

RE/MAX Holdings, Inc.  
Form 10-Q  
November 14, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2013.

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 001-36101

RE/MAX Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware	80-0937145
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification Number)
5075 South Syracuse Street	80237

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Denver, Colorado  
(Address of principal executive offices) (Zip Code)

(303) 770-5531  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

Yes  No

The number of outstanding shares of the registrant's Class A common stock, par value \$0.0001 per share, and Class B common stock, par value \$0.0001, as of November 13, 2013 was 11,607,971 and 1, respectively.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

RE/MAX HOLDINGS, INC.

Condensed Balance Sheet

(Unaudited)

	September 30, 2013
<b>Assets</b>	
Cash	\$ 1
<b>Total assets</b>	<b>\$ 1</b>
Commitments and contingencies	
<b>Stockholder's equity</b>	
Common stock, \$0.01 par value, 100 shares authorized, 1 share issued and outstanding as of September 30, 2013	\$
Additional paid-in capital	1
<b>Total stockholder's equity</b>	<b>\$ 1</b>

See notes to unaudited condensed financial statements





RE/MAX HOLDINGS, INC.

Condensed Statement of Income (Loss)

(Unaudited)

	For the period from July 8, 2013 to September 30, 2013
Total revenue	\$
Total operating expenses	
Operating income	
Total other expenses, net	
Income before provision for income taxes	
Provision for income taxes	
Net income	\$
Less: Net income attributable to non-controlling interest	
Net income attributable to RE/MAX Holdings, Inc.	\$
Net income attributable to RE/MAX Holdings, Inc. per Class A common share	
Basic	\$
Diluted	\$
Weighted average shares of Class A common stock outstanding	
Basic	
Diluted	

See notes to unaudited condensed financial statements

RE/MAX HOLDINGS, INC.

Condensed Statement of Cash Flows

(Unaudited)

For the period from  
July 8, 2013 to  
September 30,  
2013

Cash flows provided by (used in) operating activities:	\$	
Cash flows provided by (used in) investing activities:		
Cash flows from financing activities:		
Proceeds from issuance of common stock		1
Net cash provided by financing activities		1
Effect of exchange rate changes on cash		
Net increase in cash and cash equivalents		1
Cash and cash equivalents, beginning of period		
Cash and cash equivalents, end of period	\$	1





RE/MAX HOLDINGS, INC.

Notes to Condensed Financial Statements

(Unaudited)

## 1. Organization

RE/MAX Holdings, Inc. (the Corporation) was formed as a Delaware corporation on June 25, 2013 and was capitalized on July 8, 2013. On October 7, 2013, the Corporation completed an initial public offering (the IPO) of 11,500,000 shares of Class A common stock at a public offering price of \$22.00 per share (IPO). A portion of the proceeds received by the Corporation during the IPO was used to acquire the business assets of HBN, Inc. (HBN) and Tails, Inc. (Tails) and the remaining proceeds were used to purchase common membership interests in RMCO, LLC (RMCO) following the reorganization transactions described in Note 5, Subsequent Events. After the completion of the IPO, the Corporation's sole asset is now 39.56% of the common membership units in RMCO. The Corporation's only business is to act as the sole manager of RMCO and, in that capacity, the Corporation operates and controls all of the business and affairs of RMCO. As a result, on October 8, 2013, the Corporation began to consolidate the financial results of RMCO and its subsidiaries. The Corporation's only source of cash flow from operations will be distributions from RMCO and management fees pursuant to a management services agreement between the Corporation and RMCO. As of September 30, 2013, the Corporation had not engaged in any business or other activities except in connection with its formation and the negotiation of the acquisition of the business assets of HBN and Tails.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The accompanying consolidated balance sheet, statement of income (loss) and statement of cash flows have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information.

Accordingly, these financial statements do not include all of the information required by GAAP or Securities and Exchange Commission rules and regulations for complete financial statements. In the opinion of management these financial statements reflect all adjustments necessary for a fair presentation of the balance sheet and results of operations for the interim period presented.

## 3. Stockholder's Equity

As of September 30, 2013, the Corporation was authorized to issue 100 shares of common stock, par value \$0.01 per share (Common Stock). Under the Corporation's certificate of incorporation as in effect as of June 25, 2013, all shares of Common Stock were identical. On July 8, 2013, the Corporation issued one share of Common Stock in exchange for \$1.00.

In connection with the IPO, the Corporation amended its charter to authorize capital stock consisting of 180,000,000 shares of Class A common stock, par value \$0.0001 per share (Class A common stock), 1,000 shares of Class B

common stock, par value \$0.0001 per share ( Class B common stock ), and 10,000,000 shares of preferred stock, par value \$0.0001 per share. Each share of Class A common stock entitles its holder to one vote on all matters to be voted on by stockholders. The shares of Class B common stock have no economic rights but entitle the holder, without regard to the number of shares of Class B common stock held, to a number of votes on matters presented to stockholders of the Corporation that is equal to two times the aggregate number of common units of RMCO held by such holder.

The voting rights of the Class B common stock will be reduced to one times the aggregate number of RMCO common units held by a holder from and after any of the following events: (i) the fifth anniversary of this initial public offering; (ii) the death of our Chairman and Founder David L. Liniger; or (iii) at such time as RIHI, Inc. s ( RIHI ) ownership of RMCO common units is below 30% of the number of RMCO common units held by RIHI immediately after this offering. Additionally, in the event that any common units of RMCO are validly transferred in accordance with the terms of the Fourth Amended and Restated RMCO, LLC agreement, the voting rights of the corresponding shares of Class B common stock to be transferred will be reduced to one times the aggregate number of RMCO common units held by such transferee, unless the transferee is David Liniger.

Immediately following the IPO, there were 11,500,000 shares of the Corporation s Class A common stock issued and outstanding and one share of the Corporation s Class B common stock issued and outstanding. Additionally, on October 1, 2013, the Corporation granted 107,971 restricted stock units to certain employees that vested upon grant but for which the underlying shares will not be issued until May 20, 2014. See Note 5, Subsequent Events.

RE/MAX HOLDINGS, INC.

Notes to Condensed Financial Statements

(Unaudited)

4. Net Income per Share

The Corporation's net income and weighted average shares outstanding for the period from July 8, 2013 to September 30, 2013 consists of the following:

	For the period from July 8, 2013 to September 30, 2013
Net income attributable to RE/MAX Holdings, Inc.	\$
Weighted-average shares outstanding:	
Basic	
Diluted	

The Corporation did not have any income attributable to the holders of Class A common stock from its inception through September 30, 2013.

5. Subsequent Events

On October 7, 2013, the Corporation completed the IPO of 11,500,000 shares of Class A common stock at a public offering price of \$22.00 per share. Certain agreements and transactions associated with the IPO are set forth below:

Reorganization Transactions

In connection with the completion of the IPO, RMCO's Third Amended and Restated Limited Liability Company Agreement, dated as of February 1, 2013 was amended and restated to, among other things, modify its capital structure as follows (collectively referred to as, the Reorganization Transactions):

RMCO's existing Class A preferred membership interest was converted into (i) a new preferred membership interest that reflected RMCO's preferred equity holder's liquidation preference of \$49,850,000 and (ii) a common interest that reflected RMCO's preferred equity holders pro-rata share of the residual equity value of RMCO;

RMCO effectuated a 25 for 1 split of the then existing number of outstanding common units so that one common unit of RMCO could be acquired with the net proceeds received in the Corporation's IPO from the sale of one share of the Corporation's Class A common stock, after the deduction of underwriting discounts and commissions;



The Corporation became a member and the sole manager of RMCO following the purchase of common units of RMCO, as described below;

Previously outstanding and unexercised options to acquire common units of RMCO were split 25 for 1 and then substituted for 787,500 options to acquire shares of the Corporation's Class A common stock; and

Unit holders of RMCO (other than the Corporation) were granted the right to redeem each of their common units of RMCO for, at the Corporation's option, newly issued shares of Class A common stock of the Corporation on a one-for-one basis or for a cash payment equal to the market price of one share of the Corporation's Class A common stock.

#### Initial Public Offering

The IPO closed on October 7, 2013, and the Corporation raised a total of \$253,000,000 in gross proceeds from the sale of 11,500,000 shares of Class A common stock at \$22.00 per share, or \$224,922,500 in net proceeds after deducting \$17,077,500 of underwriting discounts and commissions and \$11,000,000 of estimated offering expenses, which were incurred by RMCO in connection with the IPO.

The Corporation used \$27,305,000 of the proceeds from the IPO to reacquire regional RE/MAX franchise rights in the Southwest and Central Atlantic regions of the U.S. through the acquisitions of the business assets of HBN and Tails. Immediately following the acquisitions of the business assets of HBN and Tails, the Corporation contributed such assets to RMCO in exchange for 1,330,977 common units of RMCO, reflecting the \$22.00 per share IPO price net of underwriters' commissions. The Corporation then used the remaining \$208,617,500 of the net proceeds received from the IPO to purchase 10,169,023 common units in RMCO. See Note 12, Subsequent Events of RMCO's unaudited condensed consolidated financial statements for more information regarding RMCO's use of proceeds.

RE/MAX HOLDINGS, INC.

Notes to Condensed Financial Statements

(Unaudited)

Prior to the IPO, the Corporation did not engage in any business or activities except in connection with its formation and the negotiation of the acquisition of the business assets of HBN and Tails. The Corporation's financial position, results of operations and cash flows included in the unaudited condensed financial statements do not reflect the transactions associated with the Corporation's IPO. Subsequent to the IPO and related Reorganization Transactions, the Corporation will consolidate the financial results of RMCO and its subsidiaries, and the ownership interest of the other members of RMCO will be reflected as a non-controlling interest in the Corporation's consolidated financial statements beginning October 8, 2013.

#### Tax Receivable Agreements

The Corporation entered into separate tax receivable agreements with the historical RMCO's owners, Weston Presidio V, L.P. ( Weston Presidio and, together with RIHI, the Historical Owners ) and RIHI that will provide for the payment by the Corporation to the Historical Owners of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the Corporation actually realizes, or in some circumstances is deemed to realize, as a result of an expected increase in its share of tax basis in RMCO's tangible and intangible assets, including increases attributable to payments made under the tax receivable agreements, and deductions attributable to imputed and actual interest that accrues in respect of such payments. These tax benefit payments are not necessarily conditioned upon one or more of the Historical Owners maintaining a continued ownership interest in either RMCO or the Corporation. The Corporation expects to benefit from the remaining 15% of cash savings, if any, that it may actually realize. The substantive provisions of the separate tax receivable agreements that the Corporation entered into with each of its Historical Owners were substantially identical.

#### Management Services Agreement

In connection with the completion of the IPO, the Corporation entered into a management services agreement with RMCO pursuant to which the Corporation agreed to provide certain specific management services to RMCO. In exchange for the services provided, RMCO will reimburse the Corporation for compensation and other expenses of the Corporation's officers and employees and for certain out-of-pocket costs. RMCO will also provide administrative and support services to the Corporation, such as office facilities, equipment, supplies, payroll and accounting and financial reporting. The management services agreement also provides that employees of the Corporation may participate in RMCO's benefit plans, and that RMCO employees may participate in the Corporation's equity incentive plan. RMCO will indemnify the Corporation for any losses arising from the Corporation's performance under the management services agreement, except that the Corporation will indemnify RMCO for any losses caused by willful misconduct or gross negligence.

#### Equity-Based Awards

On October 1, 2013 the Corporation granted 107,971 restricted stock units at a value of \$22.00 per unit to certain employees in connection with the Corporation's IPO that vested upon grant, but for which the underlying shares will not be issued until May 20, 2014. Non-cash compensation expense of approximately \$2,051,000 associated with these restricted stock units will be recognized during the fourth quarter of 2013, which reflects a discount for the lack of marketability of the restricted stock units.

In addition, on October 1, 2013, the Corporation granted 115,699 restricted stock units at a value of \$22.00 per unit to its officers and employees, which will vest over a three year period and 18,184 restricted stock units at a value of

\$22.00 per unit to its directors, which will vest over a one year period. As a result of the vesting requirements associated with these restricted stock units, non-cash compensation expense of approximately \$264,000 is expected to be recognized in the fourth quarter of 2013 and approximately \$1,029,000, \$754,000 and \$691,000 of non-cash compensation expense is expected to be recognized during 2014, 2015, and 2016, respectively.

RMCO, LLC  
AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

(Amounts in thousands, except units)

	September 30, 2013	December 31, 2012
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 73,482	\$ 68,501
Escrow cash restricted	912	780
Accounts and notes receivable, current portion, less allowances of \$4,219 and \$3,913, respectively	16,385	15,034
Accounts receivable from affiliates	116	55
Other current assets	2,733	2,707
<b>Total current assets</b>	<b>93,628</b>	<b>87,077</b>
Property and equipment, net of accumulated depreciation of \$20,996 and \$20,426, respectively	2,528	3,332
Franchise agreements, net of accumulated amortization of \$72,395 and \$61,489, respectively	69,439	78,338
Other intangible assets, net of accumulated amortization of \$7,586 and \$7,053, respectively	2,511	2,821
Goodwill	70,902	71,039
Investments in equity method investees	3,710	3,900
Debt issuance costs, net	2,424	2,930
Other assets	6,820	2,075
<b>Total assets</b>	<b>\$ 251,962</b>	<b>\$ 251,512</b>
<b>Liabilities, Redeemable Preferred Units and Members Deficit</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 840	\$ 530
Accounts payable to affiliates	2,397	2,385
Escrow liabilities	912	780
Accrued liabilities	10,188	9,397
Income taxes and tax distribution payables	7,266	400
Deferred revenue and deposits	15,524	15,996
Current portion of debt	17,300	10,600
Other current liabilities	116	234
<b>Total current liabilities</b>	<b>54,543</b>	<b>40,322</b>

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Debt, net of current portion	211,657	221,726
Deferred revenue, net of current portion	292	514
Other liabilities, net of current portion	8,004	7,319
Total liabilities	274,496	269,881
Commitments and contingencies		
Redeemable preferred units:		
Class A Preferred Units, at estimated redemption value (no par value, 150,000 units authorized, issued and outstanding as of September 30, 2013 and December 31, 2012; liquidation preference of \$49,850 and \$49,500 as of September 30, 2013 and December 31, 2012, respectively)	132,350	78,400
Members deficit:		
Class B Common Units (no par value, 900,000 units authorized, 847,500 units issued and outstanding as of September 30, 2013 and December 31, 2012)	(156,447)	(98,516)
Accumulated other comprehensive income	1,563	1,747
Total members deficit	(154,884)	(96,769)
Total liabilities, redeemable preferred units and members deficit	\$ 251,962	\$ 251,512

See notes to unaudited condensed consolidated financial statements

## RMCO, LLC

## AND SUBSIDIARIES

## Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(Unaudited)

(Amounts in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
<b>Revenue:</b>				
Continuing franchise fees	\$ 16,093	\$ 14,418	\$ 47,037	\$ 42,293
Annual dues	7,455	7,208	22,052	21,376
Broker fees	7,204	5,685	18,704	14,801
Franchise sales and other franchise revenue	5,076	6,806	17,823	17,806
Brokerage revenue	4,484	4,312	13,012	12,321
Total revenue	40,312	38,429	118,628	108,597
<b>Operating expenses:</b>				
Selling, operating and administrative expenses	22,105	20,614	70,088	63,828
Depreciation and amortization	3,656	2,788	11,088	9,231
(Gain) loss on sale of assets	(3)	(2)	41	(20)
Total operating expenses	25,758	23,400	81,217	73,039
Operating income	14,554	15,029	37,411	35,558
<b>Other expenses, net:</b>				
Interest expense	(5,128)	(2,913)	(12,053)	(8,774)
Interest income	82	78	224	207
Foreign currency transaction gains (losses), net	281	394	(135)	358
Loss on early extinguishment of debt	(1,664)		(1,798)	(136)
Equity in earnings of investees	274	398	736	712
Total other expenses, net	(6,155)	(2,043)	(13,026)	(7,633)
Income before provision for income taxes	8,399	12,986	24,385	27,925
Provision for income taxes	(702)	(636)	(1,733)	(1,740)
Net income	7,697	12,350	22,652	26,185
Accretion of Class A Preferred Units to estimated redemption amounts	(12,050)	5,734	67,622	12,565
Net income (loss) related to RMCO, LLC Class B Common Unitholders	\$ 19,747	\$ 6,616	\$ (44,970)	\$ 13,620
<b>Other comprehensive income (loss):</b>				
Change in cumulative translation adjustment	\$ 114	\$ 15	\$ (184)	\$ 98
Other comprehensive income (loss)	114	15	(184)	98
	\$ 19,861	\$ 6,631	\$ (45,154)	\$ 13,718

Total comprehensive income (loss) related to RMCO,  
LLC Class B Common Unitholders

See notes to unaudited condensed consolidated financial statements

## RMCO, LLC AND SUBSIDIARIES

## Condensed Consolidated Statement of Redeemable Preferred Units and Members Deficit

(Unaudited)

(Amounts in thousands, except units)

	Redeemable Class A Preferred Units		Class B Common Units		Accumulated other comprehensive income (loss)	Total members deficit
	Units	Amount	Units	Amount		
Balances, January 1, 2013	150,000	\$ 78,400	847,500	\$ (98,516)	\$ 1,747	\$ (96,769)
Member distributions paid and payable		(13,672)		(13,662)		(13,662)
Equity-based compensation awards issued				701		701
Accretion of Class A Preferred Units to estimated redemption amounts		67,622				
Net income (loss) related to RMCO, LLC Class B Common Unitholders				(44,970)		(44,970)
Change in accumulated other comprehensive income (loss)					(184)	(184)
Balances, September 30, 2013	150,000	\$ 132,350	847,500	\$ (156,447)	\$ 1,563	\$ (154,884)





See notes to unaudited condensed consolidated financial statements

## RMCO, LLC

## AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

(Amounts in thousands)

	Nine Months ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 22,652	\$ 26,185
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,088	9,231
Bad debt expense	289	479
Loss on early extinguishment of debt	1,798	136
Equity-based compensation	701	
Non-cash interest expense	723	700
Other	232	(267)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(1,678)	(737)
Advances to affiliates	(126)	(86)
Other current and noncurrent assets	(30)	(458)
Current and noncurrent liabilities	1,927	1,819
Deferred revenue	(686)	61
Net cash provided by operating activities	36,890	37,063
Cash flows from investing activities:		
Purchases of property, equipment and software	(676)	(1,453)
Proceeds from sale of property and equipment	8	32
Capitalization of trademark costs	(174)	(166)
Net cash used in investing activities	(842)	(1,587)
Cash flows from financing activities:		
Proceeds from issuance of debt	230,000	
Payments on debt	(234,083)	(7,736)
Debt issuance costs	(1,301)	
Member distributions	(20,684)	(9,530)
Deferred offering costs	(4,816)	
Payments on capital lease obligations	(211)	(243)
Net cash used in financing activities	(31,095)	(17,509)
Effect of exchange rate changes on cash	28	85
Net increase in cash and cash equivalents	4,981	18,052
Cash and cash equivalents, beginning of year	68,501	38,611

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Cash and cash equivalents, end of year	\$ 73,482	\$ 56,663
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 11,443	\$ 8,049
Cash paid for income taxes	1,632	1,579
Schedule of noncash investing and financing activities:		
Capital leases for property and equipment	\$ 236	\$ 16
Member distributions payable	6,650	

See notes to unaudited condensed consolidated financial statements

RMCO, LLC

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(1) Business and Basis of Presentation

Business

RMCO, LLC (a Delaware limited liability company) and subsidiaries (collectively, the Company or RMCO) are one of the world's leading franchisors of residential and commercial real estate brokerage services throughout the United States ( U.S. ) and globally. The Company also operates real estate brokerage services businesses in the U.S. The Company's revenue is derived from continuing franchise fees, annual dues from agents, broker fees, franchise sales and other franchise revenue (which consist of fees from initial sales of and renewals of franchises, regional franchise fees, preferred marketing arrangements, approved supplier programs and event-based revenue from training and other programs) and brokerage revenue (which consists of fees assessed to the Company's owned brokerages for services provided to their affiliated real estate agents). A franchise grants the broker-owner a license to use the RE/MAX brand, trademark, promotional and operating materials and concepts.

The Company reports its operations in two reportable segments: (1) Real Estate Franchise Services and (2) Brokerage and Other. The Company's Real Estate Franchise Services reportable segment comprises the operations of the Company's owned and independent global franchising operations under the RE/MAX brand name. The Company's Brokerage and Other reportable segment includes the Company's brokerage services business, and reflects the elimination of intersegment revenue and other consolidation entries as well as corporate-wide professional services expenses.

RE/MAX Holdings, Inc. was formed as a Delaware corporation on June 25, 2013 and was capitalized on July 8, 2013. As of September 30, 2013, RE/MAX Holdings, Inc. had not engaged in any business or activities except in connection with its formation and the negotiation of the acquisition of the business assets of HBN, Inc. ( HBN ) and Tails, Inc. ( Tails ). On October 1, 2013, the U.S. Securities and Exchange Commission declared effective a registration statement relating to shares of Class A common stock of RE/MAX Holdings, Inc. to be offered and sold in an initial public offering (the IPO ). On October 7, 2013, RE/MAX Holdings, Inc. completed the IPO of 11,500,000 shares of Class A common stock at a public offering price of at a price of \$22.00 per share. RE/MAX Holdings, Inc. used a portion of the proceeds received from the IPO to acquire the business assets of HBN and Tails and contributed these assets to RMCO in exchange for common units in RMCO. The remaining proceeds received by RE/MAX Holdings, Inc. were used to purchase common membership interests in RMCO following the RMCO reorganization transactions as described in Note 12, Subsequent Events. As a result, RE/MAX Holdings, Inc. became a member and sole manager of the Company and, in that capacity, operates and controls all of the business and affairs of the Company. Subsequent to the closing of the IPO, the results of the Company will be included in the consolidated financial statements of RE/MAX Holdings, Inc.

Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited and comprise the condensed consolidated financial statements of the Company and 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 the Company and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

In the opinion of management, the accompanying condensed consolidated financial statements reflect all normal and recurring adjustments necessary to present fairly the Company's financial position as of September 30, 2013, the results of its operations for the three and nine months ended September 30, 2013 and 2012, cash flows for the nine months ended September 30, 2013 and 2012 and changes in redeemable preferred units and members' deficit for the nine months ended September 30, 2013. Interim results may not be indicative of full year performance.

RMCO, LLC

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

#### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas in which management uses assumptions include, among other things, the establishment of the allowances for doubtful trade accounts and notes receivable, the determination of the estimated lives of intangible assets, estimates used to calculate unit-based compensation expense, the estimates of the fair value of reporting units used in the annual assessment of goodwill and the fair value of assets acquired. Actual results could differ from these estimates.

#### Deferred offering costs

Through September 30, 2013, the Company incurred approximately \$4,816,000 in costs related to the IPO. These costs have been deferred and were recorded as a reduction to the proceeds received from the IPO at the time of closing, which occurred on October 7, 2013. Deferred offering costs are included in Other assets in the accompanying Condensed Consolidated Balance Sheets. No costs were deferred as of December 31, 2012.

#### Recent Accounting Pronouncements

Under the Jumpstart Our Business Startups Act ( JOBS Act ), RE/MAX Holdings, Inc., including its subsidiaries, meets the definition of an emerging growth company. RE/MAX Holdings, Inc. and the Company have irrevocably elected to opt out of the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act.

In March 2013, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update (ASU) No. 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (ASU 2013-05). This amendment clarifies the applicable guidance for the release of cumulative translation adjustment into net earnings. When an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity, the entity is required to apply the guidance in FASB Accounting Standards Codification ( ASC ) Topic 830-30, Translation of Financial Statements, to release any related cumulative translation adjustment into net earnings. ASU 2013-05 is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

Effective January 1, 2013, the Company adopted ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02). The adoption of ASU 2013-02 concerns only presentation and disclosure and did not have an impact on the Company's consolidated financial position or results of operations.

(2) Acquisitions

Acquisition of RE/MAX of Texas

Effective December 31, 2012, the Company acquired certain assets of RE/MAX/KEMCO Partnership L.P. d/b/a RE/MAX of Texas ( RE/MAX of Texas ), including the regional franchise agreements issued by the Company permitting the sale of RE/MAX franchises in the state of Texas. The Company acquired these assets in order to expand its owned and operated regional franchising operations. The purchase price was \$45,500,000 and was paid in cash using proceeds from borrowings. The assets acquired constitute a business that was accounted for using the fair value acquisition method. The total purchase price was allocated to the assets acquired based on their estimated fair values. The excess of the total purchase price over the fair value of the identifiable assets acquired was recorded as goodwill. The goodwill recognized for RE/MAX of Texas is attributable to expected synergies and projected long-term revenue growth and relates entirely to the Real Estate Franchise Services segment.



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## Purchase Price Allocation

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

Accounts and notes receivable, net	\$ 122
Franchise agreements	15,200
Goodwill	30,178
Total purchase price	\$ 45,500

The valuation of acquired regional franchise agreements was derived using primarily unobservable Level 3 inputs, which require significant management judgment and estimation. The regional franchise agreements acquired were valued using an income approach and are being amortized over the remaining contractual term of approximately four years using the straight-line method. For the remaining assets acquired, fair value approximated carrying value.

## Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information reflects the consolidated results of operations of the Company as if the acquisition of RE/MAX of Texas had occurred on January 1, 2012. The historical financial information has been adjusted to give effect to events that are (1) directly attributed to the acquisition, (2) factually supportable and (3) expected to have a continuing impact on the combined results. Such items include interest expense related to debt issued to fund the acquisition as well as additional amortization expense associated with the valuation of the acquired franchise agreement. 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 acquisition had actually occurred on that date, nor of the results that may be obtained in the future.

	Unaudited Nine month period ended September 30, 2012 (in thousands)
Total revenue \$	115,261
Net income	30,017

As described in Note 12, Subsequent Events, in connection with the IPO, on October 7, 2013, RE/MAX Holdings, Inc. acquired the business assets of HBN and Tails for \$27,305,000 and contributed these assets to RMCO in

exchange for 1,330,977 common units of RMCO valued at \$27,305,000.

### (3) Intangible Assets and Goodwill

The following table provides the components of the Company's intangible assets (in thousands):

	September 30, 2013			December 31, 2012		
	Initial Cost	Accumulated Amortization	Net Balance	Initial Cost	Accumulated Amortization	Net Balance
Franchise agreements	\$ 141,834	\$ (72,395)	\$ 69,439	\$ 139,827	\$ (61,489)	\$ 78,338
Other intangibles:						
Software	\$ 7,222	\$ (6,350)	\$ 872	\$ 7,158	\$ (5,942)	\$ 1,216
Trademarks	2,875	(1,236)	1,639	2,716	(1,111)	1,605
Total other intangible assets	\$ 10,097	\$ (7,586)	\$ 2,511	\$ 9,874	\$ (7,053)	\$ 2,821

Amortization expense for the three month periods ended September 30, 2013 and 2012 was \$3,141,000 and \$2,192,000, respectively. Amortization expense for the nine month periods ended September 30, 2013 and 2012 was \$9,431,000 and \$7,369,000, respectively.

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Based on the Company's amortizable intangible assets as of September 30, 2013, the Company expects related amortization expense for the remainder of 2013, the four succeeding years and thereafter to approximate \$3,142,000, \$12,473,000, \$12,262,000, \$12,024,000, \$8,162,000 and \$23,823,000, respectively.

The Company performs its annual impairment analysis of goodwill as of August 31 each year or more often if there are indicators of impairment present. The Company tests each reporting unit for goodwill impairment. Reporting units are driven by the level at which management reviews operating results and are one level below the operating segment.

The Company's impairment assessment begins with a qualitative assessment to determine if it is more likely than not that a reporting unit's fair value is less than the carrying amount. The initial qualitative assessment includes comparing the overall financial performance of the reporting units against the planned results as well as other factors which might indicate that the reporting unit's value has declined since the last assessment date. If it is determined in the qualitative assessment that it is more likely than not that the fair value of a reporting unit is less than its carrying value, then the standard two-step quantitative impairment test is performed. The first step of the quantitative impairment test consists of comparing the estimated fair value of each reporting unit with its carrying amount, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, then it is not considered impaired and no further analysis is required. If step one indicates that the estimated fair value of a reporting unit is less than its carrying value, then impairment potentially exists and the second step is performed to measure the amount of goodwill impairment. Goodwill impairment exists when the estimated implied fair value of a reporting unit's goodwill is less than its carrying value.

The Company determined the fair value of its reporting units utilizing the Company's best estimate of future revenue, operating expenses, cash flows, market and general economic conditions as well as assumptions that it believes marketplace participants would utilize, including discount rates, cost of capital, and long term growth rates as well as all other factors in its analyses. As a result of the first step of the Company's goodwill impairment test as of August 31, 2013, the fair value of the Company's reporting units significantly exceeded their carrying value. Thus, no indicators of impairment existed.

Amounts recorded as goodwill in the Company's accompanying Condensed Consolidated Balance Sheets are attributable to the Real Estate Franchise Services reportable segment. The following table presents changes to goodwill for the nine months ended September 30, 2013 (in thousands):

	Real Estate Franchise Services
Balance, January 1, 2013	\$ 71,039
Effect of changes in foreign currency exchange rates	(137)

Balance, September 30, 2013	\$ 70,902
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(4) Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	September 30, 2013	December 31, 2012
Accrued payroll and related employee costs	\$ 5,098	\$ 4,542
Accrued taxes	1,197	1,609
Accrued professional fees	1,948	776
Lease-related accruals	750	693
Other	1,195	1,777
	\$ 10,188	\$ 9,397

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## (5) Debt

Debt consists of the following (in thousands):

	September 30, 2013	December 31, 2012
2013 Senior Secured Credit Facility, principal of \$575 payable quarterly, matures in July 2020, net of unamortized discount of \$468 as of September 30, 2013	\$ 228,957	\$
2010 Senior Secured Credit Facility, principal of \$650 payable quarterly, matures in April 2016, net of unamortized discount of \$1,192 as of December 31, 2012		232,326
Less current portion	(17,300)	(10,600)
	\$ 211,657	\$ 221,726

Maturities of debt are as follows (in thousands):

As of September 30, 2013:	
Remainder of 2013	\$ 575
2014	17,300
2015	2,300
2016	2,300
2017	2,300
Thereafter	204,650
	\$ 229,425

On April 16, 2010, the Company entered into a credit agreement with several lenders and administered by a bank, collectively referred to herein as The 2010 Senior Secured Credit Facility. The 2010 Senior Secured Credit Facility consisted of a \$215,000,000 term loan facility and a \$10,000,000 revolving loan facility.

On December 31, 2012, the 2010 Senior Secured Credit Facility was amended providing for an additional term loan in an aggregate principal amount equal to \$45,000,000. The proceeds were used to fund the acquisition of certain assets of RE/MAX of Texas. See Note 2, Acquisition, for additional disclosures regarding this acquisition.

On July 31, 2013, the Company entered into a new credit agreement with several lenders and administered by a bank, referred to herein as the 2013 Senior Secured Credit Facility. In connection therewith, proceeds received were used to

re-pay existing indebtedness pursuant to the Company's 2010 Senior Secured Credit Facility. The 2013 Senior Secured Credit Facility consists of a \$230,000,000 term loan facility and a \$10,000,000 revolving loan facility. The proceeds provided by these term loans were used to refinance and repay existing indebtedness and for working capital, capital expenditures, acquisitions and general corporate purposes. Interest rates with respect to the term and revolving loans are based, at the Company's option, on (a) adjusted LIBOR, provided that LIBOR shall be no less than 1% plus a maximum applicable margin of 3% or (b) ABR, provided that ABR shall be no less than 2%, which is equal to the greater of (1) JPMorgan Chase Bank, N.A.'s prime rate; (2) the Federal Funds Effective Rate plus 0.5% or (3) calculated Eurodollar Rate plus 1.0%, plus a maximum applicable margin of 2%. The applicable margin will be adjusted quarterly beginning in the first quarter of 2014 based on the Company's total leverage ratio as defined in the 2013 Senior Secured Credit Facility. The 2010 Senior Secured Credit Facility was, and the 2013 Senior Secured Credit Facility is, structured as loan syndications, whereby several lenders individually loaned specific amounts to the Company and the Company is obligated to repay each individual lender. Therefore, the Company evaluated if the terms of amounts owed to each lender under the 2010 Senior Secured Credit Facility were substantially different than the amounts owed to each lender under the 2013 Senior Secured Credit Facility. For amounts owed to lenders with terms that were substantially different or for lenders that did not participate in the 2013 Senior Secured Credit Facility, the Company accounted for the contemporaneous exchange of cash as early extinguishments of debt and recorded a loss of \$1,664,000 related to unamortized debt discount and issuance costs during the three and nine month periods ended September 30, 2013. For amounts owed to lenders with terms that were not substantially different, the Company accounted for the contemporaneous exchange of cash as a modification. In connection with the 2013 Senior Secured Credit Facility, the Company incurred costs of \$3,219,000, of which \$1,301,000 was recorded in Debt issuance costs, net in the accompanying Condensed Consolidated Balance Sheets and are being amortized to interest expense over the remaining term of the 2013 Senior Secured Credit Facility and the remaining \$1,918,000 was expensed as incurred.

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The Company is required to make principal payments out of excess cash flow, as defined in the 2013 Senior Secured Credit Facility, as well as from the proceeds of certain asset sales, proceeds from the issuance of indebtedness and from insurance recoveries. As of September 30, 2013, the Company expects it will make an excess cash flow payment of \$15,000,000 in the first quarter of 2014. Mandatory principal payments of \$575,000 are due quarterly until the facility matures on July 31, 2020. During the nine month periods ended September 30, 2013 and 2012, the Company made mandatory principal excess cash flow prepayments in accordance with the 2010 Senior Secured Credit Facility of \$8,000,000 and \$6,123,500, respectively. The Company accounted for these mandatory principal prepayments as early extinguishments of debt and recorded a loss during the nine month periods ended September 30, 2013 and 2012 of approximately \$134,000 and \$136,000, respectively, related to unamortized debt discount and issuance costs. The Company may make optional prepayments of the term loan at any time; however, no such optional prepayments were made during the nine month periods ended September 30, 2013 or 2012.

The estimated fair value of the Company's debt as of September 30, 2013 and December 31, 2012 represents the amount that would be paid to transfer or redeem the debt in an orderly transaction between market participants at that date and maximizes the use of observable inputs. The fair value of the Company's debt was estimated using a market approach based on the amount at the measurement date that the Company would pay to enter into the identical liability, since quoted prices for the Company's debt instruments are not available. As a result, the Company has classified the fair value of its 2013 Senior Secured Credit Facility as Level 2 of the fair value hierarchy. The carrying amounts of the Company's Senior Secured Credit Facility are included in the Condensed Consolidated Balance Sheets in Current portion of debt and Debt, net of current portion. The carrying value of the Senior Secured Credit Facility was \$228,957,000 and \$232,326,000 as of September 30, 2013 and December 31, 2012, respectively. The fair value of the Senior Secured Credit Facility was \$229,712,000 and \$233,046,000 as of September 30, 2013 and December 31, 2012, respectively.

The Company had no borrowings drawn on the revolving loan facility during the nine month periods ended September 30, 2013 and 2012. The Company must pay a quarterly commitment fee equal to 0.5% on the average daily amount of the unused portion of the revolving loan facility.

(6) Redeemable Preferred Units and Members Deficit  
Redeemable Preferred Units

At September 30, 2013, the Company had one series of redeemable preferred units outstanding ( Class A preferred units ) with an initial optional redemption date of April 16, 2014. The total number of authorized Class A preferred units was 150,000 and were held by Weston Presidio. As the holder of the outstanding Class A preferred units, Weston Presidio had voting rights and was entitled to receive a cumulative preferential yield of 10% per annum. As described in Note 12, Subsequent Events, in connection with the IPO, the Class A preferred units were converted into (i) a new preferred membership interest that reflected Weston Presidio's liquidation preference and (ii) a common

interest that reflected Weston Presidio's pro-rata share of the residual equity value of RMCO. On October 7, 2013, the Company used the proceeds it received from RE/MAX Holdings, Inc. to pay Weston Presidio's \$49,850,000 liquidity preference associated with its preferred membership interest and to fully redeem all of its outstanding common membership interests at a price per common unit equal to the public offering price per share of RE/MAX Holdings, Inc.'s Class A common stock, less underwriting discounts, totaling \$76,931,250.

#### Common Units

As of September 30, 2013, the total number of authorized Class B common units was 900,000 of which 52,500 were reserved for issuance under a unit option plan. As of September 30, 2013, the Company had granted options for 31,500 Class B common units under its 2011 Unit Option Plan to certain employees of one of its wholly owned subsidiaries. See Note 7, Equity-Based Compensation Plan, for further disclosure regarding the unit options granted by the Company during 2012. The remaining 847,500 authorized Class B common units were issued and outstanding with no par value and were held by RIHI. RIHI, in its capacity as a holder of Class B common units, had voting rights, was entitled to receive distributions subject to certain limitations as defined by RMCO's Third Amended and Restated Limited Liability Company Agreement, and, upon liquidation or dissolution, was entitled to receive assets available for distribution. There were no mandatory redemption or sinking fund provisions with respect to such Class B common units. The Class B common units were subordinate to the Class A preferred units, to the extent of the preference associated with such Class A units, with respect to distributions and rights upon liquidation, winding up, and dissolution of the Company.



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As described in Note 12, Subsequent Events, and the Reorganization Transactions which occurred in connection with the IPO, all outstanding RMCO Class B common units were exchanged for newly issued common units of RMCO. Additionally, RMCO effectuated a 25 for 1 split of the then existing number of outstanding newly issued common units of RMCO so that one common unit could be acquired with the net proceeds received in the IPO from the sale of one share of RE/MAX Holdings, Inc.'s Class A common stock, after the deduction of underwriting discounts and commissions.

#### Accumulated Other Comprehensive Income

As of September 30, 2013 and December 31, 2012, the ending balance in Accumulated other comprehensive income in the accompanying Condensed Consolidated Balance Sheets of \$1,563,000 and \$1,747,000, respectively, was entirely related to foreign currency translation adjustments.

#### (7) Equity-Based Compensation Plan

During 2012, the Company adopted an equity-based compensation plan (the Plan) pursuant to which the Company's Board of Managers may grant unit options. Through September 30, 2013, the Company had only granted options settleable in units. The Plan authorizes grants to purchase up to 52,500 units of authorized but unissued common units. Under the terms of the Plan, the exercise price of options granted under the Plan can be no less than the fair value of the underlying security on the date of grant. The term of the option cannot exceed 10 years, and the options will vest as specified in the option grant agreement. At September 30, 2013, there were 21,000 additional unit options available for the Company to grant under the Plan.

The grant-date fair value of each option award was estimated using the Black-Scholes-Merton option pricing model. No option awards were granted during the nine months ended September 30, 2013. The assumptions for 2012 grants are provided in the following table. On the grant date, the Company did not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term of the option. As such, the simplified method as outlined in the U.S. Securities and Exchange Commission's Staff Accounting Bulletin No. 110 was used to derive the expected term. Since the Company's units were not publicly traded and its units were not traded privately, expected volatility was estimated based on the average historical volatility of similar entities with publicly traded shares. The risk-free rate for the expected term of the option was based on the U.S. Treasury yield curve at the date of grant.

2012

Valuation assumptions:

Expected dividend yield	%
Expected volatility	78.0%
Expected term (years)	5.1
Risk-free interest rate	0.75%

The grant-date estimated fair value of options granted during the year ended 2012 was \$56.83. A portion of the options granted in 2012 vested on the grant date, and the remaining options vested on June 15, 2013. Total compensation expense on the options granted in 2012 recognized during the nine months ended September 30, 2013 was \$701,000. As the options were granted in the fourth quarter of 2012, no compensation expense was recognized during the nine months ended September 30, 2012. As of September 30, 2013, there was no unrecognized compensation cost related to unit options granted under the Plan. In October 2013 and in connection with the IPO and the Reorganization Transactions, the unit options were split 25 for 1 and then substituted for 787,500 options to acquire shares of RE/MAX Holdings, Inc.'s Class A common stock.

#### (8) Commitments and Contingencies

##### Commitments

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

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In 2010, the Company became the primary lessee for all facilities located on its corporate headquarters property and issued subleases to two retail tenants already established on the property. The subleases range from 4,000 square feet to 10,500 square feet, have initial lease terms ranging from 5 to 10 years and renewal options ranging from two 5-year renewal options to nine 5-year renewal options. Anticipated revenue from these subleases exceeds the expected costs that will be incurred by the Company.

During March 2011, the Company entered into a sublease agreement with an unrelated third party to lease up to 20,000 square feet of the office space on its corporate headquarters property. The estimated costs the Company expected to incur related to the subleased space exceeded the anticipated revenue the Company expected to receive under the sublease agreement. As such, the Company recorded a liability with the related loss on the sublease of approximately \$1,932,000. The liability was determined using a risk-free rate to discount the estimated future net cash flows, consisting of the minimum lease payments to the lessor, estimated executory costs related to the subleased space and anticipated payments the Company expected to receive under the sublease agreement. In November 2012, the sublease was terminated prior to its expiration date. As a result, the Company commenced efforts to market the office space for sublease with a new tenant. As of September 30, 2013, a sublease agreement was not executed, as such, the Company did not record an adjustment to the existing liability. As of September 30, 2013 and December 31, 2012, the short-term portion of the liability was approximately \$375,000 and \$351,000, respectively, and is included in *Accrued liabilities* in the accompanying Condensed Consolidated Balance Sheets. As of September 30, 2013 and December 31, 2012, the long-term portion of the liability was approximately \$689,000 and \$972,000, respectively, and is included in *Other liabilities* in the accompanying Condensed Consolidated Balance Sheets.

During 2008, the Company closed several real estate brokerage offices in the Pacific Northwest and Washington, DC areas of the U.S. Subsequent to 2008, the Company closed four additional real estate brokerage offices in the Pacific Northwest and Washington, DC areas. In connection with these office closures, the Company abandoned office leases with remaining lease terms of eleven months to eight years. During the nine months ended September 30, 2013, the Company abandoned an additional two leases for offices located in the Pacific Northwest with remaining lease terms of three months. The Company recorded a liability, initially measured at its estimated fair value, for costs that will continue to be incurred under these contracts for the remaining lease terms with the related charge recorded to operating expenses in the accompanying consolidated financial statements. At September 30, 2013 and December 31, 2012, total future cash payments were estimated to be \$663,000 and \$1,061,000, respectively. This liability will be increased by accreting charges over the terms of the leases via charges to rent expense, based on discount rates ranging from 2.75% to 18.03%, and will be reduced by the actual lease payments made. The following table presents a rollforward of the estimated fair value liability established for these costs from January 1, 2013 to September 30, 2013 (in thousands):

Accruals at January 1, 2013	\$ 420
Additional abandoned leases	99

Extinguishments	
Accretion and adjustments	180
Payments	(474)
Accruals at September 30, 2013	\$ 225

#### 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. For legal proceedings for which there is a reasonable possibility of loss (meaning those losses for which the likelihood is more than remote but less than probable), the Company has determined that it does not have material exposure, or it is unable to develop a range of reasonably possible losses.

#### Other Contingencies

The Company maintains a self-insurance program for health benefits. As of September 30, 2013 and December 31, 2012, the Company recorded a liability of \$278,000 and \$360,000, respectively, related to this program.

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### Tax Matters

The Company is a flow-through entity for tax purposes. As such, U.S. federal and state income taxes on net domestic taxable earnings are the obligation of the Company's members. Accordingly, no provision for U.S. income taxes has been made in the accompanying condensed consolidated financial statements; however, the Company makes distributions to its members to enable them to satisfy their tax obligations. On September 30, 2013, the Company agreed to make tax distributions to Weston Presidio and RIHI of \$1,000,000 and \$5,650,000, respectively to satisfy each member's tax obligations for the period from January 1, 2013 through the closing date of the IPO. The liability for this tax distribution has been recorded in *Income Taxes Payable* in the accompanying Condensed Consolidated Balance Sheets.

In contrast to the Company's domestic entities, the Company's foreign entities are taxable entities. Income taxes incurred by the foreign subsidiaries are recorded in the *Provision for income taxes* in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

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 September 30, 2013, the Company does not believe it has any significant uncertain tax positions.

### (9) Guarantees

In July 2012, the Company entered into a guarantee of performance by Tails d/b/a RE/MAX Central Atlantic Region, Inc. of all of the obligations under the franchise registration in the Commonwealth of Virginia, and all of the preopening obligations under the franchise agreements executed at any time from July 23, 2012 until such time that this guarantee is no longer required by the Commonwealth of Virginia. The Company did not incur any payments under this guarantee in the three and nine month periods ended September 30, 2013 or 2012, respectively and does not anticipate that it will incur any payments through the duration of the guarantee.

In May 2013, the Company entered into a guarantee of the full and prompt payment and performance when due of all obligations due to a financial institution under a commercial line-of-credit agreement and note entered into by the Company's equity-method investee, in which the Company has a 50% interest. The term of the line-of-credit agreement is twelve months and the total amount of advances requested and unpaid principal balance cannot exceed \$12,500,000. The line of credit bears interest at 0.50% over the financial institution's base rate with a floor of 4.0%. The Company had entered into a similar guarantee during May 2012, which expired as of May 2013. The outstanding balance on the line of credit was approximately \$3,225,000 and \$9,285,000 as of September 30, 2013 and December 31, 2012, respectively. The Company did not incur any payments under this guarantee in the nine months ended September 30, 2013 and does not anticipate that it will incur any payments through the duration of the

guarantee.

(10) Related-Party Transactions

The Company's real estate brokerage operations pay advertising fees to regional and international advertising funds, which promote the RE/MAX brand. These advertising funds are corporations owned by a majority stockholder of RIHI as trustee for RE/MAX agents. This stockholder does not receive any compensation from these corporations, as all funds received by the corporations are required to be spent on advertising for the respective regions. During the three months ended September 30, 2013 and 2012, the Company's real estate brokerage operations paid \$286,000 and \$292,000, respectively, to these advertising funds. During the nine months ended September 30, 2013 and 2012, the Company's real estate brokerage operations paid \$859,000 and \$865,000, respectively, to these advertising funds. These payments are included in Selling, operating and administrative expenses in the accompanying Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

The Company's real estate brokerage operations in the Washington, DC area pay regional continuing franchise fees, broker fees and franchise sales revenue, as do all other RE/MAX franchisees, to a regional franchisor, Tails. Several of the Company's officers and stockholders of RIHI were also stockholders and officers of Tails. During the three months ended September 30, 2013 and 2012, the real estate brokerage operations expensed \$97,000 and \$74,000, respectively, in fees to Tails. During the nine months ended September 30, 2013 and 2012, the real estate brokerage operations expensed \$244,000 and \$196,000, respectively,

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in fees to Tails. These payments are included in Selling, operating and administrative expenses in the accompanying Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). In addition, the Company's owned real estate brokerage operations in the Washington DC area record a corresponding payable to Tails and its affiliated regional advertising fund. As of September 30, 2013 and December 31, 2012, the amount of the payable was \$2,325,000 and \$2,270,000, respectively, and is included in Accounts payable to affiliates in the accompanying Condensed Consolidated Balance Sheets.

The Company receives continuing franchise fees, broker fees, franchise sales and other franchise revenue from regional franchisors. Several of the Company's officers and stockholders of RIHI were also stockholders and officers of two of these regional franchisors. During the three months ended September 30, 2013 and 2012, the Company received \$912,000 and \$858,000, respectively, in revenue from these entities. During the nine months ended September 30, 2013 and 2012, the Company received \$2,648,000 and \$2,550,000, respectively, in revenue from these entities. These amounts are included in continuing franchise fees, broker fees and franchise sales revenue in the accompanying Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). As described in Note 12, Subsequent Events, on October 7, 2013, the business assets of these two regional franchisors were acquired by RE/MAX Holdings, Inc. and contributed to RMCO.

Prior to 2013, the Company paid an annual sponsorship fee to Sanctuary, Inc., a private golf course owned by the majority stockholders of RIHI. The Company was named as the presenting sponsor of all charity golf tournaments held at Sanctuary, Inc. Further, the majority stockholders have made and continue to make the golf course available to the Company for business purposes. During the nine months ended September 30, 2013, the majority stockholders of RIHI who own Sanctuary, Inc. allowed the Company to use the golf course for business purposes at no charge. During the three and nine months ended September 30, 2012, the Company paid \$283,000 and \$878,000, respectively in sponsorship fees and green fees to Sanctuary, Inc.

The Company also provides services to certain affiliated entities such as accounting, legal, marketing, technology, human resources and public relations as it allows these companies to share its leased office space. During the three months ended September 30, 2013 and 2012, the total amounts allocated for services rendered and rent for office space provided on behalf of affiliated entities were \$838,000 and \$828,000, respectively. During the nine months ended September 30, 2013 and 2012, the total amounts allocated for services rendered and rent for office space provided on behalf of affiliated entities were \$2,459,000 and \$2,515,000, respectively. In these cases, the Company bills affiliated companies for their actual or pro rata share of such expenses. Such amounts are generally paid within 30 days and no such amounts were outstanding at September 30, 2013 or December 31, 2012. In addition, affiliated regional franchisors have current outstanding continuing franchise fees, broker fees and franchise sales revenue amounts due to the Company. Such amounts are included in the Accounts receivable from affiliates and Accounts payable to affiliates in the accompanying Condensed Consolidated Balance Sheets and comprise the balances from the following entities (in thousands):

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	September 30, 2013	December 31, 2012
<b>Accounts receivable from affiliates:</b>		
RE/MAX Southwest Region	\$	\$ 11
RE/MAX Central Atlantic Region, Inc.	5	21
RE/MAX of Texas Advertising Fund	106	
Other	5	23
<b>Total accounts receivable from affiliates</b>	<b>116</b>	<b>55</b>
<b>Accounts payable to affiliates:</b>		
Other	(2,397)	(2,385)
<b>Total accounts payable to affiliates</b>	<b>(2,397)</b>	<b>(2,385)</b>
<b>Net accounts payable to affiliates</b>	<b>\$ (2,281)</b>	<b>\$ (2,330)</b>

In February 2013, the Company engaged Perella Weinberg Partners L.P. ( Perella Weinberg ), a FINRA member, to serve as its financial advisor in connection with the IPO. Two members of the Company's Board of Managers are partners at an affiliate of Perella Weinberg. The engagement of Perella Weinberg as a financial advisor was approved by the independent members of the Company's Board of Managers. For the services rendered during the three and nine months ended September 30, 2013, the Company paid or will pay Perella Weinberg \$76,000 and \$216,000, respectively. In addition, on October 7, 2013, the Company paid Perella Weinberg a completion fee of \$632,500 when the IPO closed.



RMCO, LLC

## AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

## (11) Segment information

The Company has two reportable segments, (1) Real Estate Franchise Services and (2) Brokerage and Other. Management evaluates the operating results of the Company's reportable segments based upon revenue and adjusted earnings before interest, taxes, depreciation and amortization ( Adjusted EBITDA ). The Company's presentation of Adjusted EBITDA may not be comparable to similar measures used by other companies.

Adjusted EBITDA for the reportable segments excludes depreciation, amortization, interest and taxes and is adjusted for items in a manner consistent with the calculation of the Company's compliance with debt covenants. Adjusted EBITDA for the reportable segments is also a key factor that is used by the Company's internal decision makers to (i) determine how to allocate resources to segments and (ii) evaluate the effectiveness of management for purposes of annual and other incentive compensation plans. The additional items that are adjusted to determine Adjusted EBITDA for the reportable segments include gains and losses on the sale of assets and sublease activity, gains and losses on the early extinguishment of debt, depreciation expense, interest expense, loss on the sale of assets and loss on the extinguishment of debt from non-controlling interest, stock-based compensation, non-cash deferred rent expense and acquisition transaction and reorganization costs. The Company's Real Estate Franchise Services segment comprises the operations of the Company's owned and independent global franchising operations under the RE/MAX brand name. All of the brokerage offices in the Real Estate Franchise Services segment are franchised. The Company's Brokerage and Other reportable segment includes the Company's brokerage services business, the elimination of intersegment revenue and other consolidation entries as well as corporate-wide professional services expenses.

The following tables present the results of the Company's reportable segments for the three and nine months ended September 30, 2013 and 2012, respectively (in thousands):

	Revenue (a)			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Real Estate Franchise Services	\$ 36,211	\$ 34,490	\$ 106,746	\$ 97,382
Brokerage and Other (b)	4,101	3,939	11,882	11,215
Total segment revenue	\$ 40,312	\$ 38,429	\$ 118,628	\$ 108,597

(a)

Transactions between the Real Estate Franchise Services and the Brokerage and Other reportable segments are eliminated in consolidation. Revenues for the Real Estate Franchise Services segment include intercompany amounts paid from the Company's brokerage services business of \$435,000 and \$427,000 for the three months ended September 30, 2013 and 2012, respectively, and \$1,318,000 and \$1,295,000 for the nine months ended September 30, 2013 and 2012, respectively. Such amounts are eliminated through the Brokerage and Other reportable segment.

(b) Includes the elimination of transactions between the Real Estate Franchise Services and the Brokerage and Other reportable segments.

	Adjusted EBITDA			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Real Estate Franchise Services	\$ 21,495	\$ 18,589	\$ 58,276	\$ 48,713
Brokerage and Other (c)	580	896	499	177
Total segment Adjusted EBITDA	\$ 22,075	\$ 19,485	\$ 58,775	\$ 48,890

(c) Includes the elimination of transactions between the Real Estate Franchise Services and the Brokerage and Other reportable segments.

RMCO, LLC

## AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Segment Adjusted EBITDA	\$ 22,075	\$ 19,485	\$ 58,775	\$ 48,890
Less:				
Depreciation and amortization	3,656	2,788	11,088	9,231
Interest expense, net	5,046	2,835	11,829	8,567
Loss on early extinguishment of debt	1,664		1,798	136
Equity-based compensation			701	
Non-cash straight-line rent expense	261	270	970	1,223
Gain on sale of assets and sublease	(164)	(144)	(411)	(442)
Chairman executive compensation	750	750	2,250	2,250
Acquisition integration costs	27		249	
IPO expenses	2,436		5,916	
Income before income taxes	8,399	12,986	24,385	27,925
Provision for income taxes	702	636	1,733	1,740
Net income	\$ 7,697	\$ 12,350	\$ 22,652	\$ 26,185

## (12) Subsequent Events

On October 7, 2013, RE/MAX Holdings, Inc. completed the IPO of 11,500,000 shares of Class A common stock at a public offering price of \$22.00 per share. Certain transactions and agreements associated with the IPO are set forth below:

## Reorganization Transactions

In connection with the completion of the IPO, RMCO's Third Amended and Restated Limited Liability Company Agreement, dated as of February 1, 2013 was amended and restated to, among other things, modify its capital structure as follows (collectively referred to, the Reorganization Transactions):

RMCO's existing Class A preferred membership interest was converted into (i) a new preferred membership interest that reflected Weston Presidio's liquidation preference of approximately \$49,850,000 and (ii) a common interest that reflected Weston Presidio's pro-rata share of the residual equity value of RMCO;

RMCO effectuated a 25 for 1 split of the then existing number of outstanding common units so that one common unit of RMCO could be acquired with the net proceeds received in RE/MAX Holdings, Inc.'s IPO from the sale of one share of RE/MAX Holdings, Inc.'s Class A common stock, after the deduction of underwriting discounts and commissions;

RE/MAX Holdings, Inc. became a member and the sole manager of RMCO following the purchase of common units of RMCO, as described below;

Previously outstanding and unexercised options to acquire common units in RMCO were split 25 for 1 and then substituted for 787,500 options to acquire shares of RE/MAX Holdings, Inc.'s Class A common stock; and

Unit holders of RMCO (other than RE/MAX Holdings, Inc.) were given the right to redeem each of their common units of RMCO, for, at RE/MAX Holdings, Inc.'s option, newly issued shares of Class A common stock of RE/MAX Holdings, Inc. on a one-for-one basis or for a cash payment equal to the market price of one share of RE/MAX Holdings Inc.'s Class A common stock.

#### Initial Public Offering

The IPO closed on October 7, 2013, and RE/MAX Holdings, Inc. raised a total of \$253,000,000 in gross proceeds from the sale of 11,500,000 shares of Class A common stock at \$22.00 per share, or \$224,922,500 in net proceeds after deducting \$17,077,500 of underwriting discounts and commissions and \$11,000,000 of estimated offering expenses.

RE/MAX Holdings, Inc. used \$27,305,000 of the proceeds from the IPO to reacquire regional RE/MAX franchise rights in the Southwest and Central Atlantic regions of the U.S. through the acquisitions of the business assets of HBN and Tails, which occurred on October 7, 2013. Immediately following the acquisitions of the business assets of HBN and Tails, RE/MAX Holdings, Inc. contributed such assets to RMCO in exchange for 1,330,977 common units of RMCO reflecting the \$22.00 public

RMCO, LLC

## AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

offering price per share of RE/MAX Holdings, Inc. Class A common stock, less underwriting discounts. RE/MAX Holdings, Inc. acquired the business assets of HBN and Tails and contributed the assets to the Company in order to expand the Company's owned and operated regional franchising operations. The assets acquired constitute a business accounted for using the fair value acquisition method. The preliminary purchase price has been allocated to the assets acquired based on a preliminary estimate of their estimated fair values and is subject to change. The excess of the total purchase price over the fair value of the identifiable assets acquired was recorded as goodwill. The goodwill recognized for the acquisitions of HBN and Tails is attributable to expected synergies and projected long-term revenue growth and relates entirely to the Real Estate Franchise Services segment.

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

Accounts and notes receivable	\$ 1,340
Other current assets	23
Franchise agreements	23,008
Goodwill	3,179
Other assets	15
Accrued liabilities	(260)
	\$ 27,305

RE/MAX Holdings, Inc. then used the remaining \$208,617,500 of the net proceeds received from the IPO to purchase 10,169,023 common units of RMCO. Of the \$208,617,500 of proceeds received by RMCO from RE/MAX Holdings, Inc., \$11,000,000 was reserved by RMCO to pay estimated offering expenses. The remaining \$197,617,500 of proceeds was used as follows: (i) \$49,850,000 was used to pay the liquidity preference associated with Weston Presidio's preferred membership interest in RMCO; and (ii) \$147,767,500 was used to redeem common units of RMCO from Weston Presidio and RIHI at a price per common unit equal to the public offering price per share of RE/MAX Holdings, Inc.'s Class A common stock, less underwriting discounts.

Prior to the IPO, RE/MAX Holdings, Inc. did not engage in any business or activities except in connection with its formation and the negotiation of the acquisition of the business assets of HBN and Tails. Subsequent to the IPO and related reorganization and offering transactions, RE/MAX Holdings, Inc. will consolidate the financial results of RMCO and its subsidiaries, and the ownership interest of the other members of RMCO will be reflected as a non-controlling interest in RE/MAX Holdings, Inc.'s consolidated financial statements beginning October 8, 2013.

In connection with the successful completion of the IPO, the Company paid \$528,000 in cash bonuses to its employees.

Tax Receivable Agreements

RE/MAX Holdings, Inc. entered into separate tax receivable agreements with Weston Presidio and RIHI (collectively, the Historical Owners ), that will provide for the payment by RE/MAX Holdings, Inc. to the Historical Owners of RMCO of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that RE/MAX Holdings, Inc. actually realizes, or in some circumstances is deemed to realize, as a result of an expected increase in its share of tax basis in RMCO s tangible and intangible assets, including increases attributable to payments made under the tax receivable agreements, and deductions attributable to imputed and actual interest that accrues in respect of such payments. These tax benefit payments are not necessarily conditioned upon one or more of the Historical Owners maintaining a continued ownership interest in either RMCO or RE/MAX Holdings, Inc. RE/MAX Holdings, Inc. expects to benefit from the remaining 15% of cash savings, if any, that it may actually realize. The provisions of the separate tax receivable agreements that RE/MAX Holdings, Inc. entered into with each of its Historical Owners were identical.

RMCO, LLC

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Management Services Agreement

In connection with the completion of the IPO, the Company entered into a management services agreement with RE/MAX Holdings, Inc. pursuant to which RE/MAX Holdings, Inc. will agree to provide certain specific management services to the Company. In exchange for the services provided, the Company will reimburse RE/MAX Holdings, Inc. for compensation and other expenses of RE/MAX Holdings, Inc.'s officers and employees and for certain out-of-pocket costs. The Company will also provide administrative and support services to RE/MAX Holdings, Inc., such as office facilities, equipment, supplies, payroll and accounting and financial reporting. The management services agreement further provides that employees of RE/MAX Holdings, Inc. may participate in the Company's benefit plans, and that the Company's employees may be entitled to compensation in the form of equity awards issued by RE/MAX Holdings, Inc. The Company will indemnify RE/MAX Holdings, Inc. for any losses arising from our performance under the management services agreement, except that RE/MAX Holdings, Inc. will indemnify the Company for any losses caused by willful misconduct or gross negligence.

Item 1a.

#### UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

We derived the unaudited pro forma condensed consolidated financial information set forth below by the application of pro forma adjustments to unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. The unaudited pro forma condensed consolidated statement of income for the nine months ended September 30, 2013 and the unaudited pro forma condensed consolidated balance sheet as of September 30, 2013 present our consolidated results of operations and financial position to give pro forma effect to the Reorganization Transactions (as defined below), the shares of Class A common stock sold in our initial public offering (the IPO), and the application of the net proceeds from the IPO, including the acquisitions of the business assets of HBN, Inc. (HBN) and Tails, Inc. (Tails), as if all such transactions had been completed as of January 1, 2013 with respect to the unaudited condensed consolidated pro forma statement of income and as of September 30, 2013 with respect to the unaudited pro forma condensed consolidated balance sheet. The unaudited condensed consolidated pro forma statement of income for the twelve months ended December 31, 2012 is included in the prospectus dated October 1, 2013, filed with the U.S. Securities and Exchange Commission (SEC) on October 3, 2013 pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended (the Securities Act). The unaudited pro forma condensed consolidated financial information reflects pro forma adjustments that are described in the accompanying notes and are based on available information and certain assumptions we believe are reasonable, but are subject to change. We have made, in our opinion, all adjustments that are necessary to present fairly the unaudited pro forma condensed consolidated financial information.

The unaudited pro forma condensed consolidated financial information should be read together with our unaudited condensed financial statements and related notes, the RMCO, LLC (RMCO) unaudited condensed consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations, each included elsewhere in this Quarterly Report on Form 10-Q.

The unaudited pro forma condensed consolidated financial information is included for informational purposes only and does not purport to reflect our results of operations or financial position that would have occurred had we operated as a public company during the periods presented. The unaudited pro forma condensed consolidated financial information should not be relied upon as being indicative of our results of operations or financial position had the Reorganization Transactions and IPO, as well as the use of the net proceeds from the IPO, occurred on the dates assumed. Refer to Note 12 of the RMCO unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information. The unaudited pro forma condensed consolidated financial information also does not project our results of operations or financial position for any future period or date.

The pro forma adjustments principally give effect to the following items:

- the amendment and modification of RMCO's Third Amended and Restated Limited Liability Company Agreement, dated as of February 1, 2013 to, among other things, modify its capital structure as follows (collectively referred to as, the Reorganization Transactions):

- o RMCO's existing Class A preferred membership interest was converted into (i) a new preferred membership interest that reflected the liquidation preference of Weston Presidio V, L.P. (Weston Presidio) of approximately \$49,850,000 and (ii) a common interest that reflected Weston Presidio's pro-rata share of the residual equity value of RMCO;



- o RMCO effectuated a 25 for 1 split of the then existing number of outstanding common units so that one common unit could be acquired with the net proceeds received in RE/MAX Holdings, Inc.'s IPO from the sale of one share of RE/MAX Holdings, Inc.'s Class A common stock, after the deduction of underwriting discounts and commissions;
- o RE/MAX Holdings, Inc. became a member and the sole manager of RMCO following the purchase of common units of RMCO, as described below; and
- o Previously outstanding and unexercised options to acquire common units in RMCO were substituted for 787,500 options to acquire shares of RE/MAX Holdings, Inc.'s Class A common stock.
- the sale of 11,500,000 shares of Class A common stock in the IPO and the use of the proceeds to acquire the business assets of HBN and Tails and to purchase common units in RMCO. The acquisitions of HBN and Tails occurred on October 7, 2013 and are not deemed significant as defined in Rule 3-05 of Regulation S-X; and
- the tax receivable agreements entered into with RMCO's owners in connection with the consummation of the IPO. In the case of the unaudited pro forma condensed consolidated statements of income, a provision for corporate income taxes on the income of RE/MAX Holdings, Inc. at an effective rate of 38% which includes a provision for U.S. federal income taxes and assumes the highest statutory rates apportioned to each state, local and/or foreign jurisdiction.

## RE/MAX Holdings, Inc.

## Pro Forma Condensed Consolidated Statement of Income

Nine months ended September 30, 2013

(Unaudited)

(Amounts in thousands)

	Historical RMCO(1)	Historical HBN and Tails(1)	Pro Forma Adjustments for HBN and Tails Acquisitions(2)	Notes	Pro Forma Offering Adjustments(3)	Notes	Pro Forma RE/MAX Holdings, Inc.
<b>Revenue:</b>							
Continuing franchise fees	\$ 47,037	\$ 6,125	\$ (1,847)		\$		\$ 51,315
Annual dues	22,052						22,052
Broker fees	18,704	2,090	(627)				20,167
Franchise sales and other franchise revenue	17,823	682	(172)				18,333
Brokerage revenue	13,012						13,012
Total revenue	118,628	8,897	(2,646)	2(a)			124,879
<b>Operating expenses:</b>							
Selling, operating and administrative expenses	70,088	5,522	(2,769)	2(a)(b)			72,841
Depreciation and amortization	11,088		1,274	2(c)			12,362
Loss on sale of assets, net	41						41
Total operating expenses	81,217	5,522	(1,495)				85,244
Operating income	37,411	3,375	(1,151)				39,635
<b>Other expenses, net:</b>							
Interest expense	(12,053)						(12,053)
Interest income	224	10					234
	(135)						(135)

Foreign currency transaction losses, net						
Loss on early extinguishment of debt	(1,798)					(1,798)
Equity in earnings of investees	736					736
Total other expenses, net	(13,026)	10				(13,016)
Income before provision for income taxes	24,385	3,385	(1,151)			26,619
Provision for income taxes	(1,733)			(2,269)	3(a)	(4,002)
Net income	\$ 22,652	\$ 3,385	\$ (1,151)	\$ (2,269)		\$ 22,617
Less: Net income attributable to non-controlling interest				\$ 16,088	3(b)	\$ 16,088
Net income attributable to RE/MAX Holdings, Inc.						\$ 6,529
Net income attributable to RE/MAX Holdings, Inc. per Class A common share <sup>3(c)</sup>						
Basic						\$ 0.56
Diluted						\$ 0.53
Weighted average shares of Class A common stock outstanding <sup>3(c)</sup>						
Basic						11,607,971
Diluted						12,255,123

The accompanying notes are an integral part of, and should be read together with, this unaudited pro forma condensed consolidated financial information.



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RE/MAX Holdings, Inc.

Pro Forma Condensed Consolidated Balance Sheet

As of September 30, 2013

(Unaudited)

(Amounts in thousands, except units and shares)

	Historical RMCO(1)	Pro Forma Adjustments for HBN and Tails Acquisitions(2)	Notes	Pro Forma Offering Adjustments(3)	Notes	Pro Forma RE/MAX Holdings, Inc.
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ 73,482	\$ (27,305)	2(aa)	\$ 38,305	3(aa)	\$ 84,482
Escrow cash restricted	912					912
Accounts and notes receivable, current portion, less allowances	16,385	1,340	2(aa)			17,725
Accounts receivable from affiliates	116					116
Other current assets	2,733	23	2(aa)	912	3(bb)	3,668
<b>Total current assets</b>	<b>93,628</b>	<b>(25,942)</b>		<b>39,217</b>		<b>106,903</b>
Property and equipment, net	2,528					2,528
Franchise agreements, net	69,439	23,008	2(aa)			92,447
Other intangible assets, net	2,511					2,511
Goodwill	70,902	3,179	2(aa)			74,081
Deferred tax assets				93,777	3(bb), 3(cc)	93,777

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Investments in equity method investees	3,710					3,710
Debt issuance costs, net	2,424					2,424
Other assets	6,820	15	2(aa)	(4,816)	3(dd)	2,019
Total assets	\$ 251,962	\$ 260		\$ 128,178		\$ 380,400
Liabilities, Redeemable Preferred Units and Members Deficit/Stockholders Equity						
Current liabilities:						
Accounts payable	\$ 840	\$		\$	\$	840
Accounts payable to affiliates	2,397					2,397
Escrow liabilities	912					912
Accrued liabilities	10,188	260	2(aa)	528	3(ee)	10,976
Income taxes and tax distribution payables	7,266			(388)	3(ii)	6,878
Deferred revenue and deposits	15,524					15,524
Current portion of debt	17,300					17,300
Current portion of payable to related parties pursuant to tax receivable agreements				993	3(cc)	993
Other current liabilities	116					116
Total current liabilities	54,543	260		1,133		55,936

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RE/MAX Holdings, Inc.

Pro Forma Condensed Consolidated Balance Sheet

As of September 30, 2013

(Unaudited)

(Amounts in thousands, except units and shares)

	Historical RMCO(1)	Pro Forma Adjustments for HBN and Tails Acquisitions(2)	Notes	Pro Forma Offering Adjustments(3)	Notes	Pro Forma RE/MAX Holdings, Inc.
Debt, net of current portion	211,657					211,657
Payable to related parties pursuant to tax receivable agreements, net of current portion				52,452	3(cc)	52,452
Deferred revenue, net of current portion	292					292
Other liabilities, net of current portion	8,004					8,004
Total liabilities	274,496	260		53,585		328,341
Redeemable preferred units:						
Class A preferred units, at estimated redemption value (no par value, 150,000 units authorized, issued and outstanding as of September 30, 2013; liquidation preference of \$49,850; none outstanding on a pro forma basis)	132,350			(132,350)	3(ff)	
Members deficit/Stockholders equity:						
Class B common units (no par value, 900,000 units authorized, 847,500 units issued and outstanding as of	(156,447)			156,447	3(gg)	

September 30, 2013; none outstanding on a pro forma basis)

Accumulated other comprehensive income	1,563		1,563
Class A common stock, par value \$0.0001 per share, 180,000,000 shares authorized; 11,607,971 shares issued and outstanding on a pro forma basis		1	1
Class B common stock, par value \$0.0001 per share, 1,000 shares authorized; 1 share issued and outstanding on a pro forma basis			
Additional paid-in capital		279,217	3(hh) 279,217
Retained earnings		(2,191)	3(ii) (2,191)
Total members deficit/stockholders equity attributable to RE/MAX Holdings, Inc.	(154,884)	433,474	278,590
Non-controlling interest		(226,531)	3(gg) (226,531)
Total members deficit/stockholders equity	(154,884)	206,943	52,059
Total liabilities, redeemable preferred units and members deficit/stockholders equity	\$ 251,962	\$ 260	\$ 128,178
			\$ 380,400

The accompanying notes are an integral part of, and should be read together with, this unaudited pro forma condensed consolidated financial information.



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### RE/MAX Holdings, Inc. Notes to Pro Forma Condensed Consolidated Financial Statements

(Unaudited)

#### Basis of Presentation and Description of Transactions

The IPO closed on October 7, 2013, pursuant to which RE/MAX Holdings, Inc. raised a total of \$253,000,000 in gross proceeds from the sale of 11,500,000 shares of Class A common stock at \$22.00 per share or \$224,922,500 in net proceeds after deducting \$17,077,500 of underwriting discounts and commissions and \$11,000,000 of estimated offering expenses, which were incurred by RMCO in connection with the IPO. Pursuant to the IPO, we offered and sold 11,500,000 shares of Class A common stock.

RE/MAX Holdings, Inc. used \$27,305,000 of the net proceeds of the IPO to reacquire regional RE/MAX franchise rights in the Southwest and Central Atlantic regions of the U.S. through the acquisitions of HBN and Tails. Immediately following the completion of the acquisitions of the business assets of HBN and Tails, such assets were contributed to RMCO in exchange for a number of newly issued common units of RMCO valued at \$27,305,000, which reflects the IPO price of \$22.00 per share, net of underwriters' commissions.

All of the remaining net proceeds of the IPO were used to purchase newly issued common units from RMCO at a price per common unit equal to the public offering price per share of our Class A common stock, less underwriting discounts. RMCO used a portion of the net proceeds it received from us to first redeem all of the outstanding preferred membership units in RMCO held by Weston Presidio and to satisfy its liquidation preference associated with those preferred membership units which was \$49,850,000. Following RMCO's redemption of all of the outstanding preferred membership units in RMCO from Weston Presidio, RMCO then redeemed all common units held by Weston Presidio and used the remaining net proceeds received less \$11,000,000 which was reserved for the payment of IPO expenses, to redeem common units of RMCO from RIHI, Inc. ( RIHI ) at a price per common unit equal to the public offering price per share of RE/MAX Holdings, Inc.'s Class A common stock, less underwriting discounts.

#### 1. Historical Results of Operations and Financial Position

Condensed consolidated statement of income data for the nine months ended September 30, 2013 and condensed consolidated balance sheet data as of September 30, 2013 for RMCO were derived from our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. The historical HBN and Tails results of operations for the nine months ended September 30, 2013 and the historical financial position of HBN and Tails as of September 30, 2013 were derived from the HBN and Tails unaudited financial statements.

#### 2. Pro Forma Adjustments for HBN and Tails Transactions

The historical results of operations of HBN and Tails have been adjusted to give pro forma effect to events that are (i) directly attributable to the acquisitions of HBN and Tails, (ii) factually supportable and (iii) expected to have a continuing impact on the combined results, as if the HBN and Tails acquisitions occurred on January 1, 2013 (referred to as Pro Forma Adjustments for HBN and Tails Acquisitions).

Unaudited Pro Forma Condensed Consolidated Statement of Income Nine-month Period Ended September 30, 2013

- (a) The pro forma adjustment to total revenue reflects the elimination of continuing franchise fees, broker fees and franchise sales of \$2,646,000 paid by HBN and Tails to RMCO during the nine months ended September 30, 2013. As a result, also reflected is a reduction in HBN and Tails selling, operating and administrative expenses for the same amount.
- (b) The pro forma adjustment to selling, operating and administrative expenses also reflects a reduction of \$123,000 relating to direct acquisition costs incurred related to the acquisitions of HBN and Tails.
- (c) The pro forma adjustment to depreciation and amortization reflects an increase of \$1,274,000 in amortization expense related to the regional franchise agreement intangible assets acquired, which were determined to have an acquisition date fair value of \$23,008,000 and have a remaining contractual term of approximately 14 years.

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RE/MAX Holdings, Inc.  
Notes to Pro Forma Condensed Consolidated Financial Statements

(Unaudited)

Unaudited Pro Forma Condensed Consolidated Balance Sheet As of September 30, 2013

(aa) Pro forma adjustments reflect the acquisitions of the business assets of HBN and Tails, including the re-acquired rights under the regional franchise agreements issued by us permitting the sale of RE/MAX franchises in the Southwest and Central Atlantic regions of the U.S. The purchase price has been allocated to the assets acquired and liabilities assumed based on management's preliminary estimate of their respective fair values. The following table summarizes the preliminary allocation of the purchase price related to the HBN and Tails acquisitions as reflected in the unaudited pro forma condensed consolidated balance sheet as of September 30, 2013 (in thousands):

Accounts and notes receivable	\$ 1,340
Other current assets	23
Franchise agreements	23,008
Goodwill	3,179
Other assets	15
Accrued liabilities	(260)
	\$ 27,305

The valuation of the re-acquired regional franchise agreements were valued using an income approach and will be amortized over the remaining contractual term of approximately 14 years. The estimate of the fair values is preliminary and may change.

### 3. Pro Forma Offering Adjustments

The Pro Forma RE/MAX Holdings, Inc. condensed consolidated financial information includes the Historical Results of Operations and Financial Position of RMCO and the Pro Forma Adjustments for HBN and Tails Acquisitions and gives further effect to the following (referred to as Pro Forma Offering Adjustments): (i) the use of all of the remaining net proceeds from our IPO, after deducting underwriting discounts to purchase newly issued common units of RMCO from RMCO at a price per common unit equal to the public offering price per share of our Class A common stock, less underwriting discounts; (ii) RMCO's subsequent use of \$49,850,000 of the net proceeds it received from us to first redeem all of the outstanding preferred membership units in RMCO held by Weston Presidio, which represent Weston Presidio's liquidation preference associated with those preferred membership units and the complete redemption of Weston Presidio's remaining common membership equity interest at a price per common unit equal to the public offering price per share of RE/MAX Holdings, Inc.'s Class A common stock, less underwriting discounts totaling \$76,931,250; and (iii) subsequent to RMCO's redemption of all of the outstanding preferred and common membership units in RMCO from Weston Presidio, RMCO used the remaining net proceeds from the IPO, less \$11,000,000 which was reserved for the payment of IPO expenses, to redeem common units of RMCO from RIHI at a price per common unit equal to the public offering price per share of RE/MAX Holdings, Inc.'s Class A common stock, less underwriting discounts.

(a) Subsequent to the closing of the IPO, RE/MAX Holdings, Inc. will be subject to U.S. federal income taxes, in addition to state, local and international taxes, with respect to our allocable share of any net taxable income of RMCO, which will result in higher income taxes. As a result, the pro forma statements of income reflect an adjustment to our provision for corporate income taxes to reflect an estimated effective rate of 38.0%, which includes provisions for U.S. federal income taxes and assumes the highest statutory rates apportioned to each state, local and/or foreign jurisdiction.

The provision for income taxes from operations differs from the amount of income tax computed by applying the applicable U.S. statutory federal income tax rate to income before provision for income taxes as follows:

Federal statutory rate	35.0%
State and local rate	3.0%
Rate benefit from flow-through entity	(23.0)%
Effective tax rate	15.0%

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Notes to Pro Forma Condensed Consolidated Financial Statements

(Unaudited)

- (b) As a result of the Reorganization Transactions and IPO, RE/MAX Holdings, Inc. became the sole managing member of RMCO. RE/MAX Holdings Inc. owns less than 100% of the economic interest in RMCO but has 100% of the voting power and control of the management of RMCO. Immediately following the Reorganization Transactions and IPO, the non-controlling interest became 60.44%. Net income attributable to the non-controlling interest represents 60.44% of RMCO's income before income taxes. These amounts have been determined based on the actual offering price of \$22.00 in the IPO.
- (c) The shares of Class B common stock do not share in our earnings and are therefore not included in the weighted average shares outstanding or net income available per share. The pro forma basic net income per share calculation includes 11,500,000 shares sold in the IPO. In addition, we granted vested restricted stock units with respect to 107,971 shares of our Class A common stock to our officers and employees, all of which are included in the shares used to calculate pro forma basic and diluted earnings per share.

The pro forma diluted net income per share calculation includes the basic weighted average shares of Class A common stock outstanding plus the dilutive impact of 787,500 outstanding options issued upon substitution of RMCO Class B common unit options calculated using the treasury stock method.

Unaudited Pro Forma Condensed Consolidated Balance Sheet As of September 30, 2013

- (aa) The following pro forma adjustments were recorded to cash (in thousands):

Net proceeds received by RE/MAX Holdings, Inc. from the IPO, before consideration of \$11,000 for IPO expenses	\$ 235,923
Redemption of the liquidity preference held by Weston Presidio	(49,850)
Redemption of RMCO common units held by Weston Presidio and RIHI	(147,768)
	\$ 38,305

The balance of \$38,305,000 includes \$27,305,000 of the proceeds received to purchase t