

Raptor Pharmaceutical Corp  
Form 10-Q  
August 06, 2015

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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, 2015

OR

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

Commission File Number: 000-25571

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RAPTOR PHARMACEUTICAL CORP.  
(Exact name of registrant as specified in its charter)

Delaware 86-0883978  
(State of incorporation) (I.R.S. Employer Identification No.)

7 Hamilton Landing, Suite 100, Novato, CA 94949  
(Address of Principal Executive Offices)

(415) 408-6200  
(Registrant's telephone number)

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 the definitions 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 Smaller reporting company

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

At August 4, 2015, there were 81,179,979 shares of the registrant's common stock outstanding.

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RAPTOR PHARMACEUTICAL CORP.

FORM 10-Q

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

RAPTOR PHARMACEUTICAL CORP.  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except shares and per share data)

	June 30, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 192,994	\$ 149,613
Restricted cash	1,515	1,562
Short-term investments	27,496	-
Accounts receivable	13,167	7,455
Inventories	5,320	9,134
Prepaid expenses and other	2,326	3,841
Total current assets	242,818	171,605
Noncurrent assets:		
Fixed assets, net	7,568	5,880
Goodwill	3,275	3,275
Intangible assets, net	2,855	2,974
Other assets	4,744	5,332
Total Assets	\$ 261,260	\$ 189,066
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,417	\$ 2,550
Accrued liabilities	19,817	16,859
Common stock warrant liability	-	711
Note payable, current portion	12,000	9,000
Total current liabilities	35,234	29,120
Noncurrent liabilities:		
Note payable, net of current portion	45,000	51,000
Convertible notes	60,000	60,000
Total liabilities	140,234	140,120
Stockholders' equity:		
Preferred stock, \$0.001 par value per share, 15,000,000 shares authorized, zero shares issued and outstanding	-	-
Common stock, \$0.001 par value per share, 150,000,000 shares authorized, 81,032,050 and 68,861,366 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	81	69
Additional paid-in capital	412,949	306,832
Accumulated other comprehensive loss	(478 )	(60 )
Accumulated deficit	(291,526)	(257,895)
Total stockholders' equity	121,026	48,946

Total Liabilities and Stockholders' Equity	\$261,260	\$189,066
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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## RAPTOR PHARMACEUTICAL CORP.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

(In thousands, except shares and per share data)

	For the Three Months		For the Six Months Ended	
	Ended June 30, 2015	2014	June 30, 2015	2014
Net product sales	\$23,332	\$16,313	\$43,785	\$28,447
Cost of sales	2,640	995	6,362	2,309
Gross profit	20,692	15,318	37,423	26,138
Operating expenses:				
Research and development	11,877	11,077	28,429	20,624
Selling, general and administrative	17,770	13,326	32,608	25,390
Total operating expenses	29,647	24,403	61,037	46,014
Loss from operations	\$(8,955)	\$(9,085)	\$(23,614)	\$(19,876)
Interest income	68	10	95	41
Interest expense	(4,784)	(3,497)	(9,282)	(6,476)
Foreign currency transaction gain (loss)	232	19	(243)	36
Adjustment to fair value of common stock warrants	(440)	(134)	(495)	(1,297)
Net loss before provision for income taxes	(13,879)	(12,687)	(33,539)	(27,572)
Provision for income taxes	(70)	(6)	(92)	(12)
Net Loss	\$(13,949)	\$(12,693)	\$(33,631)	\$(27,584)
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	129	48	(418)	197
Comprehensive Loss	\$(13,820)	\$(12,645)	\$(34,049)	\$(27,387)
Net loss per share:				
Basic and diluted	\$(0.17)	\$(0.20)	\$(0.45)	\$(0.44)
Weighted-average shares outstanding:				
Basic and diluted	79,771,454	62,652,079	74,485,415	62,414,793

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

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## RAPTOR PHARMACEUTICAL CORP.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	For the Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$(33,631 )	\$(27,584)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	7,165	5,650
Fair value adjustment of common stock warrants	495	1,297
Amortization of intangible assets	119	120
Depreciation of fixed assets	630	246
Amortization of debt issuance cost	611	300
Changes in assets and liabilities:		
Accounts receivable	(5,712 )	405
Inventories	3,814	(5,350 )
Prepaid expenses and other assets	1,515	1,023
Deposits	(23 )	-
Accounts payable	867	(3,402 )
Accrued liabilities	2,958	3,728
Deferred revenue	-	(1,702 )
Net cash used in operating activities	(21,192 )	(25,269)
Cash flows from investing activities:		
Net purchase of fixed assets	(2,318 )	(2,056 )
Purchase of short-term investments	(27,496 )	-
Change in restricted cash	47	(530 )
Net cash used in investing activities	(29,767 )	(2,586 )
Cash flows from financing activities:		
Proceeds from sale of common stock	98,325	-
Proceeds from the exercise of common stock warrants	301	1,826
Proceeds from the exercise of common stock options and ESPP	5,409	1,611
Debt issuance costs	-	(631 )
Offering costs	(6,277 )	(43 )
Payments on capital lease	-	(19 )
Payments on note payable	(3,000 )	-
Net cash provided by financing activities	94,758	2,744
Effect of exchange rates on cash and cash equivalents	(418 )	159
Net decrease in cash and cash equivalents	43,381	(24,952)
Cash and cash equivalents, beginning of period	149,613	83,052
Cash and Cash Equivalents, End of Period	\$192,994	\$58,100
Supplemental cash flow information:		
Interest paid	\$5,492	\$5,431
Income taxes paid	\$243	\$159

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Supplemental disclosure of non-cash financing activities:

Fair value of warrant liability reclassified to equity upon exercise	\$ 1,206	\$ 7,503
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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RAPTOR PHARMACEUTICAL CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

(Unaudited)

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying condensed consolidated financial statements reflect the financial position and results of operations of Raptor Pharmaceutical Corp. (the "Company" or "Raptor") and have been prepared in accordance with the accounting principles generally accepted in the United States of America ("GAAP") pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures have been condensed or omitted pursuant to such rules and regulations. The unaudited condensed consolidated financial statements have been prepared on the same basis as the annual financial statements and in the opinion of management reflect all adjustments, which include only normal recurring adjustments, necessary for a fair presentation of the periods presented. The condensed consolidated balance sheet as of December 31, 2014 has been derived from the Company's audited financial statements as of such date but does not include all disclosures required by GAAP. This Form 10-Q should be read in conjunction with the audited financial statements and accompanying notes in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Raptor is a biopharmaceutical company focused on developing and commercializing transformative treatments for people affected by rare and debilitating diseases. The Company's first product, PROCYSBI® (cysteamine bitartrate) delayed-release capsules ("PROCYSBI"), received marketing approval from the U.S. Food and Drug Administration ("FDA") on April 30, 2013 for the management of nephropathic cystinosis in adults and children six years and older. In Europe, PROCYSBI® gastro-resistant hard capsules of cysteamine (as mercaptamine bitartrate), received marketing authorization on September 6, 2013 from the European Commission ("EC"), for marketing in the European Union ("EU") as an orphan medicinal product for the management of proven nephropathic cystinosis. PROCYSBI received seven years of market exclusivity, through 2020, as an orphan drug in the United States and ten years of market exclusivity, through 2023, as an orphan drug in Europe. The Company commenced commercial sales of PROCYSBI in the United States in June 2013, and in Europe in April 2014. For at least the near term, the Company's ability to generate revenues is entirely dependent upon sales of PROCYSBI in the United States for the management of nephropathic cystinosis in adults and children six years and older and in the EU for the management of proven nephropathic cystinosis.

Raptor's development pipeline includes its proprietary delayed-release form of cysteamine, or RP103, the investigational form of PROCYSBI, and its proprietary oral 4-methylpyrazole, or Convivia®. Raptor currently has product candidates in clinical development designed to potentially treat Huntington's disease ("HD"), non-alcoholic steatohepatitis ("NASH") in children, Leigh syndrome and other mitochondrial disorders and aldehyde dehydrogenase deficiency ("ALDH2"). Raptor's preclinical programs are based upon bioengineered novel drug candidates that are designed to address current and potential other cysteamine indications, as well as target cancer and other diseases.

The Company is subject to a number of risks, including: the level of commercial sales of PROCYSBI in the United States and Europe; the ability to successfully launch PROCYSBI in other international markets; uncertainty as to whether the Company's regulatory efforts, research and development efforts will result in expanded labeling for PROCYSBI and additional commercialization for RP103 in various indications or additional commercial products; competition from other organizations; reliance on other entities for manufacturing; reliance on licensing the proprietary technology of others; uncertain patent protection; and the need to raise capital through equity and/or debt financings. Funding may not be available when needed on terms that are acceptable to the Company, if at all. If the Company exhausts its cash reserves and is unable to obtain adequate financing, it may be required to curtail planned operating expenditures, including its development programs.

Basis of Presentation

The Company's consolidated financial statements include the accounts of the Company's direct and indirect wholly owned subsidiaries: Raptor Pharmaceuticals Inc., formerly known as Raptor Therapeutics Inc., which merged with Raptor Discoveries Inc. in December 2012 prior to changing its name, and Raptor European Products, LLC, each of which was incorporated in Delaware on August 1, 2007, and February 14, 2012, respectively, and Raptor Pharmaceuticals Europe B.V. ("BV"), Raptor Pharmaceuticals France SAS ("SAS"), Raptor Pharmaceuticals Germany GmbH ("GMBH") and RPTP European Holdings C.V. ("CV"), domiciled in the Netherlands on December 15, 2009, in France on October 30, 2012, in Germany on October 16, 2013 and in the Cayman Islands on February 16, 2012, respectively. All inter-company accounts have been eliminated.

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RAPTOR PHARMACEUTICAL CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

(Unaudited)

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the Company's reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Currency

The Company's consolidated functional currency is the U.S. dollar. BV, SAS, and GMBH, the Company's Dutch subsidiary, French subsidiary, and German Subsidiary, respectively, use the European Euro as their functional currency. The CV subsidiary, a Cayman-based subsidiary, uses the dollar as its functional currency. At each quarter end, each foreign subsidiary's balance sheets are translated into U.S. dollars based upon the quarter-end exchange rate, while their statements of operations and comprehensive loss are translated into U.S. dollars based upon an average exchange rate during the period.

Segment Information

The Company has determined that it operates in only one segment, as it only reports profit and loss information on an aggregate basis to its chief operating decision maker, the chief executive officer. The Company's long-lived assets maintained outside the U.S. are not material.

Fair Value of Financial Instruments

The carrying amounts of certain of the Company's financial instruments including cash equivalents, restricted cash, short-term investments, accounts payable, accrued liabilities, note payable and capital lease liability approximate fair value due either to length of maturity or interest rates that approximate prevailing market rates. The warrant liability was carried at fair value, which was determined using the Black-Scholes option valuation model at the end of each reporting period.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents. The Company maintains cash and cash equivalents, which consist principally of money market funds, with high credit quality financial institutions. Such amounts exceed Federal Deposit Insurance Corporation insurance limits. As of June 30, 2015, the Company had \$193.0 million in cash and cash equivalents, of which \$10.1 million was held by its foreign subsidiaries.

Restricted Cash

Restricted cash represents certificates of deposit and compensating balances required by the Company's U.S. and European banks as collateral for credit cards and for access to a value-added tax deferral program.

Short-term Investments

Short-term investments represent investments in high quality commercial paper with original maturities of greater than 90 days but less than six months. The Company invests in short-term, high credit-quality funds in order to obtain higher yields on its cash reserves. Such investments are not insured by the Federal Deposit Insurance Corporation. The Company completed an evaluation of its investments and determined that it did not have any other-than-temporary impairments as of June 30, 2015.

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RAPTOR PHARMACEUTICAL CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

(Unaudited)

Revenue Recognition and Accounts Receivable

The Company recognizes revenue in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605, Revenue Recognition, when the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred and risk of loss has passed; the seller's price to the buyer is fixed or determinable and collectability is reasonably assured. The Company determines that persuasive evidence of an arrangement exists based on written contracts that define the terms of its revenue arrangements. Pursuant to the contract terms, the Company determines when title to products and associated risk of loss has passed on to the customer. The Company assesses whether the Company's product and/or revenue fees are fixed or determinable based on the payment terms associated with the corresponding transaction and whether the sales price and/or fees are subject to refund or adjustment. The Company assesses collectability based primarily on the customer's payment history and creditworthiness, and records a reserve for product returns based upon timing and history of similar product sales and returns in the pharmaceutical industry.

PROCYSBI is currently distributed in the U.S. by a specialty pharmacy distributor, the Accredo Health Group, Inc. ("Accredo") which is currently the Company's only U.S. customer and ships directly to patients. The Company's distributor in the EU is the Almac Group, Ltd. PROCYSBI is not available in U.S. retail pharmacies. Authorization of coverage by patients' commercial insurance plans, Raptor's patient assistance program ("PAP") or government payors is a prerequisite to the shipment of PROCYSBI to U.S. patients. Prior to the third quarter of 2014, revenue was recognized in the United States once the product had been shipped by the specialty pharmacy to patients because the Company had not yet been able to reasonably estimate the third-party payor mix and resulting rebates based on its lack of sufficient historical data. Beginning July 2014, the Company was able to reasonably estimate and determine sales allowances; therefore at that time the Company began recognizing PROCYSBI revenue at the point of sale to the specialty pharmacy. Revenue is currently recognized in the EU once confirmed orders from pharmacies have been shipped and invoiced for payment by the distributor on the Company's behalf.

The Company records revenue net of expected discounts, distributor fees, and rebates, including government rebates such as Medicare and Medicaid in the United States. Allowances are recorded as a reduction of revenue at the time product sales are recognized. Allowances for government rebates and discounts are established based on the actual payor and payor mix information, which is known in the United States at the time of shipment to the distributor and in Europe at the time of shipment to pharmacies, and the government-mandated discount rates applicable to government-funded programs. The allowances are adjusted to reflect known changes in the factors that may impact such allowances in the quarter the changes are known.

Trade accounts receivable are recorded net of product sales allowances for prompt-payment discounts and chargebacks. Estimates for chargebacks and prompt-payment discounts are based on contractual terms and the Company's expectations regarding utilization rates.

Inventories and Cost of Sales

Inventories are stated at the lower of cost or market price, with cost determined on a first-in, first-out basis. Inventories are reviewed periodically to identify slow-moving inventory based on sales activity, both projected and historical, as well as product shelf-life. Prior to the approval of PROCYSBI by the FDA on April 30, 2013 and in Europe, prior to the approval by the EC on September 6, 2013, the Company recorded the purchase of raw materials and the manufacturing costs relating to PROCYSBI as research and development expense. Subsequent to FDA and

EC approval, the Company began capitalizing these costs including manufacturing overhead of inventory intended for sale as commercial inventory.

Products that have been approved by the FDA or other regulatory authorities are also used in clinical programs, to assess the safety and efficacy of the products for usage in diseases that have not been approved by the FDA or other regulatory authorities. The form of PROCYSBI utilized for both commercial and clinical programs is identical and, as a result, the inventory has an “alternative future use” as defined in authoritative guidance. Raw materials and purchased drug product associated with clinical development programs are included in inventory and charged to research and development expense when the product enters the research and development process and no longer can be used for commercial purposes and, therefore, does not have an “alternative future use”.

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RAPTOR PHARMACEUTICAL CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

(Unaudited)

Upon launching PROCYSBI in June 2013 in the United States and in April 2014 in the EU, the Company began recognizing cost of sales. Cost of sales includes the cost of inventory sold or reserved; manufacturing, manufacturing overhead and supply chain costs; inventory variance amortization; product shipping and handling costs; and amortization of licensing approval milestone payments and licensing royalties payable to the University of California, San Diego ("UCSD").

Fixed Assets

Fixed assets, which mainly consist of leasehold improvements, office furniture, lab equipment and computer hardware and software, are stated at cost. Depreciation is computed using the straight-line method over the related estimated useful lives, except for leasehold improvements and capital lease equipment, which are depreciated over the shorter of the useful life of the asset or the lease term. Significant additions and improvements that have useful lives estimated at greater than one year are capitalized, while repairs and maintenance are charged to expense as incurred.

Goodwill and Intangible Assets

Intangible assets primarily include the intellectual property. The carrying amount of intangible assets is \$20,637,000, of which \$18,842,000 is amortizable and \$1,795,000 is not amortizable. The carrying amount of intangible assets is \$47,431,000, of which \$42,074,000 is amortizable and \$5,357,000 is not amortizable.

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.

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	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, 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.			RE/MAX Holdings, Inc.		
	Non-controlling interest	Total	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

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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

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

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(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 Months		Six Months Ended	
	Ended		June 30,	
	June 30,	2016	2017	2016
Expense from Time-based RSUs	\$ 615	\$ 545	\$ 1,142	\$ 1,311
Expense from Performance-based RSUs	117	-	151	-
Equity-based compensation expense	732	545	1,293	1,311
Tax benefit from equity-based compensation	(161)	(120)	(284)	(288)
Excess tax benefit from equity-based compensation	(117)	(201)	(324)	(201)
Net compensation cost	\$ 454	\$ 224	\$ 685	\$ 822
Time-based Restricted Stock Units				

Time-based RSUs granted under the 2013 Incentive Plan are valued using the Company's closing stock price on the date of grant. Grants awarded to the Company's Board of Directors generally vest over a one year period. Grants awarded to the Company's employees generally vest equally in annual installments over a three year period. Compensation expense is recognized on a straight line basis over the vesting period.



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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The following table summarizes equity-based compensation activity related to time-based RSUs as of and for the six months ended June 30, 2017:

	Time-based restricted stock units	Weighted average grant date fair value per share
Balance, January 1, 2017	127,011	\$ 33.00
Granted	43,450	\$ 55.45
Shares vested (including tax withholding)(a)	(58,426)	\$ 33.03
Forfeited	(2,935)	\$ 40.70
Balance, June 30, 2017	109,100	\$ 41.71

(a) Pursuant to the terms of the 2013 Incentive Plan, RSUs withheld by the Company for the payment of the employee's tax withholding related to an RSU vesting are added back to the pool of shares available for future awards.

At June 30, 2017, there was \$3,688,000 of total unrecognized time-based RSU expense, all of which is related to unvested awards. This compensation expense is expected to be recognized over the weighted-average remaining vesting period of 1.78 years for time-based restricted stock units.

## Performance-based Restricted Stock Units

Performance-based RSUs granted under the 2013 Incentive Plan are stock-based awards in which the number of shares ultimately received depends on the Company's achievement of a specified revenue as well as the Company's total shareholder return ("TSR") relative to the TSR of all companies in the S&P SmallCap 600 Index over a three year performance period. The number of shares that could be issued range from 0% to 150% of the participant's target award. Performance-based RSUs are valued on the date of grant using a Monte Carlo simulation for the TSR element of the award. The Company's expense will be adjusted based on the estimated achievement of revenue versus target. Earned performance-based RSUs cliff-vest at the end of the three year performance period. Compensation expense is recognized over the vesting period based on the Company's estimated performance.

The following table summarizes equity-based compensation activity related to performance-based RSUs as of and for the six months ended June 30, 2017:

	Performance-based restricted stock units	Weighted average grant date fair value per share
Balance, January 1, 2017	—	\$ —
Granted (a)	33,961	\$ 57.88
	—	\$ —

Shares vested (including tax  
withholding)

Forfeited	(1,155)	\$ 57.88
Balance, June 30, 2017	32,806	\$ 57.88

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(a) Represents the total participant target award.

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

At June 30, 2017, there was \$1,178,000 of total unrecognized performance-based RSU expense, all of which is related to unvested awards. This compensation expense is expected to be recognized over the weighted-average remaining vesting period of 2.5 years for performance-based RSUs.

After giving effect to all outstanding awards (assuming maximum achievement of performance goals for performance-based awards), there were 2,396,156 additional shares available for the Company to grant under the 2013 Incentive Plan as of June 30, 2017.

## 12. Leadership Changes

On January 7, 2016, the Company's former Chief Financial Officer and Chief Operating Officer entered into a separation and transition agreement (the "Separation and Transition Agreement") pursuant to which he separated from the Company effective March 31, 2016. The Company incurred a total cost of \$1,043,000, including \$331,000 of equity-based compensation expense, which was recorded to "Selling, operating and administrative expenses" in the accompanying Condensed Consolidated Statements of Income during the six months ended June 30, 2016.

The Company's severance and other related expenses incurred for the aforementioned leadership changes were \$1,043,000 for the six months ended June 30, 2016, which is included in "Selling, operating and administrative expenses" in the accompanying Condensed Consolidated Statements of Income. There were no such expenses incurred during the three or six months ended June 30, 2017.

On December 31, 2014, the Company's former Chief Executive Officer retired and pursuant to the terms of the Separation and Release of Claims Agreement (the "Separation Agreement"), the Company is required to provide severance and other related benefits over a 36-month period. The Company recorded a liability, measured at its estimated fair value, for payments that will be made under the Separation Agreement, with a corresponding charge to "Selling, general and administrative expenses." The Company incurred a total cost of \$3,581,000, including \$1,007,000 of equity-based compensation expense related to this retirement.

The following table presents a rollforward of the estimated fair value liability for the six months ended June 30, 2017 established for the aforementioned leadership changes (in thousands):

Balance, January 1, 2017	\$ 964
Severance and other related expenses	—
Accretion	14
Cash payments	(541)
Balance, June 30, 2017	\$ 437

### 13. Commitments and Contingencies

#### Commitments

The Company leases offices and equipment under noncancelable leases, subject to certain provisions for renewal options and escalation clauses.

#### Contingencies

In connection with the Purchase of Full House, as described in Note 5, Acquisitions and Dispositions, the Company entered into an arrangement to pay additional purchase consideration based on Motto's future gross revenues, excluding certain fees, over the next ten years. As of June 30, 2017, this liability was estimated to be \$6,230,000.

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RE/MAX HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

In connection with the sale of the assets and liabilities related to the Company's previously owned brokerages, the Company entered into three Assignment and Assumption of Lease Agreements (the "Assignment Agreements") pursuant to which the Company assigned its obligations under and rights, title and interest in 21 leases to the respective purchasers. For certain leases, the Company remains secondarily liable for future lease payments through July 2021 under the respective lease agreements and accordingly, as of June 30, 2017, the Company has outstanding lease guarantees of \$4,891,000. This amount represents the maximum potential amount of future payments under the respective lease guarantees. In the event of default by the purchaser, the indemnity and default clauses in the Assignment Agreements govern the Company's ability to pursue and recover damages incurred, if any, against the purchaser.

Litigation

The Company is subject to litigation claims arising in the ordinary course of business. The Company believes that it has adequately accrued for legal matters as appropriate. The Company records litigation accruals for legal matters which are both probable and estimable and for related legal costs as incurred. The Company does not reduce these liabilities for potential insurance or third-party recoveries.

On October 7, 2013, RE/MAX Holdings acquired the net assets, excluding cash, of Tails, Inc. ("Tails") for consideration paid of \$20,175,000. Several shareholders of Tails challenged the terms of the transaction and filed a shareholder action entitled Robert B. Fisher, Carla L. Fisher, Bradley G. Rhodes and James D. Schwartz v. Tails, Inc. in the Circuit Court of Henrico County, Virginia ("Tails I"). After the Circuit Court dismissed Tails I, the Virginia Supreme Court affirmed dismissal on January 8, 2015. On March 7, 2016, the same Tails I plaintiffs filed a complaint entitled Robert B. Fisher, Carla L. Fisher, Bradley G. Rhodes and James D. Schwartz v. Gail Liniger, Dave Liniger, Bruce Benham, RE/MAX Holdings, Inc. and Tails Holdco, Inc. in Denver District Court ("Tails II"). As amended by the Denver District Court on November 21, 2016, the Tails II Complaint alleges claims for breach of fiduciary duty and claims for interest allegedly owed. The plaintiffs are alleging total damages of approximately \$5 million. The defendants intend to vigorously defend their position that the plaintiffs are not entitled to the relief sought. The Company believes the outcome of this matter is not reasonably estimable as of June 30, 2017. Accordingly, the Company currently has not recorded an accrual in the accompanying Condensed Consolidated Balance Sheets.

Except for the ongoing litigation concerning the acquisition of the net assets of Tails, management of the Company believes other such litigation matters involving a reasonably possible chance of loss will not, individually or in the aggregate, result in a material adverse effect on the Company's financial condition, results of operations and cash flows.

#### 14. Related-Party Transactions

The majority stockholders of RIHI, including the Company's current Co-Chief Executive Officer, Chairman and Co-Founder and the Company's Vice Chairman and Co-Founder have made and continue to make a golf course they own available to the Company for business purposes. During the six months ended June 30, 2017 and 2016, the Company used the golf course for business purposes at minimal charge.

The Company provides services, such as accounting, legal, marketing, technology, human resources and public relations services, to certain affiliated entities, and it allows these companies to share its leased office space. During the three months ended June 30, 2017 and 2016, the total amounts allocated for services rendered and rent for office space provided on behalf of affiliated entities were \$717,000 and \$521,000, respectively. During the six months ended June 30, 2017 and 2016, the total amounts allocated for services rendered and rent for office space provided on behalf of affiliated entities were \$1,479,000 and \$952,000, respectively. Amounts are generally paid within 30 days and no amounts were outstanding at June 30, 2017 or December 31, 2016.

Related party advertising funds had current outstanding amounts due from the Company of \$14,000 and \$145,000 as of June 30, 2017 and December 31, 2016, respectively. Such amounts are included in "Accounts payable to affiliates" in the accompanying Condensed Consolidated Balance Sheets.



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Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of our operations should be read together with the condensed consolidated financial statements and the related notes of RE/MAX Holdings, Inc. included in Item 1 of Part I of this Quarterly Report on Form 10-Q and with the audited consolidated financial statements and the related notes of RE/MAX Holdings, Inc. included in our most recent Annual Report on Form 10-K for the year ended December 31, 2016.

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are often identified by the use of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "project," "will," "would" or the negative or plural of these words or similar expressions or variations thereof. For example, forward-looking statements include statements we make relating to:

our expectations regarding consumer trends in residential real estate transactions;

our expectations regarding overall economic and demographic trends, including the health of the United States ("U.S.") and Canadian residential real estate markets, and how they affect our performance;

our growth strategy of increasing our agent count;

our ability to expand our network of franchises in both new and existing but underpenetrated markets;

our expectations regarding the growth of Motto Mortgage, our mortgage brokerage franchise;

our growth strategy of increasing our number of closed transaction sides and transaction sides per agent;

the continued strength of our brand both in the U.S. and Canada and in the rest of the world;

the pursuit of future reacquisitions of Independent Regions;

our intention to pay dividends;

our future financial performance;

our ability to forecast selling, operating and administrative expenses;

the effects of laws applying to our business;

our ability to retain our senior management and other key employees;

our intention to pursue additional intellectual property protections;

our future compliance with U.S. or state franchise regulations;

other plans and objectives for future operations, growth, initiatives, acquisitions or strategies, including investments in our information technology infrastructure;

the anticipated benefits of our advertising strategy;and

our intention to repatriate cash generated by our Canadian operations to the U.S. on a regular basis in order to minimize the impact of currency gains and losses.

Such forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, and those discussed in the section titled "Risk Factors," set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q and in Part I, Item 1A of our most recent Annual Report on Form 10-K for the year

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ended December 31, 2016. You should not rely upon forward-looking statements as predictions of future events. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

The results of operations discussed in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” are those of RE/MAX Holdings, Inc. (“RE/MAX Holdings”) and its consolidated subsidiaries, including RMCO, LLC and its consolidated subsidiaries (“RMCO”), collectively, the “Company,” “we,” “our” or “us.”

Business Overview

We are one of the world’s leading franchisors in the real estate industry, franchising real estate brokerages globally under the RE/MAX brand (“RE/MAX”) and mortgage brokerages within the 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. RE/MAX has held the number one market share in residential real estate in the U.S. and Canada since 1999 as measured by total residential transaction sides completed by our agents. The RE/MAX brand has the highest level of unaided brand awareness in real estate in the U.S. and Canada according to a 2016 consumer survey conducted by MMR Strategy Group, and our iconic red, white and blue RE/MAX hot air balloon is one of the most recognized real estate logos in the world. Motto Mortgage (“Motto”), founded in 2016, is the first nationwide mortgage brokerage franchise offering in the U.S.

Financial and Operational Highlights – Three Months Ended June 30, 2017

(Compared to three months ended June 30, 2016 unless otherwise noted)

Total agent count grew by 5.7% to 116,270 agents.

U.S. and Canada combined agent count increased 2.8% to 84,302 agents.

Revenue of \$48.8 million, up 12.5% from the prior year.

Net income attributable to RE/MAX Holdings, Inc. of \$7.5 million.

Adjusted EBITDA of \$29.2 million and Adjusted EBITDA margin of 59.7%

During the three months ended June 30, 2017, our revenue increased at a double-digit rate principally due to contributions from the six Independent Regions that were acquired during 2016 (New York, Alaska, New Jersey, Georgia, Kentucky/Tennessee and Southern Ohio, collectively, the “2016 Acquired Regions”) coupled with organic growth driven by increased agent count and pricing increases, as well as initial Motto franchise sales. Second quarter 2017 operating results also benefitted from the favorable timing of expenses. Certain investments which were initially planned for the second quarter are now anticipated to occur in the second half of 2017. We continue to focus on increasing our global agent network by continuing to enhance our value proposition, growing Motto Mortgage and expanding the Independent Regions acquired in 2016.

Compared to the prior year period, our agent count increased by 5.7% and our U.S. and Canadian agent count increased by 2.8%. The 2016 Acquired Regions experienced agent count growth of 3.3% during the three months ended June 30, 2017 and contributed \$3.4 million, or 7.8%, in revenue growth.



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## Selected Operating and Financial Highlights

For comparability purposes, the following table sets forth our agent count and results of operations for the periods presented in our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. The period-to-period comparison of agent count and financial results is not necessarily indicative of future performance.

	As of June 30,	
	2017	2016
RE/MAX Agent Count:		
U.S.	63,249	61,635
Canada	21,053	20,336
U.S. and Canada Total	84,302	81,971
Outside U.S. and Canada	31,968	27,989
Network-wide agent count	116,270	109,960

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Total revenue	\$ 48,819	\$ 43,404	\$ 97,048	\$ 86,321
Total selling, operating and administrative expenses	\$ 20,637	\$ 18,842	\$ 47,431	\$ 42,074
Operating Income	\$ 22,797	\$ 20,701	\$ 38,250	\$ 36,558
Net income attributable to RE/MAX Holdings, Inc.	\$ 7,529	\$ 6,961	\$ 12,442	\$ 11,901
Adjusted EBITDA(1)	\$ 29,165	\$ 25,285	\$ 51,662	\$ 46,293
Adjusted EBITDA margin(1)	59.7	% 58.3	% 53.2	% 53.6

(1) See “—Non-GAAP Financial Measures” for further discussion of Adjusted EBITDA and Adjusted EBITDA margin and a reconciliation of the differences between Adjusted EBITDA and net income, which is the most comparable GAAP measure for operating performance. Adjusted EBITDA margin represents Adjusted EBITDA as a percentage of total revenue.

## Results of Operations

## Comparison of the Three Months Ended June 30, 2017 and 2016

## Revenue

A summary of the components of our revenue for the three months ended June 30, 2017 and 2016 is as follows:

	Three Months Ended		Change	
	June 30,		Favorable/(Unfavorable)	
	2017	2016	\$	%
	(in thousands, except percentages)			
Revenue:				
Continuing franchise fees	\$ 23,284	\$ 19,846	\$ 3,438	17.3 %

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Annual dues	8,320	8,046	274	3.4	%
Broker fees	12,555	10,384	2,171	20.9	%
Franchise sales and other franchise revenue	4,660	5,128	(468)	(9.1)	%
Total revenue	\$ 48,819	\$ 43,404	\$ 5,415	12.5	%

Consolidated revenue primarily increased due to the acquisitions of the 2016 Acquired Regions, which added \$3.4 million or 7.8%, and organic growth, which increased revenue \$2.3 million or 5.2%. Foreign currency movements offset the aforementioned by \$0.2 million, or 0.6%.

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## Continuing Franchise Fees

Revenue from continuing franchise fees increased primarily as a result of the following:

contributions from the 2016 Acquired Regions increased continuing franchise fees \$2.2 million;

an increase of \$0.6 million as a result of July 1, 2016 fee increases in our Company-owned Regions; and

an increase of \$0.4 million due to agent count growth in the U.S. and Canada.

## Annual Dues

Revenue from annual dues increased due to the overall increase in total agent count. Revenue from annual dues is not affected by our acquisitions of Independent Regions because agents in the U.S. Independent Regions already pay annual dues to us in the same amounts as agents in Company-owned regions.

## Broker Fees

Revenue from broker fees increased primarily due to the acquisition of the 2016 Acquired Regions which contributed a \$1.2 million increase, as well as organic growth of \$1.0 million driven by both the increased agent count in the U.S. and Canada and rising average home prices.

## Franchise Sales and Other Franchise Revenue

Franchise sales and other franchise revenue were impacted by increases from Motto and the 2016 Acquired Regions which were more than offset by a decrease in revenue recognized from preferred marketing arrangements.

## Operating Expenses

A summary of the components of our operating expenses for the three months ended June 30, 2017 and 2016 is as follows:

	Three Months Ended		Change		
	June 30,		Favorable/(Unfavorable)		
	2017	2016	\$	%	
	(in thousands, except percentages)				
Operating expenses:					
Selling, operating and administrative expenses	\$ 20,637	\$ 18,842	\$ (1,795)	(9.5)	%
Depreciation and amortization	5,397	3,872	(1,525)	(39.4)	%
Gain on sale or disposition of assets, net	(12)	(11)	1	n/a	
Total operating expenses	\$ 26,022	\$ 22,703	\$ (3,319)	(14.6)	%
Percent of revenue	53.3	% 52.3	%		

Selling, Operating and Administrative Expenses

Selling, operating and administrative expenses primarily consisted of personnel costs, professional fee expenses, rent and related facility operations expense and other expenses. Other expenses include certain marketing and production costs that are not paid by our related party advertising funds, including travel and entertainment costs, costs associated with our annual conventions in the U.S. and other events.



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A summary of the components of our selling, operating and administrative expenses for the three months ended June 30, 2017 and 2016 is as follows:

	Three Months Ended		Change		
	June 30, 2017	2016	Favorable/(Unfavorable) \$	(Unfavorable) %	
(in thousands, except percentages)					
Selling, operating and administrative expenses:					
Personnel	\$ 10,361	\$ 10,288	\$ (73)	(0.7)	%
Professional fees	3,002	2,129	(873)	(41.0)	%
Rent and related facility operations	2,191	2,190	(1)	n/a	
Other	5,083	4,235	(848)	(20.0)	%
Total selling, operating and administrative expenses	\$ 20,637	\$ 18,842	\$ (1,795)	(9.5)	%
Percent of revenue	42.3	% 43.4	%		
Total selling, operating and administrative expenses increased as follows:					

Professional fees increased primarily due to costs incurred related to the launch of Motto and increased legal fees.

Other selling, operating and administrative expenses increased due to several items, the largest of which were costs incurred to support the 2016 Acquired Regions and investments to support our technology infrastructure.

## Depreciation and Amortization

Depreciation and amortization expense increased primarily due to amortization expense related to the franchise agreements acquired with the 2016 Acquired Regions, offset by certain acquired franchise agreements reaching the end of their contractual term in the current period.

## Other Expenses, Net

A summary of the components of our other expenses, net for the three months ended June 30, 2017 and 2016, is as follows:

	Three Months Ended		Change		
	June 30, 2017	2016	Favorable/(Unfavorable) \$	(Unfavorable) %	
(in thousands, except percentages)					
Other expenses, net:					
Interest expense	\$ (2,462)	\$ (2,091)	\$ (371)	(17.7)	%
Interest income	25	35	(10)	n/a	
Foreign currency transaction gains	39	20	19	n/a	
Total other expenses, net	\$ (2,398)	\$ (2,036)	\$ (362)	(17.8)	%
Percent of revenue	(4.9)	% (4.7)	%		

Interest expense increased as a result of a higher principal balance of term loans outstanding under our 2016 Senior Secured Credit Facility, which replaced our 2013 Senior Secured Credit facility on December 15, 2016.

Provision for Income Taxes

Our effective income tax rate increased to 23.3% from 23.0% for the three months ended June 30, 2017 and 2016, respectively. Our effective income tax rate depends on many factors, including a rate benefit attributable to the fact that the portion of RMCO's earnings attributable to the non-controlling interests are not subject to corporate-level taxes because RMCO is classified as a partnership for U.S. federal income tax purposes and therefore is treated as a "flow through entity," as well as annual changes in state and foreign income tax rates. See Note 2 to our unaudited condensed

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consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further details on the allocation of income taxes between RE/MAX Holdings and the non-controlling interest.

## Net Income Attributable to Non-controlling Interest

Net income attributable to non-controlling interest, which represents the portion of earnings attributable to the economic interest in RMCO held by RIHL, increased \$0.7 million primarily due to an increase of \$1.8 million in RMCO's net income during the three months ended June 30, 2017 compared to June 30, 2016.

## Adjusted EBITDA

See “—Non-GAAP Financial Measures” for our definition of Adjusted EBITDA and for further discussion of our presentation of Adjusted EBITDA as well as a reconciliation of Adjusted EBITDA to net income, which is the most comparable GAAP measure for operating performance.

Adjusted EBITDA was \$29.2 million for the three months ended June 30, 2017, an increase of \$3.9 million from the comparable prior year period. Adjusted EBITDA primarily increased due to:

- contributions from the 2016 Acquired Regions;
- an increase in revenue as a result of organic agent count growth; and
- fee increases that began on July 1, 2016 to our continuing franchise fees in our Company-owned Regions.

These increases are partially offset by investments in personnel and operations to support Motto's growth as well as a decrease in revenue recognized for preferred marketing arrangements.

## Comparison of the Six Months Ended June 30, 2017 and 2016

## Revenue

A summary of the components of our revenue for the six months ended June 30, 2017 and 2016 is as follows:

	Six Months Ended		Change	
	June 30, 2017	2016	Favorable/(Unfavorable) \$	%
	(in thousands, except percentages)			
Revenue:				
Continuing franchise fees	\$ 46,249	\$ 38,753	\$ 7,496	19.3 %
Annual dues	16,556	15,950	606	3.8 %
Broker fees	20,789	17,585	3,204	18.2 %
Franchise sales and other franchise revenue	13,454	13,921	(467)	(3.4) %
Brokerage revenue	—	112	(112)	n/a
Total revenue	\$ 97,048	\$ 86,321	\$ 10,727	12.4 %

Consolidated revenue primarily increased due to the acquisitions of the 2016 Acquired Regions, which added \$6.6 million or 7.7%, and organic growth, which increased revenue \$4.3 million or 4.9%. Foreign currency movements had an insignificant impact on revenue period-over-period.

Continuing Franchise Fees

Revenue from continuing franchise fees increased primarily as a result of the following:

contributions from the 2016 Acquired Regions increased continuing franchise fees \$4.3 million;

an increase of \$1.1 million as a result of July 1, 2016 fee increases in our Company-owned Regions; and

an increase of \$1.2 million due to agent count growth in the U.S. and Canada.

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## Annual Dues

Revenue from annual dues increased due to the overall increase in total agent count. Revenue from annual dues is not affected by our acquisitions of Independent Regions because agents in the U.S. Independent Regions already pay annual dues to us in the same amounts as agents in Company-owned regions.

## Broker Fees

Revenue from broker fees increased primarily due to the acquisition of the 2016 Acquired Regions, which contributed a \$2.0 million increase, as well as organic growth driven by both the increased agent count in the U.S. and Canada and an increase in average home prices.

## Franchise Sales and Other Franchise Revenue

The change in franchise sales and other franchise revenue was primarily due to increases from Motto, the 2016 Acquired Regions and global master franchise sales which were more than offset by a decrease in revenue recognized from preferred marketing arrangements.

## Operating Expenses

A summary of the components of our operating expenses for the six months ended June 30, 2017 and 2016 is as follows:

	Six Months Ended June 30,		Change Favorable/(Unfavorable)		
	2017	2016	\$	%	
	(in thousands, except percentages)				
Operating expenses:					
Selling, operating and administrative expenses	\$ 47,431	\$ 42,074	\$ (5,357)	(12.7)	%
Depreciation and amortization	11,392	7,593	(3,799)	(50.0)	%
(Gain) loss on sale or disposition of assets, net	(25)	96	121	n/a	
Total operating expenses	\$ 58,798	\$ 49,763	\$ (9,035)	(18.2)	%
Percent of revenue	60.6	% 57.6	%		

## Selling, Operating and Administrative Expenses

A summary of the components of our selling, operating and administrative expenses for the six months ended June 30, 2017 and 2016 is as follows:

	Six Months Ended June 30,		Change Favorable/(Unfavorable)		
	2017	2016	\$	%	
	(in thousands, except percentages)				

Selling, operating and administrative expenses:

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Personnel	\$ 21,602	\$ 21,068	\$ (534)	(2.5)	%
Professional fees	6,498	4,558	(1,940)	(42.6)	%
Rent and related facility operations	4,521	4,375	(146)	(3.3)	%
Other	14,810	12,073	(2,737)	(22.7)	%
Total selling, operating and administrative expenses	\$ 47,431	\$ 42,074	\$ (5,357)	(12.7)	%
Percent of revenue	48.9	%	48.7	%	

Total selling, operating and administrative expenses increased as follows:

Personnel costs increased \$0.5 million due to personnel investments to support Motto and the 2016 Acquired Regions offset by severance and other related expenses recognized in the prior year.

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Professional fees increased primarily due to costs incurred related to the launch of Motto and legal and consulting fees.

Other selling, operating and administrative expenses increased primarily due to costs to support the 2016 Acquired Regions as well as increased costs incurred in connection with our 2017 annual convention and investments to support our technology infrastructure.

## Depreciation and Amortization

Depreciation and amortization expense increased primarily due to amortization expense related to the franchise agreements acquired with the 2016 Acquired Regions, offset by certain acquired franchise agreements reaching the end of their contractual term.

## Other Expenses, Net

A summary of the components of our other expenses, net for the six months ended June 30, 2017 and 2016, is as follows:

	Six Months Ended		Change		
	June 30, 2017	2016	Favorable/(Unfavorable) \$	%	
	(in thousands, except percentages)				
Other expenses, net:					
Interest expense	\$ (4,816)	\$ (4,372)	\$ (444)	(10.2)	%
Interest income	50	86	(36)	n/a	
Foreign currency transaction gains (losses)	16	184	(168)	n/a	
Loss on early extinguishment of debt	—	(136)	136	n/a	
Total other expenses, net	\$ (4,750)	\$ (4,238)	\$ (512)	(12.1)	%
Percent of revenue	(4.9)	% (4.9)	%		

Other expenses, net increased mainly due to higher interest expense as a result of an increase in the principal balance of term debt outstanding under our 2016 Senior Secured Credit Facility, which replaced our 2013 Senior Secured Credit facility on December 15, 2016, and a decrease in foreign currency transaction gains that were primarily a result of the strengthening of the Canadian dollar which was not as significant as it had been in the prior year.

## Provision for Income Taxes

Our effective income tax rate remained consistent at 23.3% for both the six months ended June 30, 2017 and 2016. Our effective income tax rate depends on many factors, including a rate benefit attributable to the fact that the portion of RMCO's earnings attributable to the non-controlling interests are not subject to corporate-level taxes because RMCO is classified as a partnership for U.S. federal income tax purposes and therefore is treated as a "flow through entity," as well as annual changes in state and foreign income tax rates. See Note 2 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further details on the allocation of income taxes between RE/MAX Holdings and the non-controlling interest.

## Net Income Attributable to Non-controlling Interest

Net income attributable to non-controlling interest, which represents the portion of earnings attributable to the economic interest in RMCO held by RIHI, increased \$0.4 million primarily due to an increase of \$1.0 million in RMCO's net income during the six months ended June 30, 2017 compared to June 30, 2016.

Adjusted EBITDA

See “—Non-GAAP Financial Measures” for our definition of Adjusted EBITDA and for further discussion of our presentation of Adjusted EBITDA as well as a reconciliation of Adjusted EBITDA to net income, which is the most comparable GAAP measure for operating performance.



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Adjusted EBITDA was \$51.7 million for the six months ended June 30, 2017, an increase of \$5.4 million from the comparable prior year period. Adjusted EBITDA primarily increased due to:

- contributions from the 2016 Acquired Regions;
- an increase in revenue as a result of organic agent count growth;
- fee increases that began on July 1, 2016 to our continuing franchise fees in our Company-owned Regions; and
- an increase in organic franchise sales

These increases are partially offset by investments in personnel and operations to support Motto's growth as well as a decrease in revenue recognized for preferred marketing arrangements.

## Non-GAAP Financial Measures

The Securities and Exchange Commission ("SEC") has adopted rules to regulate the use in filings with the SEC and in public disclosures of financial measures that are not in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), such as Adjusted EBITDA and the ratios related thereto. These measures are derived on the basis of methodologies other than in accordance with U.S. GAAP.

We define Adjusted EBITDA as EBITDA (consolidated net income before depreciation and amortization, interest expense, interest income and the provision for income taxes, each of which is presented in our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q), adjusted for the impact of the following items that are either non-cash or that we do not consider representative of our ongoing operating performance: loss or gain on sale or disposition of assets and sublease, loss on early extinguishment of debt, equity-based compensation expense, professional fees and certain expenses incurred in connection with the issuance of Class A common stock as a result of RIHI's redemption of common units in RMCO and acquisition related expenses. During the first quarter of 2017, we revised our definition of Adjusted EBITDA to better reflect the performance of our business and comply with SEC guidance. We now adjust for equity-based compensation expense and no longer adjust for straight-line rent expense and severance related expenses. Adjusted EBITDA was revised in prior periods to reflect this change for consistency in presentation.

Because Adjusted EBITDA omits certain non-cash items and other non-recurring cash charges or other items, we believe that it is less susceptible to variances that affect our operating performance resulting from depreciation, amortization and other non-cash and non-recurring cash charges or other items. We present Adjusted EBITDA, and the related Adjusted EBITDA margin, because we believe they are useful as supplemental measures in evaluating the performance of our operating businesses and provides greater transparency into our results of operations. Our management uses Adjusted EBITDA and Adjusted EBITDA margin as factors in evaluating the performance of our business.

Adjusted EBITDA and Adjusted EBITDA margin have limitations as analytical tools, and you should not consider these measures either in isolation or as a substitute for analyzing our results as reported under U.S. GAAP. Some of these limitations are:

these measures do not reflect changes in, or cash requirements for, our working capital needs;

these measures do not reflect our interest expense, or the cash requirements necessary to service interest or principal payments on our debt;

these measures do not reflect our income tax expense or the cash requirements to pay our taxes;

these measures do not reflect the cash requirements to pay dividends to stockholders of our Class A common stock and tax and other cash distributions to our non-controlling unitholders;

these measures do not reflect the cash requirements to pay RIHI and Oberndorf pursuant to the TRAs;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often require replacement in the future, and these measures do not reflect any cash requirements for such replacements;

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- although equity-based compensation is a non-cash charge, the issuance of equity-based awards may have a dilutive impact on earnings per share; and
- other companies may calculate these measures differently, so similarly named measures may not be comparable.

A reconciliation of Adjusted EBITDA to net income for our consolidated results for the three and six months ended June 30, 2017 and 2016 is set forth in the following table:

	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
	(in thousands)			
Net income	\$ 15,637	\$ 14,380	\$ 25,708	\$ 24,776
Depreciation and amortization	5,397	3,872	11,392	7,593
Interest expense	2,462	2,091	4,816	4,372
Interest income	(25)	(35)	(50)	(86)
Provision for income taxes	4,762	4,285	7,792	7,544
EBITDA	28,233	24,593	49,658	44,199
Gain on sale or disposition of assets and sublease (1)	(74)	(99)	(121)	(76)
Loss on early extinguishment of debt	—	—	—	136
Equity-based compensation expense	732	545	1,293	1,311
Public offering related expenses (2)	—	—	—	193
Acquisition related expenses (3)	274	246	832	530
Adjusted EBITDA (4)	\$ 29,165	\$ 25,285	\$ 51,662	\$ 46,293

(1) Represents gain on the sale or disposition of assets as well as the (gains) losses on the sublease of a portion of our corporate headquarters office building.

(2) Represents costs incurred for compliance services performed during the six months ended June 30, 2016 in connection with RIHI's redemption of 5,175,000 common units in RMCO during the fourth quarter of 2015 (the "Secondary Offering").

(3) Acquisition related expenses include fees incurred in connection with our acquisition and integration of certain assets of Tails, Inc. ("Tails") in October 2013, the 2016 Acquired Regions and Motto. Costs include legal, accounting and advisory fees as well as consulting fees for integration services.

(4) Below is a reconciliation of Adjusted EBITDA as previously reported to Adjusted EBITDA as currently reported:

Three	Six
Months	Months
Ended	Ended

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	June	June
	30, 2016	30, 2016
Adjusted EBITDA as previously reported	\$ 24,927	\$ 46,307
Equity-based compensation expense	545	1,311
Straight-line rent expense (a)	(187)	(411)
Severance related expenses (b)	—	(914)
Adjusted EBITDA as currently reported	\$ 25,285	\$ 46,293

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(a) Represents the charge to appropriately record rent expense on a straight-line basis over the term of the lease arrangement taking into consideration escalation in monthly cash payments.

(b) Includes severance and other related expenses due to organizational changes in our executive leadership.

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### Liquidity and Capital Resources

#### Overview of Factors Affecting Our Liquidity

Our liquidity position has been positively affected by the growth of our agent base and improving conditions in the real estate market. In this regard, our short-term liquidity position from time to time has been, and will continue to be, affected by the number of agents in the RE/MAX network. Our cash flows are primarily related to the timing of:

- (i) cash receipt of revenues;
- (ii) payment of selling, operating and administrative expenses;
- (iii) cash consideration for acquisitions and acquisition-related expenses;
- (iv) principal payments and related interest payments on our 2016 Senior Secured Credit Facility and 2013 Senior Secured Credit Facility;
- (v) dividend payments to stockholders of our Class A common stock;
- (vi) distributions and other payments to non-controlling unitholders pursuant to the terms of RMCO's fourth amended and restated limited liability company operating agreement ("the New RMCO, LLC Agreement");
- (vii) corporate tax payments paid by the Company; and
- (viii) payments to the TRA Parties pursuant to the TRAs.

We have satisfied these needs primarily through our existing cash balances, cash generated by our operations and funds available under our 2016 Senior Secured Credit Facility.

#### Financing Resources

On December 15, 2016, RE/MAX, LLC, a wholly owned subsidiary of RMCO, 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 the 2013 Senior Secured Credit Facility. The 2016 Senior Secured Credit Facility provides to RE/MAX, LLC \$235.0 million in term loans and a \$10.0 million revolving facility.

The 2016 Senior Secured Credit Facility requires RE/MAX, LLC to repay term loans and reduce revolving commitments with (i) 100.0% of proceeds of any incurrence of additional debt not permitted by the 2016 Senior Secured Credit Facility, (ii) 100.0% of proceeds of asset sales and 100.0% of amounts recovered under insurance policies, subject to certain exceptions and a reinvestment right and (iii) 50.0% of excess cash flow at the end of the applicable fiscal year if RE/MAX, LLC's total leverage ratio as defined in the 2016 Senior Secured Credit Facility is in excess of 3.25:1.00, with such percentage decreasing as RE/MAX, LLC's leverage ratio decreases. The 2013 Senior Secured Credit Facility required RE/MAX, LLC to repay term loans with 50% of excess cash flow at the end of the applicable year if its total leverage ratio as defined therein was in excess of 2.50:1.00, with such percentage decreasing as RE/MAX, LLC's leverage ratio decreased.

The 2016 Senior Secured Credit Facility is guaranteed by RMCO and RE/MAX of Western Canada (1998), LLC, a wholly owned subsidiary of RE/MAX, LLC, and is secured by a lien on substantially all of the assets of RMCO, RE/MAX, LLC and each guarantor.

Borrowings under the term loans and revolving loans accrue interest, at London Interbank Offered Rate ("LIBOR"), provided that LIBOR shall be no less than 0.75% plus a maximum applicable margin of 2.75%.

RE/MAX, LLC had entered into the 2013 Senior Secured Credit Facility, which was paid off when RE/MAX, LLC amended and restated the 2013 Senior Secured Credit Facility by entering into the 2016 Senior Secured Credit Facility, in July 2013 with JPMorgan Chase Bank, N.A., as administrative agent, and various lenders party thereto. Under the

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2013 Senior Secured Credit Facility, RE/MAX, LLC had borrowed \$230.0 million in term loans and had a revolving line of credit available of up to \$10.0 million.

The 2016 Senior Secured Credit Facility, like the 2013 Senior Secured Credit Facility, provides for customary restrictions on, among other things, additional indebtedness, liens, dispositions of property, dividends, transactions with affiliates and fundamental changes such as mergers, consolidations and liquidations. With certain exceptions, any default under any of our other agreements evidencing indebtedness in the amount of \$15.0 million or more constitutes an event of default under the 2016 Senior Secured Credit Facility. Certain of the restrictions under the 2016 Senior Secured Credit Facility are less restrictive, as compared with the comparable terms in the 2013 Senior Secured Credit Facility.

The 2016 Senior Secured Credit Facility restricts the aggregate acquisition consideration for permitted acquisitions, in a situation in which RE/MAX, LLC would not be in pro forma compliance with a 3.5:1.0 total leverage ratio (based on how such term is defined therein), to \$100.0 million in any fiscal year. The 2016 Senior Secured Credit Facility also provides for incremental facilities, subject to lender participation, as long as the total leverage ratio (calculated as net debt to EBITDA as defined therein) remains below 4.00:1.00.

As of June 30, 2017, RE/MAX, LLC had \$229.9 million of term loans outstanding, net of an unamortized discount and issuance costs, and no revolving loans outstanding under our 2016 Senior Secured Credit Facility. If any loan or other amounts are outstanding 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.

## Sources and Uses of Cash

As of June 30, 2017 and December 31, 2016, we had \$70.3 million and \$57.6 million, respectively of cash and cash equivalents, of which approximately \$14.2 million and \$11.6 million were denominated in foreign currencies, respectively.

The following table summarizes our cash flows from operating, investing, and financing activities:

	Six Months Ended		
	June 30,		
	2017	2016	Change
	(in thousands)		
Cash provided by (used in):			
Operating activities	\$ 32,941	\$ 27,032	\$ 5,909
Investing activities	(1,323)	(11,937)	10,614
Financing activities	(19,389)	(28,241)	8,852
Effect of exchange rate changes on cash	479	508	(29)
Net change in cash and cash equivalents	\$ 12,708	\$ (12,638)	\$ 25,346

## Operating Activities

During the six months ended June 30, 2017, cash provided by operating activities increased primarily as a result of an increase in Adjusted EBITDA of \$5.4 million. Also impacting cash flows from operating activities were:

the February 2016 payment of \$3.3 million to satisfy liabilities from a litigation judgment that did not recur in the current year period;

- an increase in cash paid for taxes and interest of \$2.3 million in the current period; and timing differences on various other operating assets and liabilities.

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### Investing Activities

During the six months ended June 30, 2017, cash used in investing activities decreased primarily as a result of the acquisitions of RE/MAX of New York and RE/MAX of Alaska in the first half of 2016 and a reduction in the investments in our information technology infrastructure.

### Financing Activities

During the six months ended June 30, 2017 cash used in financing activities decreased as a result of:

a decrease of \$12.7 million due to the excess cash flow prepayment made on the 2013 Senior Secured Credit Facility in March 2016 for which a similar payment was not made in 2017 pursuant to the revised terms of the 2016 Senior Secured Credit Facility; partially offset by

an increase of \$1.9 million in cash paid to Class A common stockholders and non-controlling unitholders due to our Board of Directors declaring a dividend of \$0.18 per share on all outstanding shares of Class A common stock in the first and second quarters of 2017 compared to a dividend of \$0.15 per share on all outstanding shares of Class A common stock in the first and second quarters of 2016 and an increase in tax and other distributions paid to non-controlling unitholders of \$1.3 million.

### Cash Priorities

### Liquidity

Our objective is to maintain a strong liquidity position. We have existing cash balances, cash flows from operating activities, access to our revolving line of credit and incremental facilities under our 2016 Senior Secured Credit Facility available to support the needs of our business.

### Acquisitions

As part of our growth strategy we may pursue reacquisitions of regional franchise rights in Independent Regions in the U.S. and Canada as well as additional acquisitions or investments in complementary businesses, services and technologies that would provide access to new markets or customers, or otherwise complement our existing operations. We would fund any such growth with existing cash balances, funds generated from operations and access to our revolving line of credit and incremental facilities under our 2016 Senior Secured Credit Facility.

### Capital Expenditures

The total aggregate amount paid for purchases of property and equipment and purchased and developed software was \$1.3 million and \$2.1 million during the six months ended June 30, 2017 and 2016, respectively. Amounts paid for purchases of property, equipment and software primarily related to investments in our information technology infrastructure and leasehold improvements. In order to expand our technological capabilities, we plan to continue to re-invest in our business in order to improve operational efficiencies and enhance the tools and services provided to the franchisees and agents in our network. Total capital expenditures for 2017 is expected to be between \$4.5 million and \$5.5 million.

### Dividends

Our Board of Directors declared and paid quarterly cash dividends of \$0.18 per share on all outstanding shares of Class A common stock during the first and second quarters in 2017, as disclosed in Note 4 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. On August 2, 2017, our Board of Directors declared a quarterly cash dividend of \$0.18 per share on all outstanding shares of Class A common stock, which is payable on August 30, 2017 to stockholders of record at the close of business on August 16, 2017. The declaration of additional future dividends, and, if declared, the amount of any such future dividend, will be subject to our actual future earnings and capital requirements and will be at the discretion of our Board of Directors; however, we currently intend to continue to pay a cash dividend on shares of Class A common stock on a quarterly basis.

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Distributions and Other Payments to Non-controlling Unitholders (RIHI, Inc.)

Distributions to Non-Controlling Unitholders Pursuant to the New RMCO, LLC Agreement

As authorized by the New RMCO, LLC Agreement, RMCO makes cash distributions to its unitholders, RE/MAX Holdings and RIHI, also referred to as its members. In accordance with the New RMCO, LLC Agreement, distributions are required to be made by RMCO to its members on a pro-rata basis in accordance with each members' ownership percentage in RMCO. These distributions have historically been either in the form of payments to cover its members' estimated tax liabilities, dividend payments, or payments to ensure pro-rata distributions have occurred.

As a limited liability company (treated as a partnership for income tax purposes), RMCO does not incur significant domestic federal, state or local income taxes, as these taxes are primarily the obligations of its members. RMCO is generally required to distribute cash to its members to cover each member's estimated tax liabilities, if any, with respect to their allocable share of RMCO earnings. Such distributions are required if any other distributions from RMCO (i.e., in the form of dividend payments) for the relevant period are otherwise insufficient to enable each member to cover its estimated tax liabilities.

RE/MAX Holdings' only source of cash flow from operations is in the form of distributions from RMCO. RE/MAX Holdings receives distributions from RMCO on a quarterly basis that are equal to the dividend payments RE/MAX Holdings' make to the stockholders of its Class A common stock. As a result, absent any additional distributions, RE/MAX Holdings may have insufficient funds to cover its estimated tax and TRA liabilities. Therefore, as necessary, RMCO makes a separate distribution to RE/MAX Holdings, and because all distributions must be made on a pro-rata basis, RIHI receives a separate payment to ensure such pro-rata distributions have occurred.

Throughout the year until completion of its tax returns with respect to such year, RMCO may pay required or pro-rata true-up distributions to its members, if cash is available for such purposes, with respect to actual taxable income for the year. See Note 3 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further details on distributions made by RMCO.

Payments Pursuant to the Tax Receivable Agreement

In connection with the IPO, we entered into two TRAs, which resulted in the recognition of a \$97.0 million liability as of June 30, 2017. Of the \$97.0 million liability recorded as of June 30, 2017, \$32.5 million relates to RIHI's exchange of 5,175,000 common units for shares of our Class A common stock in the fourth quarter of 2015. The liability pursuant to the TRAs will increase in the future upon future exchanges by RIHI of RMCO common units, with the increase representing 85% of the estimated future tax benefits, if any, resulting from such exchanges. We receive funding from RMCO in order to fund the payment of amounts due under the TRAs.

The actual payments, and associated tax benefits, will vary depending upon a number of factors, including the timing of exchanges by RIHI, the price of our Class A common stock at the time of such exchanges, the amount and timing of the taxable income we generate in the future and the tax rate then applicable. We expect to make additional payments of approximately \$11.4 million in 2017 related to the TRAs.

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Distributions and other payments to RIHI in the six months ended June 30, 2017 and 2016 were comprised of the following (in thousands):

	Six Months Ended June 30,	
	2017	2016
Distributions and other payments pursuant to the New RMCO, LLC Agreement:		
Required distributions for taxes and pro rata distributions as a result of distributions to RE/MAX		
Holdings in order to satisfy its estimated tax liabilities	\$ 6,450	\$ 5,144
Dividend distributions	4,521	3,768
Total distributions to RIHI	10,971	8,912
Payments pursuant to the TRAs	1,931	1,344
Total distributions and TRA payments to RIHI	\$ 12,902	\$ 10,256
Commitments and Contingencies		

Except for the outstanding lease guarantees acquired in connection with the dispositions of our previously owned brokerages and the ongoing litigation concerning our acquisition of the net assets of Tails as disclosed in Note 13 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q, our management does not believe there are any other litigation matters involving us that could result, individually or in the aggregate, in a material adverse effect on our financial condition, results of operations and cash flows.

## Off Balance Sheet Arrangements

We have no material off balance sheet arrangements as of June 30, 2017.

## Critical Accounting Judgments and Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts and disclosures in the financial statements and accompanying notes. Actual results could differ from those estimates. Our Critical Accounting Judgments and Estimates disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Judgments and Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2016, for which there were no material changes, included:

Goodwill

Franchise Agreements and Other Intangible Assets

Purchase Accounting for Acquisitions

Contingent Consideration

Income Tax Accounting

Payments Pursuant to the TRAs

General Litigation Matters

New Accounting Pronouncements

New Accounting Pronouncements Not Yet Adopted

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 us 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

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financial statements. We have not yet determined the effect of the standard on our 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. We will adopt this standard on January 1, 2018. We expect the adoption of the new guidance to change the timing of recognition of franchise sales and franchise renewal revenue. Currently, we recognize 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. We currently anticipate that we will utilize the full retrospective transition method, however, this expectation may change following the completion of our evaluation of the impact of this guidance on our consolidated financial statements and related disclosures.

Other than the items noted above, there have been no new accounting pronouncements not yet effective that we believe have a significant impact, or potential significant impact, to our consolidated financial statements.

See Note 2 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for recently issued accounting pronouncements applicable to us and the effect of those standards on our consolidated financial statements and related disclosures.

### Item 3. Quantitative and Qualitative Disclosures About Market Risks

We have operations both within the U.S. and globally and we are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate, foreign exchange and inflation risks, as well as risks relating to changes in the general economic conditions in the countries where we conduct business. To reduce certain of these risks, we monitor the financial condition of our large franchisees. In addition, our investment strategy has been to invest in financial instruments that are highly liquid and mature within three months from the date of purchase. We do not currently use derivative instruments to mitigate the impact of our market risk exposures nor do we use derivatives for trading or speculative purposes.

#### Interest Rate Risk

We are subject to interest rate risk in connection with borrowings under our 2016 Senior Secured Credit Facility which bear interest at variable rates. At June 30, 2017, \$233.2 million in term loans were outstanding under our 2016 Senior Secured Credit Facility. As of June 30, 2017, the undrawn borrowing availability under the revolving line of credit under our 2016 Senior Secured Credit Facility was \$10.0 million. We currently do not engage in any interest rate hedging activity, but given our variable rate borrowings, we monitor interest rates and if appropriate, may engage in hedging activity prospectively. The interest rate on our 2016 Senior Secured Credit Facility entered into in December 2016 is currently based on LIBOR, subject to a floor of 0.75%, plus an applicable margin of 2.75%. As of June 30, 2017, the interest rate was 4.05%. If LIBOR rises, then each hypothetical 0.125% increase would result in additional annual interest expense of \$0.3 million.

#### Currency Risk

We have a network of global franchisees in over 100 countries and territories. Fees imposed on independent franchisees and agents in foreign countries are charged in the local currency. Fluctuations in exchange rates of the U.S. dollar against foreign currencies and cash held in foreign currencies can result, and have resulted, in fluctuations in our operating income and foreign exchange transaction gains and losses, with the Canadian dollar representing the

most significant exposure. We currently do not engage in any foreign exchange hedging activity but may do so in the future. During the three and six months ended June 30, 2017, a hypothetical 5% strengthening/weakening in the value of the U.S. dollar compared to the Canadian dollar would have resulted in a decrease/increase to pre-tax income of approximately \$0.3 million and \$0.5 million, respectively.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our principal executive officer and our principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2017. Based on the evaluation of our disclosure controls and procedures as of June 30, 2017, our principal executive officer and principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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PART II. – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time we are involved in litigation, claims and other proceedings relating to the conduct of our business. Litigation and other disputes are inherently unpredictable and subject to substantial uncertainties and unfavorable resolutions could occur. We do not believe we have any currently pending litigation of which the outcome will have a material adverse effect on our business, financial condition or operations; however, litigation and other claims and regulatory proceedings against us could result in unexpected expenses and liability and could also materially adversely affect our operations and our reputation.

Item 1A. Risk Factors

For a discussion of our potential risks and uncertainties, please see “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (the “2016 Annual Report”). There have been no material changes in our risk factors as disclosed in our 2016 Annual Report.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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## Item 6. Exhibits

Exhibit No.	Exhibit Description	Form	File Number	Date of First Filing	Exhibit Number	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation	10-Q	001-36101	11/14/2013	3.1	
3.2	Bylaws of RE/MAX Holdings, Inc.	10-Q	001-36101	11/14/2013	3.2	
4.1	Form of RE/MAX Holdings, Inc.'s Class A common stock certificate.	S-1	333-190699	9/27/2013	4.1	
31.1	Certification of Co-Chief Executive Officer, Chairman and Co-Founder pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.					X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.					X
32.1	Certification of Co-Chief Executive Officer, Chairman and Co-Founder and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X

101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X
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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RE/MAX Holdings, Inc.

(Registrant)

Date: August 4, 2017 By: /s/ David L. Liniger  
David L. Liniger

Co-Chief Executive Officer, Chairman and Co-Founder  
(Principal Executive Officer)

Date: August 4, 2017 By: /s/ Karri R. Callahan  
Karri R. Callahan

Chief Financial Officer

(Principal Financial Officer)

Date: August 4, 2017 By: /s/ Brett A. Ritchie  
Brett A. Ritchie

Chief Accounting Officer

(Principal Accounting Officer)