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, broker fees and franchise sales revenue.

Subsequent Events

Asset Purchase Agreement for Acquisition of RE/MAX of New Jersey

On November 3, 2016, RE/MAX, LLC entered into an Asset Purchase Agreement pursuant to which it agreed to acquire certain assets of RE/MAX of New Jersey (“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. RE/MAX, LLC intends to acquire these assets in order to expand its owned and operated regional franchising operations. The Company expects to use approximately \$45 million in cash generated from operations to fund the acquisition. The

assets to be acquired constitute a business that will be accounted for using the fair value acquisition method. The total purchase price will be allocated to the assets acquired based on their estimated fair values. The acquisition is subject to customary closing conditions and is expected to close in early December 2016. The Company will complete a preliminary purchase price allocation subsequent to closing.

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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	As of September 30, 2016			As of December 31, 2015		
	Initial	Accumulated	Net	Initial	Accumulated	Net