# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 10-K

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

For the fiscal year ended: December 31, 2019

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**<br>**(State or other jurisdiction of incorporation or organization)** | **80-0937145**<br>**(I.R.S. Employer Identification Number)** |
| **5075 South Syracuse Street**<br>**Denver, Colorado**<br>**(Address of principal executive offices)** | **80237**<br>**(Zip code)** |

***(303) 770-5531***
**(Registrants' telephone number, including area code)**

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

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|---|---|---|
| **Class A Common Stock, par value $0.0001 per share** | RMAX | **New York Stock Exchange** |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is well-known seasoned issuers, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

| | | | |
|---|---|---|---|
| Large Accelerated Filer ☒ | Accelerated Filer ☐ | Non-Accelerated Filer ☐ | Smaller Reporting Company ☐<br>Emerging growth company ☐ |

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

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

As of June 30, 2019, the last business day of the registrant's most recently completed second quarter, the aggregate value of the registrant's common stock held by non-affiliates was approximately $534.2 million, based on the number of shares held by non-affiliates as of June 30, 2019 and the closing price of the registrant's common stock on the New York Stock Exchange on June 30, 2019. Shares of common stock held by each executive officer and director have been excluded since those persons may under certain circumstances be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

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 January 31, 2020 was 17,909,545 and 1, respectively.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement for the 2019 Annual Meeting of Stockholders are incorporated into Part III of this Annual Report on Form 10-K where indicated. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2019.

**RE/MAX HOLDINGS, INC.**

**2019 ANNUAL REPORT ON FORM 10-K**

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## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements that are subject to risks and uncertainties. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements are often identified by the use of words such as “believe,” “intend,” “expect,” “estimate,” “plan,” “outlook,” “project,” “anticipate,” “may,” “will,” “would” and other similar words and expressions that predict or indicate future events or trends that are not statements of historical matters. Forward-looking statements include statements related to:

- our expectations regarding consumer trends in residential real estate transactions;
- our expectations regarding overall economic and demographic trends, including the health of the United States (“U.S.”) and Canadian residential real estate markets, and how they affect our performance;
- our growth strategies of growing our RE/MAX and Motto Mortgage brands, including (a) increasing RE/MAX agent count, increasing the number of closed transaction sides and transaction sides per RE/MAX agent, and (b) increasing the number of open Motto Mortgage offices;
- the anticipated benefits of our technology initiatives;
- the continued strength of our brands both in the U.S. and Canada and in the rest of the world;
- the pursuit of future acquisitions of Independent Regions;
- our intention to pay dividends;
- our future financial performance including our ability to appropriately forecast;
- the effects of laws applying to our business and our future compliance with laws;
- our ability to retain our senior management and other key employees;
- other plans and objectives for future operations, growth, initiatives, acquisitions or strategies, including investments in our technology;
- our ability to effectively implement and account for changes in tax laws;
- the anticipated outcome of the Moehrl/Sitzer litigation, including any risks or uncertainties with regard to any favorable or unfavorable judgements and implications to our industry.

These and other forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors and it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from our expectations, or cautionary statements, are disclosed in “Item 1A.—Risk Factors” and in “Item 7.—Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Annual Report on Form 10-K.

We caution you that the important factors referenced above may not contain all of the factors that are important to you. In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect. The forward-looking statements included in this Annual Report on Form 10-K are made only as of the date of this report. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as required by law.

## PART I

## ITEM 1. BUSINESS

### Overview

We are one of the world's leading franchisors in the real estate industry with two brands and three reportable segments, franchising real estate brokerages globally under the RE/MAX brand ("RE/MAX") and mortgage brokerages within the U.S. under the Motto Mortgage brand ("Motto") and reporting our collective franchise marketing operations as the Marketing Funds. RE/MAX and Motto are 100% franchised—we do not own any of the brokerages that operate under these brands. We focus on enabling our franchisees', RE/MAX agents' and Motto loan originators' success by providing powerful technology, quality education and training, and valuable marketing to build the strength of the RE/MAX and Motto brands. Although we partner with our franchisees to assist them in growing their brokerages, they fund the cost of developing their brokerages. As a result, we maintain a low fixed-cost structure which, combined with our recurring fee-based models, enables us to capitalize on the economic benefits of the franchising model, yielding high margins and significant cash flow.

***Our History.*** RE/MAX was founded in 1973 with an innovative, entrepreneurial culture affording our franchisees and their agents the flexibility to operate their businesses with great independence. In the early years of our expansion in the U.S. and Canada, we accelerated the brand's growth by selling regional franchise rights to independent owners for certain geographic regions, a practice we still employ in countries outside of the U.S. and Canada. RE/MAX has held the number one market share in the U.S. and Canada combined since 1999, as measured by total residential transaction sides completed by our agents. On June 25, 2013, RE/MAX Holdings, Inc. ("Holdings") was formed as a Delaware corporation. On October 7, 2013, we completed an initial public offering of our Class A common stock, which trades on the New York Stock Exchange under the symbol "RMAX". In October 2016, we launched Motto, the first national mortgage brokerage franchise offering in the United States.

***Our Brands***

*RE/MAX.* The RE/MAX strategy is to sell franchises to real estate brokers and help those franchisees recruit and retain the best agents. The RE/MAX brand is built on the strength of our global franchise network, which is designed to attract and retain the best-performing and most experienced agents by maximizing their opportunity to retain a larger portion of their commissions. As a result of our unique agent-centric approach, we have established a nearly 50-year track record of helping millions of homebuyers and sellers achieve their goals, creating several competitive advantages in the process:

- ***Leading agent productivity***. RE/MAX agents are, on average, substantially more productive than the industry average. RE/MAX agents at large brokerages on average outsell competing agents more than two-to-one based on a survey of the largest participating U.S. brokerages per the 2019 REAL Trends U.S. 500 Survey.

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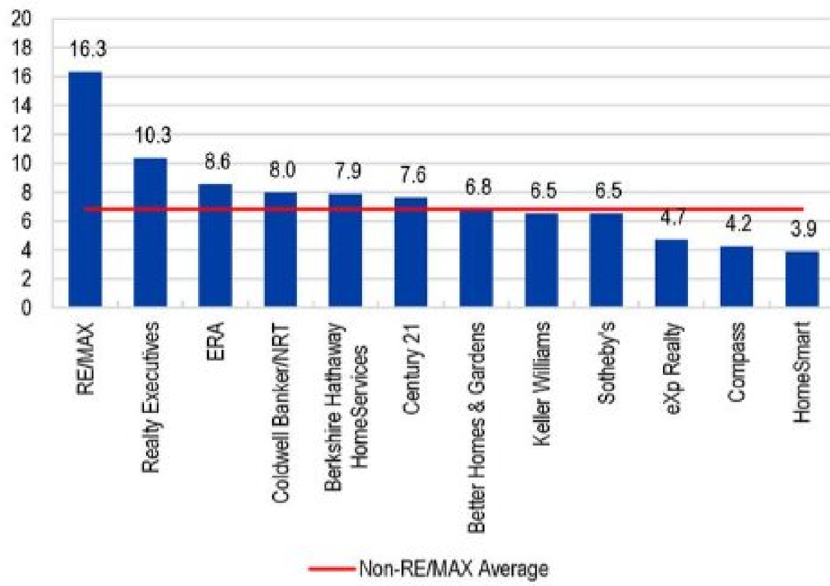
**U.S. Transactions Per Agent**
(Large Brokerages Only) (1)

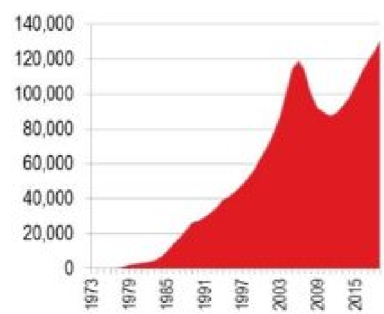



(1) Transaction sides per agent are calculated by RE/MAX based on 2019 REAL Trends 500 data, citing 2018 transaction sides for the 1,757 largest participating U.S.

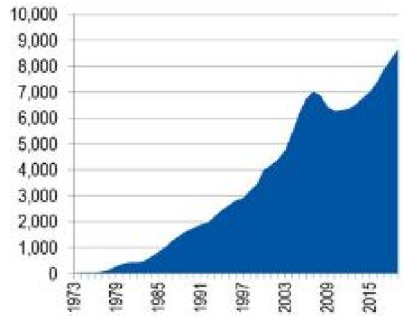
- ***Technology, Tools and Training.*** We have introduced the powerful booj Platform, a fully integrated technology platform custom-built for RE/MAX's unique entrepreneurial culture, in our U.S. Company-owned Regions with additional rollouts to U.S. Independent Regions and Canada scheduled in 2020. We are enhancing the platform over time and will provide additional premium offerings and bolt-ons such as our recent acquisition of First. We also provide agents and brokers the tools to help maximize their productivity through approved supplier arrangements and top-quality education and training.
- ***Leading market share.*** Nobody in the world sells more real estate than RE/MAX, as measured by residential transaction sides.
- ***Leading brand awareness.*** The RE/MAX brand has the highest level of unaided brand awareness in real estate in the U.S. and Canada according to a consumer study conducted by MMR Strategy Group, and our iconic red, white and blue RE/MAX hot air balloon is one of the most recognized real estate logos in the world.
- ***Leading global presence***. We have a growing global presence and our agent count outside the U.S. and Canada continues to increase. Today, the RE/MAX brand has over 130,000 agents operating in over 8,000 offices, and a presence in more than 110 countries and territories—a global footprint bigger than any other real estate brokerage brand in the world.

The majority of RE/MAX revenue—66% in 2019—is derived from fixed, contractual fees and dues paid to us based on the number of agents in our franchise network, so agent count, primarily in the U.S. and Canada, is a key measure of our business performance.

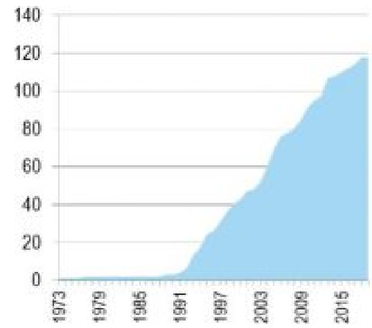
**130,889 Agents**




**8,629 Offices**




**118 Countries and Territories**

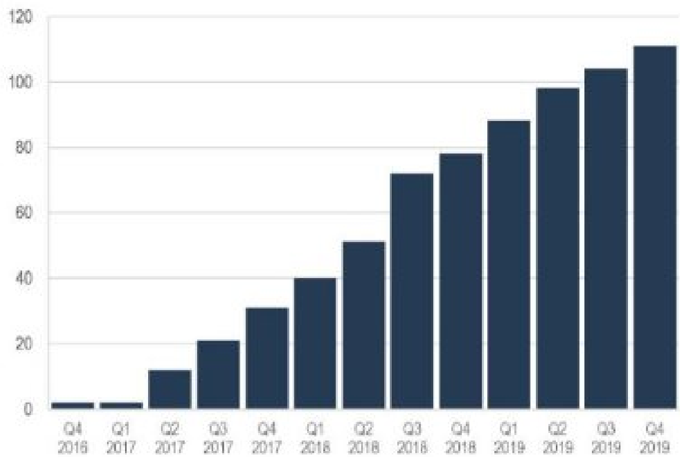



As of December 31, 2019

*Motto Mortgage.* The Motto Mortgage franchise model offers U.S. real estate brokers, real estate professionals and other investors access to the mortgage brokerage business, which is highly complementary to our RE/MAX real estate business and is designed to help Motto franchise owners comply with complex mortgage regulations. Motto franchisees offer potential homebuyers an opportunity to find both real estate agents and independent Motto loan originators at offices near each other. Further, Motto loan originators provide homebuyers with financing choices by providing access to a variety of quality loan options from multiple leading wholesale lenders. In addition, Motto provides powerful technology to its franchisees that simplifies the mortgage process. Motto franchisees are mortgage brokers and not mortgage bankers. Likewise, we franchise the Motto system and are not lenders or brokers.

Motto's revenue model consists of fixed, contractual fees paid monthly by the broker on a per-office basis for being a part of the Motto network and for use of the Motto brand and technology, and from sales of individual franchises. We are in the early stages of offering supplemental franchising models to existing Motto "bricks and mortar" franchises which are offices with a unique physical address with rights granted by a full franchise agreement. The new "virtual" offices and "branchises" are not required to have the same physical footprint. A virtual office is a right granted by Motto to a franchisee to operate in an additional state. The rights for up to two virtual offices are granted to a Motto franchisee at the time of purchase; the virtual office concept allows that franchisee to take advantage of business opportunities in an additional, sometimes adjoining, state. There are no incremental franchise fees or monthly royalty fees directly associated with a virtual office. A branchise is a scaled down Motto franchise. Branchises are designed for an existing Motto franchise owner who desires to expand to an additional location where the franchisee is uncertain whether anticipated loan origination volume will support full franchise fees. Motto franchisees pay a reduced franchise fee and monthly royalty rate for a branchise. Motto Mortgage has grown to over 100 offices across more than 30 states and we expect Motto to continue to grow as we expect to sell more Motto franchises in 2020 than we did in 2019.

**Number of Open Motto Offices***




*only includes full physical Motto offices; excludes virtual offices and branchises

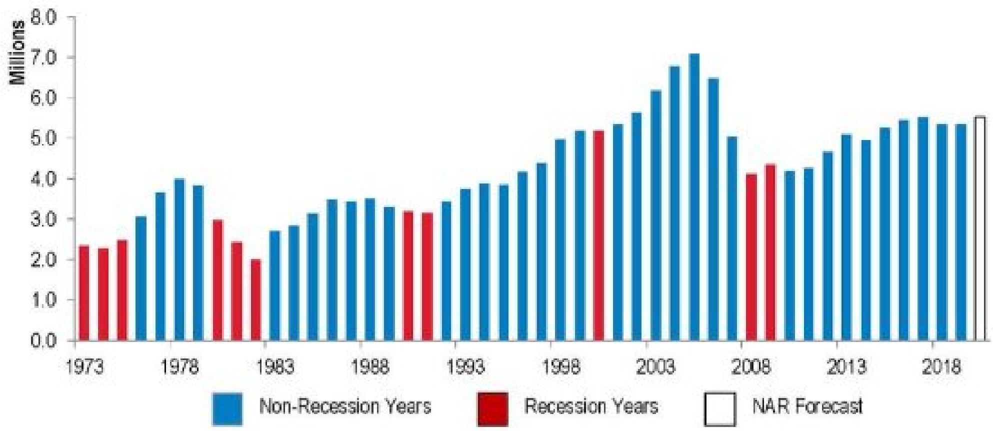
**Industry Overview and Trends**

We are a franchisor of businesses in two facets of the real estate industry—real estate brokerages and mortgage brokerages. With approximately 95% of our revenue, approximately 65% of our RE/MAX agent count coming from our franchising operations in the U.S. and Canada, and 100% of our Motto operations being in the U.S., we are significantly affected by the real estate markets in the U.S. and Canada.

***The U.S. and Canadian Real Estate Industries are Large Markets.*** The residential real estate markets in the U.S. and Canada are approximately $1.9 trillion and $0.2 trillion, respectively, based on 2019 sales volume, according to existing home sales information from the National Association of Realtors ("NAR") and the Canadian Real Estate Association ("CREA").

***The Residential Real Estate Industry is Cyclical in Nature.*** The residential real estate industry is cyclical in nature but has shown strong long-term growth. As illustrated below, the number of existing home sales transactions in the U.S. and Canada has generally increased during periods of economic growth:

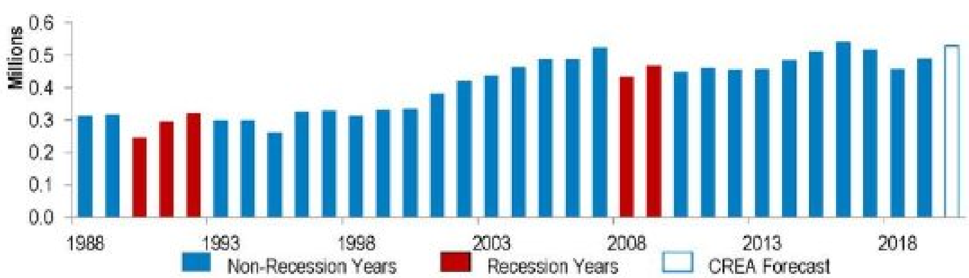
**U.S. Existing Home Sales**




***U.S. Housing Trends.*** The U.S. housing market had mixed results during 2019 as the existing home sales declines of 2018 continued in the first half of 2019. Sales recovered in the second half of 2019 with full year existing home sales ending at the same level as 2018, according to NAR. Persistent price appreciation and low housing inventory, especially at the lower end of the market, continued to challenge homebuyers seeking affordable inventory despite historically moderate interest rates. NAR's January 2020 forecast called for existing home sales to increase an average of 3.4% in 2020.

As we entered 2020, the growth in home sales transactions continued despite ongoing constraints related to shrinking inventory and affordability. Although moderate interest rates, low unemployment and wage appreciation remain positive for U.S. housing trends, continued constriction to inventory levels could stall the current momentum.

**Canadian Existing Home Sales**




***Canadian Housing Trends.*** Most individual markets surveyed across Canada experienced moderate price increases year-over-year from 2018 to 2019. We expect the market to grow in 2020 with the overall rate of price increases to be greater than in 2019. CREA projects the average residential sale price for Canada will increase 6.2% in 2020, which indicates that the desire for home ownership remains strong, particularly among Canadian millennials. And according to the 2020 RE/MAX Housing Market Outlook Report, 51% of Canadians are considering buying a property in the next five years, up from 36% in the prior year.

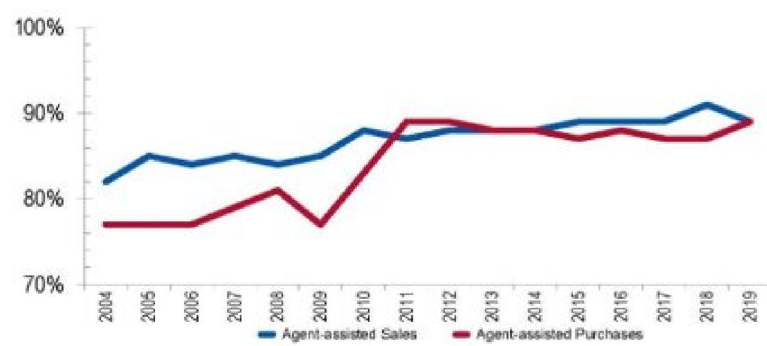
***Favorable Long-Term Demand*.** We believe long-term demand for housing in the U.S. and Canada is driven by many factors including the economic health of the domestic economy, demographic trends, affordability, interest rates and local factors such as demand relative to supply. We also believe the residential real estate market in the U.S. and Canada will benefit from fundamental demographic shifts over the long term, including:

- ***An increase in demand from rising household formations***, including as a result of immigration, population growth and wealth accumulation and wage growth of minorities. According to The State of the Nation's Housing Report 2019 compiled by the Joint Center for Housing Studies of Harvard University (the "JCHS Report"), U.S. household formations are projected to reach 12.0 million between 2018 and 2028. Likewise, the U.S. Census Bureau projects that the U.S. will continue to experience long-term population growth and predicts net immigration of 36 million individuals from 2014 to 2060. And in Canada, Statistics Canada reports that Canada has the highest annual population growth rate of G7 nations and expects the nation's population to grow to more than 40 million individuals by 2068 even in its low-growth scenario.
- ***An increase in demand from generational shifts.*** We believe there is pent-up buying demand among adults in the millennial generation, currently the nation's largest living generation. The millennial generation is moving into their prime home-buying years as they form households and are supported by strong employment, relatively low interest rates, and rising consumer confidence. Similarly, we also believe there is pent-up selling demand from generational shifts, such as many retirement age homeowners, from the "baby boom" generation, who are likely to take advantage of improved housing market conditions in order to sell their existing residences and retire in new areas of the country or purchase smaller homes.
- ***Pent-up demand from supply shortages.*** Supplies of single-family homes for sale remain relatively scarce, particularly at the lower-cost end of the spectrum. The conversion of single-family homes to rental properties, the ongoing decline in residential mobility rates and the low level of single-family construction are likely contributors to the low level of supply, according to the JCHS Report. Additionally, while affordability pressures have eased, the JCHS Report notes this issue remains widespread, a long-term trend which has not been solved. Canada is faced with similar challenges with Statistics Canada noting more than 5% or more than 700 thousand households are in housing that is not suitable for their needs and nearly 20% of households do not report being satisfied with their housing. Should these supply constraints be remedied, we believe the real estate industry would see a substantial benefit.

***Notable Broker and Agent Trends***. Notable trends impacting residential real estate brokers and agents include:

- ***Almost 90% of all U.S. homebuyers and sellers use an agent*** – About 89% of sellers and purchasers were represented by a real estate agent in 2019, according to NAR data. These figures have climbed over the last decade and a half—a period of time during which technology has materially changed the typical home-buying or selling transaction:

**Percentage of Home Buyers and Sellers Using an Agent**




Source: NAR Profile of Home Buyers and Sellers

- ***Competition for agents and listings remains fierce*** – Competition for agents, especially highly productive agents, and listings has always been fierce and today is no different. Franchisors and brokers are continually refining and fine-tuning their economic models in order to craft what they believe to be the most compelling value proposition in order to attract and retain the most productive agents and to capture consumer listings. The year 2019 remained heated in this regard as the industry witnessed the continuation of significant capital invested in relatively new entrants to our industry, resulting in many well-financed competitors offering a wide variety of business models. See *Competition* for additional discussion.

- ***The importance of technology continues to increase*** – We believe industry market participants will continue to focus on technology investments as evidenced by increased capital flowing into the industry. We believe mobile platforms, artificial intelligence and predictive analytics are increasingly becoming a point of focus as the industry looks to use technology to simplify and streamline the process of lead cultivation and completing transactions. In response, many established brokers are favoring proprietary technology as opposed to purchasing it from third parties.
- ***Alternate business models increase amid record venture capital investment*** – While the majority of home buyers and sellers still use agents, the number of alternate business models continues to expand. Furthermore, investments into real estate technology, especially as it relates to alternate models, continues to increase. According to an October 2019 Real Estate Funding Report by T360, investment in residential real estate technology through the third quarter of 2019 totaled \$2.14 billion, or 121% of full-year 2018 levels. Nearly \$1.5 billion, or 69% of total residential funding in 2019 through September, went to four iBuyer companies. iBuyers are companies that make an online, all-cash offer to a potential home seller and if the offer is accepted, the iBuyer takes ownership of the property and is responsible for reselling the home. As the iBuyer model is a quicker alternative to a traditional real estate transaction, those sellers who need or want to sell their home quickly find it particularly attractive. Some brokerages have begun to partner with iBuyers or offer their own iBuyer program. Most iBuyer activity tends to be below the median price range. In addition to iBuyers who operate as discussed above, other alternate business models exist including those companies who seek to purchase an existing homeowner's "move-up" or "dream" home for cash and then subsequently sell the currently occupied property.

***The Long-Term Value Proposition for Real Estate Brokerage Services.*** We believe the traditional agent-assisted business model, especially those supported by professional and highly productive agents, compares favorably to alternative channels of the residential brokerage industry, such as discount brokers, "for sale by owner" listings, iBuyers, and lower-fee brokerages catering to consumers who use technology for some of the services traditionally provided by brokers, because full-service brokerages are best suited to address many of the key characteristics of real estate transactions, including:

(i) the complexity and large monetary value involved in home sale transactions,

(ii) the infrequency of home sale transactions,

(iii) the high price variability in the home market,

(iv) the intimate local knowledge necessary to advise clients on neighborhood characteristics,

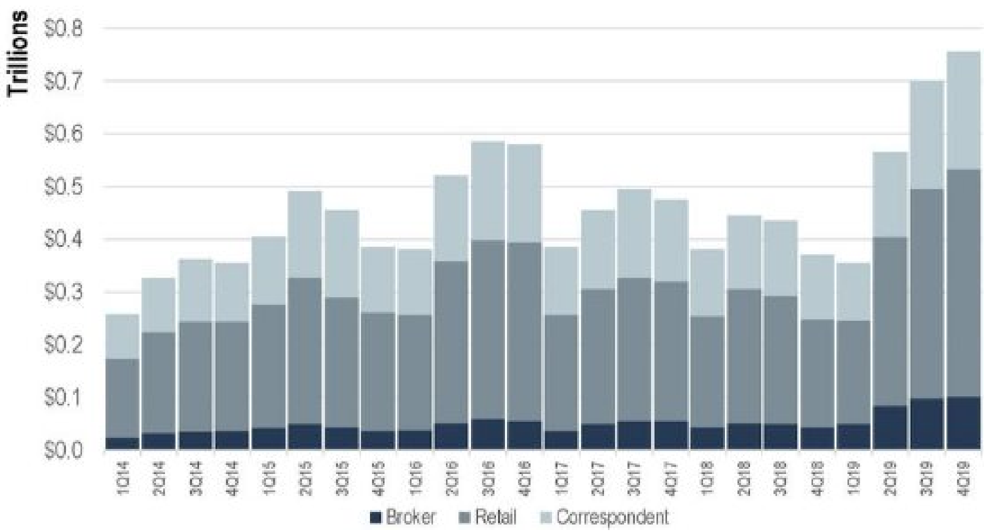
(v) the unique nature of each particular home, and

(vi) the consumer's need for a high degree of personalized advice and support in light of these factors.

For these reasons, we believe that consumers will continue to favor the full-service agent model for residential real estate transactions. In fact, a 2019 survey we commissioned from Camp & King of over 5,000 consumers across the U.S. and Canada noted that more than three quarters of home buyers and sellers still see the value of a full-service agent. In addition, although listings are available for viewing on a wide variety of real estate websites, we believe an agent's local market expertise provides the ability to better understand the inventory of for-sale homes and the interests of potential buyers. This knowledge allows the agent to customize the pool of potential homes they show to a buyer, as well as help sellers to present their home professionally to best attract potential buyers.

***The Long-Term Value Proposition for Mortgage Brokerage Services.*** Likewise, we believe mortgage brokers provide choice and a valuable "concierge" service for consumers. Mortgage brokers are familiar with the latest loan programs and choices available through various wholesale lenders. A professional mortgage broker can introduce consumers to loan programs from several lenders, providing choice and information consumers may be unlikely to locate on their own. In 2019, the percentage of mortgage originations handled by mortgage brokerages was still below average historical levels, which we believe shows potential for growth in the mortgage brokerage production channel. In 2019, we began to realize that potential as the percentage of mortgage originations handled by mortgage brokerages began to rise. We believe there is room for additional growth as the percentage of mortgage originations handled by mortgage brokerages in 2019 has still not reached maximum levels seen in the past.

**Total Mortgage Originations**

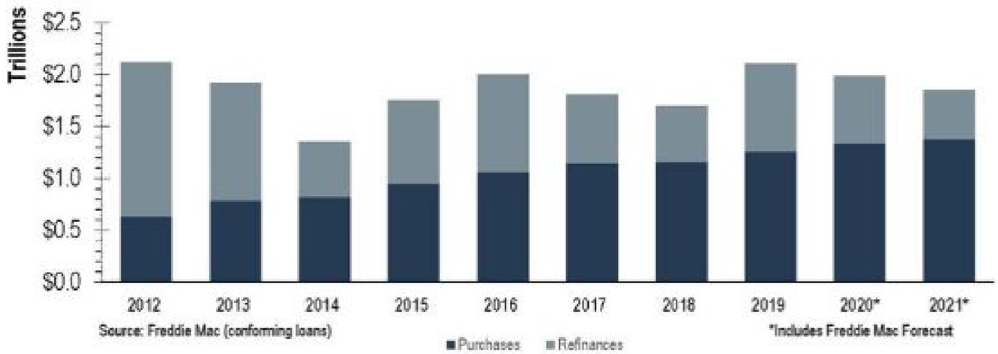



Source: Inside Mortgage Finance Publications, Inc. Copyright © 2020 Used with permission.

Purchase-money mortgage originations correlate to the overall number of home sales and home prices. Home purchases are driven primarily by the buyer's personal and professional circumstances, whereas refinances depend mainly upon interest rates.

According to Federal Home Loan Mortgage Corporation (known as "Freddie Mac"), purchase-money originations are expected to increase gradually in the next few years. As compared to competitors, Motto has a significantly higher ratio of purchase-money mortgage originations to refinances at an approximately 80/20 split. We believe that the expected increase in purchase-money originations will provide a growth opportunity for a Motto franchise.

**Purchase Mortgage Originations**




**Our Franchise Model and Offering**

***Introduction to Franchising.*** Franchising is a distributed model for licensing the use of the franchisor's brand and technology, tools, and training. In return, the franchisee retains ownership and sole responsibility for the local business and its risks, and therefore a substantial portion of the profits it generates. The successful franchisor provides its franchisees: i) a unique product or service offering; ii) a distinctive brand name, and as the system gains market share, the favorable consumer recognition that brand comes to symbolize; and iii) technology, tools and training to help franchisees operate their business effectively, efficiently and successfully. Because franchising involves principally the development and licensing of intellectual property, and the costs of retail space and employees are borne by the individual unit owner, it has a low fixed-cost structure typified by high gross margins, allowing the franchisor to focus on innovation, franchisee training and support, and marketing to grow brand reputation.

***How Brokerages Make Money.*** Residential real estate brokerages typically realize revenue by charging a commission based on a percentage of the price of the home sold and/or by charging their agents, who are independent contractors, fees for services rendered. The real estate brokerage industry generally benefits in periods of rising home prices and transaction activity (with the number of licensed real estate agents generally increasing during such periods) and is typically adversely impacted in periods of falling prices and home sale transactions (with the number of licensed real estate agents generally decreasing during such periods).

Residential mortgage brokerages typically realize revenue by charging fees for their service, which is based on a percentage of the mortgage loan amount. The mortgage brokerage industry generally benefits from periods of increasing home sales activity and rising home prices, as this generally results in increased purchase-money mortgage originations (loans that arise during the initial sale of a house), and periods when homeowners refinance to take advantage of lower interest rates. The mortgage brokerage industry is usually adversely impacted in periods of decreasing home sales activity, as this results in less purchase-money mortgage originations, and periods of less favorable interest rates making homeowners less likely to refinance.

***The RE/MAX "Agent-Centric" Franchise Offering.*** We believe that our "agent-centric" approach is a compelling offering in the real estate brokerage industry, and it enables us to attract and retain highly productive agents and motivated franchisees to our network and drive growth in our business and profitability. Our model maximizes our agent's productivity by providing the following combination of benefits to our franchisees and agents:

- *High Agent Commission Fee Split and Low Franchise Fees*. The RE/MAX high commission split concept is a cornerstone of our model and, although not unique, differentiates us in the industry. That differentiation is most evident when our brand advantages and services are factored in as part of the concept. We recommend to our franchisees an agent-favorable commission split of 95%/5%, in exchange for the agent paying fixed fees to share the overhead and other costs of the brokerage. This model allows high-producing agents to earn a higher commission compared to traditional brokerages where the broker typically takes 30% to 40% of the agent's commission, and it provides brokers with the resources to offer key services and support to their agents.

- *Affiliation with the Best Brand in Residential Real Estate*. With number one market share in the U.S. and Canada combined as measured by total residential transaction sides completed by RE/MAX agents, and leading unaided brand awareness in the U.S. and Canada, according to a consumer study by MMR Strategy Group, we reinforce brand awareness through marketing and advertising campaigns that are supported by our franchisees' and agents' local marketing.
- *Entrepreneurial, High-Performance Culture*. Our brand and the economics of our model generally attract driven, professional, entrepreneurially-minded franchisees, and we allow them autonomy to run their businesses independently, including the freedom to set commission rates and oversee local advertising aligned with RE/MAX standards.
- *Powerful Technology and Marketing Tools.* We believe we offer industry-leading technology highlighted by our proprietary booj Platform, First mobile app, and the recently enhanced consumer facing app and remax.com. The highly-customized booj Platform integrates a suite of digital products that empower high-producing agents, brokers and teams to proactively establish, manage and grow client relationships. With Customer Relationship Management ("CRM") at the core of this ecosystem, the booj Platform utilizes deal management and lead cultivation tools to streamline the work of agents from lead generation to post-close nurturing and beyond, while integrating key partnerships that are widely adopted across the industry. The First mobile app leverages data science, machine learning and human interaction to help real estate professionals better leverage the value of their personal network. Photofy + RE/MAX gives our agents an exclusive social marketing tool to complement the variety of marketing tools we offer our agents.
- *RE/MAX University® Training Programs*. RE/MAX University® offers on-demand access to industry information and advanced training in areas such as distressed properties, luxury properties, senior clients, buyer agency and many other specialty areas of real estate.
- *RE/MAX Marketing and Promotion***.** We believe the widespread recognition of the RE/MAX brand and our iconic red, white and blue RE/MAX hot air balloon logo and property signs is a key aspect of our value proposition to agents and franchisees. Representing the majority of our Marketing Funds activities, a variety of advertising, marketing and promotion programs build our brand and generate leads for our agents, including leading websites such as remax.com, advertising campaigns using television, digital marketing, social media, print, billboards and signs, and appearances of the well-known RE/MAX hot air balloon.

  Event-based marketing programs, sponsorships, sporting activities and other similar functions also promote our brand. These include our support, since 1992 for Children's Miracle Network Hospitals in the U.S. and Children's Miracle Network in Canada, to help sick and injured children. Through the Miracle Home program, participating RE/MAX agents donate to Children's Miracle Network Hospitals once a home sale transaction is complete.

  Our franchisees and their agents fund nearly all of the advertising, marketing and promotion supporting the RE/MAX brand, which, in the U.S. and Canada, occurs primarily on two levels:

  - *Marketing Fund Regional, Pan-Regional and Local Marketing Campaigns*. Funds are collected from franchisees by our Marketing Funds entities in Company-owned Regions to support both regional and pan-regional marketing campaigns to build brand awareness and to support the Company's agent and broker technology. The use of the fund balances is restricted by the terms of our franchise agreements. Independent Regions may contribute to national or pan-regional creative and/or media campaigns to achieve economies of scale in the purchase of advertising but are generally responsible for any regional advertising in their respective areas.

- *Agent Sponsored Local Campaigns.* Our franchisees and agents engage in extensive promotional efforts within their local markets to attract customers and drive agent and brand awareness locally. These programs are subject to our brand guidelines and quality standards for use of the RE/MAX brand, but we allow our franchisees and agents substantial flexibility to create advertising, marketing and promotion programs that are tailored to local market conditions.

**RE/MAX "Growth Engine."** The RE/MAX Growth Engine is a virtuous circle whereby all of the key stakeholders in our franchise network—RE/MAX, our franchisees, agents and consumers—benefit from mutual investment and participation in the RE/MAX network or, as we say in RE/MAX, "Everybody wins." By building our leading brand around an agent-centric model, we believe we are able to attract and retain highly productive agents and motivated franchisees. As a result, our agents and franchisees help to further enhance our brand and market share, expand our franchise network, and ultimately grow our revenue, as illustrated below:


The RE/MAX Growth Engine leads to the following unique benefits for our franchisees and agents and RE/MAX:

| RE/MAX Franchisee and Agent Benefits | RE/MAX Benefits |
|---|---|
| • Affiliation with the best brand in the real estate industry | • Network effect drives brand awareness |
| • Entrepreneurial culture | • Franchise fee structure provides recurring revenue streams |
| • High agent commission split, low franchise fees and highly productive agents | • Franchise model—highly profitable with low capital requirements—leads to strong cash flow generation and high margins |
| • Access to our technology and tools | |
| • Comprehensive, award-winning training programs | |

***RE/MAX Four-Tier Franchise Structure.*** RE/MAX is a 100% franchised business, with all of the RE/MAX branded brokerage office locations being operated by franchisees. We franchise directly in the U.S. and Canada, in what we call "Company-owned Regions." Brokerage offices, in turn, enter into independent contractor relationships with real estate sales agents who represent real estate buyers and sellers. In the early years of our expansion in the U.S. and Canada, we sold regional franchise rights to independent owners for certain geographic regions ("Independent Regions"), pursuant to which those Independent Regions have the exclusive right to sell franchises in those regions. We have pursued a strategy to acquire those regional franchise rights from Independent Regions in the U.S. and Canada.

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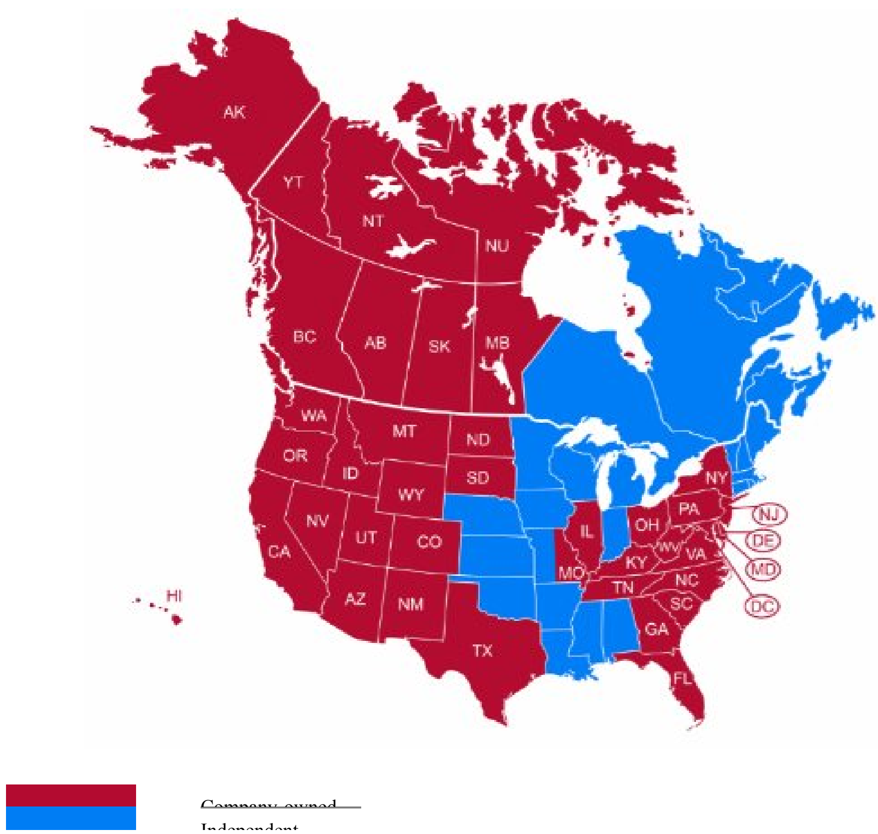
The following depicts our franchise structure and the location of our Company-owned versus Independent Regions:

| **Tier** | **Description** | **Services** |
|---|---|---|
| **Franchisor (RE/MAX, LLC)** | Owns the right to the RE/MAX brand and sells franchises and franchising rights. | ● Brand<br>● Technology<br>● Marketing<br>● Training & tools |
| **Independent Regional Franchise Owner** | Owns rights to sell brokerage franchises in a specified region.<br>*Typically, 20-year agreement with up to three renewal options.*<br>*RE/MAX, LLC franchises directly in Company-owned Regions, in the rest of the U.S. and Canada.* | ● Local Services<br>● Regional Advertising<br>● Franchise Sales<br>*In Company-owned Regions in the U.S. and Canada, RE/MAX, LLC performs these services.* |
| **Franchisee (Broker-Owner)** | Operates a RE/MAX-branded brokerage office, lists properties and recruits agents.<br>*Typically, 5-year agreement.* | ● Office Infrastructure<br>● Sales Tools / Management<br>● Development & Coaching<br>● Broker of Record |
| **Agent** | Branded independent contractors who operate out of local franchise brokerage offices. | ● Represents real estate buyer or seller<br>● Typically sets own commission rate |



In general, the franchisees (or broker-owners) do not receive an exclusive territory in the U.S. except under certain limited circumstances. Prior to opening an office, a franchisee or principal owner is required to attend a four- to five-day training program at our global headquarters.

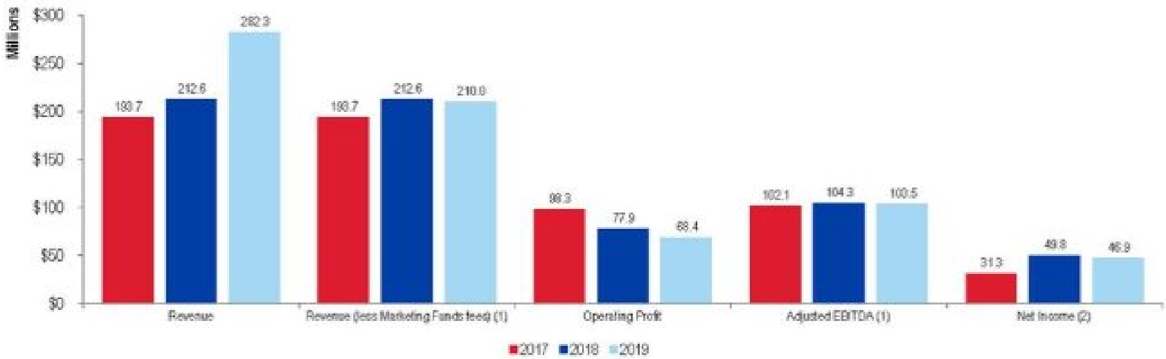
***The Motto Mortgage Franchise Offering*.** Through our Motto business, we are a mortgage brokerage franchisor, not a lender or mortgage brokerage. Our franchisees are brokers, not lenders, and so neither we nor our franchisees fund or service any loans. As a franchisor, we help our Motto franchisees establish independent mortgage brokerage companies, with a model designed to comply with complex regulations, essentially providing a "mortgage brokerage in a box". This model not only creates an ancillary business opportunity for current real estate brokerage firms, but also offers opportunities for mortgage professionals seeking to open their own businesses and other independent investors interested in financial services. The Motto Mortgage model offers value to our franchisees by offering:

- *Setup Guidance.* We guide owners through every step of the setup process.
- *Compliance, Training, and Support.* We provide robust compliance support, including examination assistance and a system built with transparency in mind. To help each franchise owner, we provide support structures that allow them to spend their time getting more business.
- *Access to multiple lenders.* Motto Mortgage franchisees work with a pre-vetted group of wholesale lenders to streamline the shopping process and to provide customers with competitive choices.
- *Technology.* We've seamlessly integrated industry leading systems into one, time-saving technological ecosystem including best in class mortgage origination, CRM and marketing platforms.
- *Franchising Expertise.* As a member of a family of companies with over 45 years of franchising experience, we provide best practices to franchisees.

Our Motto Mortgage brokerage franchisor, Motto Franchising, LLC, offers seven-year agreements with franchisees. Motto sells franchises directly throughout the U.S. as there are no regional franchise rights in the Motto system. Our customers are both RE/MAX and non-RE/MAX real estate brokers, real estate professionals and other investors seeking access to the mortgage brokerage business. We are also in the early stages of offering supplemental franchising models in which Motto offers brokers with an existing Motto franchise the ability to expand their physical and virtual presence for a reduced contractual fee (aka "branchise"). The aim of these new models is to give franchisees the flexibility to expand their business to places where it would not have been feasible to support a full additional franchise while keeping offices compliant with state branch regulations. These alternative models are not included in our count of open Motto offices. There are not presently any other national mortgage brokerage franchisors in the U.S.

**Financial Model**

As a franchisor, we maintain a low fixed-cost structure. In addition, our stable, fee-based model derives a majority of our revenue from recurring fees paid by our RE/MAX and Motto franchisees, RE/MAX Independent Region franchise owners and RE/MAX agents. This combination helps us drive significant operating leverage through incremental revenue growth, yielding healthy margins and significant cash flow.

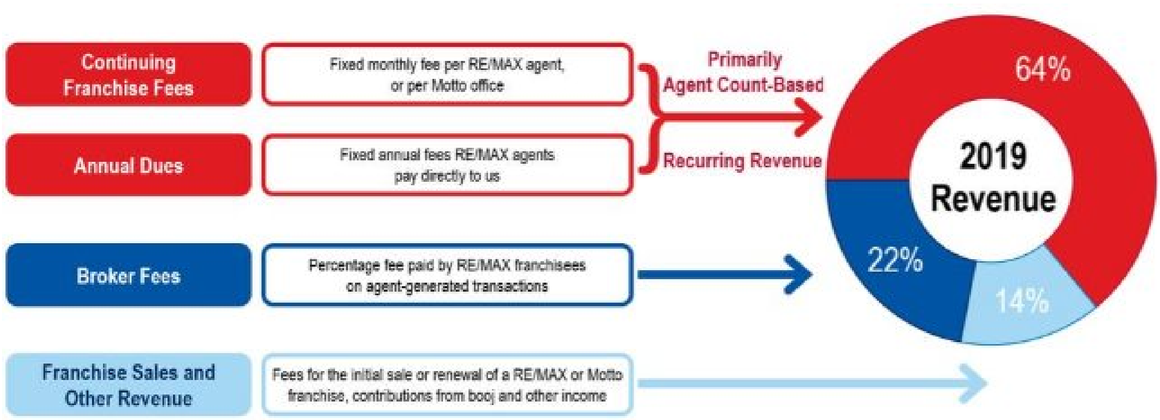



(1) Revenue (less Marketing Funds fees) and Adjusted EBITDA are non-GAAP measures of financial performance that differ from U.S. Generally Accepted Accounting Principles. Revenue (less Marketing Fund fees) is calculated directly from our consolidated financial statements as *Total revenue* less *Marketing Funds Fees*. See "Item 7.—Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of Adjusted EBITDA and a reconciliation of the differences between Adjusted EBITDA and net income.
(2) Excludes adjustments attributable to the non-controlling interest. See "Corporate Structure and Ownership" below.

***Revenue Streams.***

*Holdings.* The chart below illustrates our revenue streams:

**Holdings Revenue Streams as Percentage of 2019 Total Revenue***




*Excluding Marketing Funds

*RE/MAX*

The amount of the various RE/MAX fee types will vary significantly depending on whether coming from Company-owned Regions, Independent Regions, or Global Regions, with the greatest amounts in Company-owned Regions. See discussion of revenue per agent below.

*Continuing Franchise Fees*. Continuing franchise fees are fixed contractual fees paid monthly by regional franchise owners in Independent Regions or franchisees in Company-owned Regions based on the number of RE/MAX agents in the respective franchised region or office or paid by Motto franchisees based on the number of offices open.

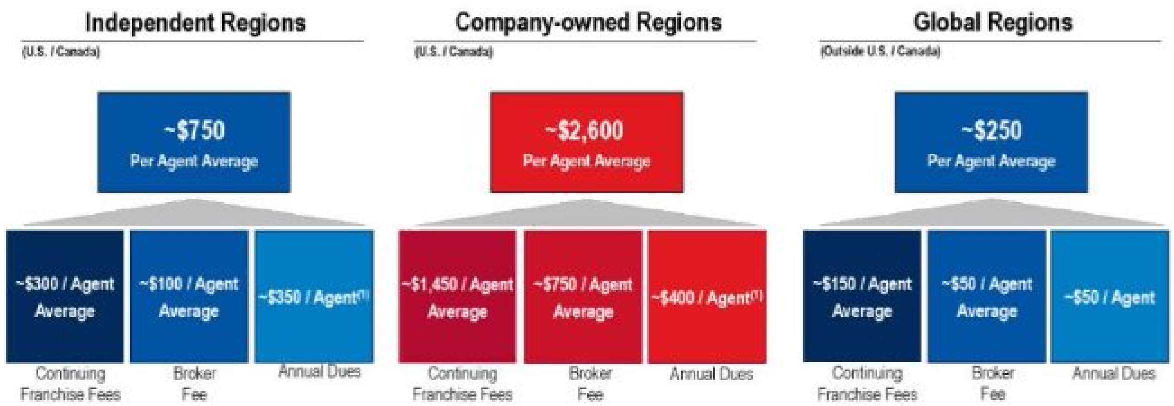
*Annual Dues*. Annual dues are a fixed membership fee paid annually by RE/MAX agents directly to us to be a part of the RE/MAX network and to use the RE/MAX brand. Annual dues are a flat fee per agent.

*Broker Fees*. Broker fees are assessed against real estate commissions paid by customers when a RE/MAX agent sells a home. Generally, the amount paid is 1% of the total commission on the transaction, although the percentage can vary based on the specific terms of the broker fee agreement and in certain locations (mainly Canada and Texas) is capped at a certain level of commissions, and in Independent Regions in Canada is not charged. The amount of commission collected by brokers is based primarily on the sales volume of RE/MAX agents, home sale prices in such sales and real estate commissions earned by agents on these transactions. Broker fees, therefore, vary based upon the overall health of the real estate industry and the volume of existing home sales. Additionally, agents in Company-owned Regions existing prior to 2004, the year we began assessing broker fees, are generally "grandfathered" and continue to be exempt from paying a broker fee. As of December 31, 2019, grandfathered agents represented approximately 17% of total agents in U.S. Company-owned Regions. We expect that over time, exempt agents will be replaced by new agents who will pay broker fees, which will have a positive impact on our broker fee revenue independent of changes in agent count, sales volume and home sale prices. Motto franchisees do not pay any fees based on the number or dollar value of loans brokered.

*Franchise Sales and Other Revenue*. Franchise sales and other revenue primarily consists of:

- *Franchise Sales.* Revenue from sales and renewals of individual franchises in RE/MAX Company-owned Regions, Independent Regions, as well as RE/MAX regional and country master franchises for Independent Regions in global markets outside of North America ("Global Regions"). We receive only a portion of the revenue from the sales and renewals of individual franchises from Independent and Global Regions. The franchise sale initial fees and commissions related to franchise sales are recognized over the contractual term of the franchise agreement.
- *Other Revenue.* Revenue from (a) preferred marketing arrangements and approved supplier programs with such revenue being either a flat fee or a percentage of revenue from products and services sold to RE/MAX agents), (b) event-based revenue from training and conventions, including our RE/MAX annual convention, (c) revenue from booj's legacy business of supplying websites and other technology to independent real estate brokerages and (d) technology subscription revenue such as for the First app.

*Revenue per Agent in Owned versus Independent RE/MAX Regions*. We receive a higher amount of revenue per agent in our Company-owned Regions than in our Independent Regions in the U.S. and Canada, and more in Independent Regions in the U.S. and Canada than in Global Regions. We receive the entire amount of the continuing franchise fee, broker fee and initial franchise and renewal fee in Company-owned Regions, whereas we receive only a portion of these fees in Independent Regions. We generally receive 15%, 20% or 30% of the amount of such fees in Independent Regions, which is a fixed rate in each particular Independent Region established by the terms of the applicable regional franchise agreement. We base our continuing franchise fees, agent dues and broker fees outside the U.S. and Canada on the same structure as our Independent Regions, except that the aggregate level of such fees is substantially lower in these markets. In 2019, the average annual revenue per agent was as follows:




(1) Annual dues are currently a flat fee of US$410/CA$410 per agent annually for our U.S. and Canadian agents. The average per agent for the year ended December 31, 2019 in both Independent Regions and Company-owned Regions reflects the impact of foreign currency movements related to revenue received from Canadian agents. The ratio of Canadian agents to U.S. agents in Independent Regions has increased as a result of U.S. Independent Region acquisitions.

*Motto.* Our Motto revenue is derived from continuing franchise fees and franchise sales.

- *Continuing Franchise Fees*. Motto continuing franchise fees are fixed contractual fees paid monthly by Motto franchisees. The monthly fees paid by the brokers are initially discounted and take approximately 12 to 14 months after the sale of a Motto franchise for a franchisee to ramp up to paying a full set of monthly fees. Motto franchisees do not pay any fees based on the number or dollar value of loans brokered.

- *Franchise Sales.* Revenue from sales and renewals of individual franchises. The franchise sale initial fees and commissions related to franchise sales are recognized over the contractual term of the franchise agreement.

**Value Creation and Growth Strategy**

As a franchisor, we generate favorable margins and healthy amounts of cash flow, which facilitates our value creation and growth strategy. As a leading franchisor in the residential real estate industry in the U.S., Canada and globally, we create shareholder value by:

a) growing organically by building on our network of over 8,000 RE/MAX franchisees and 130,000 agents and our network of over 100 open Motto mortgage brokerage franchises;

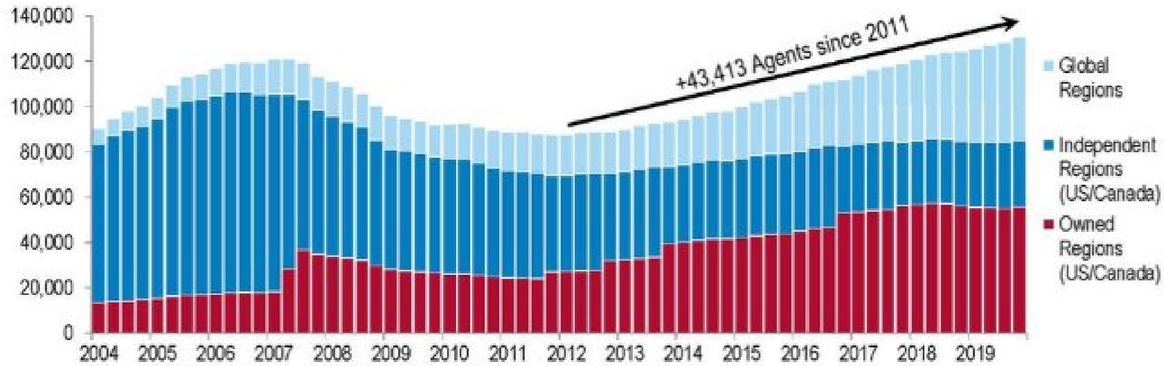
b) catalyzing growth by reacquiring regional RE/MAX franchise rights and acquiring other businesses complementary to our RE/MAX and Motto franchises; and

c) returning capital to shareholders.

***Organic Growth*.** We believe we have multiple opportunities to grow organically, including principally through: a) RE/MAX agent count growth in the U.S. and Canada; b) RE/MAX and Motto franchise sales; c) organic growth from global regions; d) pricing; and e) increases in agent productivity or higher home prices. Other potential organic growth opportunities include monetizing our technology offerings and developing our approved supplier relationships to drive additional revenue.

*RE/MAX Agent Count Growth.* With respect to RE/MAX agent count growth, we experienced agent losses during the downturn, but we returned to a period of net global agent growth in 2012 and our total year-over-year growth in agent count continued from 2013 through 2019.

**RE/MAX Agent Count**

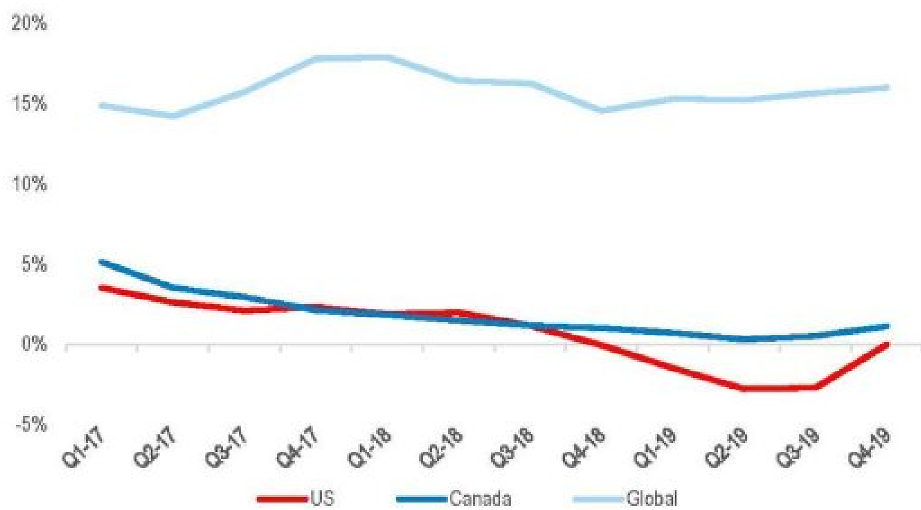



Number of Agents at Quarter-End (1)

(1) Agents that converted from an Independent Region to a Company-owned Region are moved from the Independent Region agent count to the Company-owned Region agent count during the quarter of the acquisition.

As shown in the following table, during the second half of 2018 our agent count growth in U.S. decelerated as U.S. existing home sales decelerated, a correlation we have seen previously. This deceleration poses challenges to organic growth from agent count which we have responded to with recruiting initiatives, including temporary fee waivers among other things, that improved the trend in the fourth quarter of 2019.

**RE/MAX Agent Count Year-Over-Year Growth Rate by Geography**

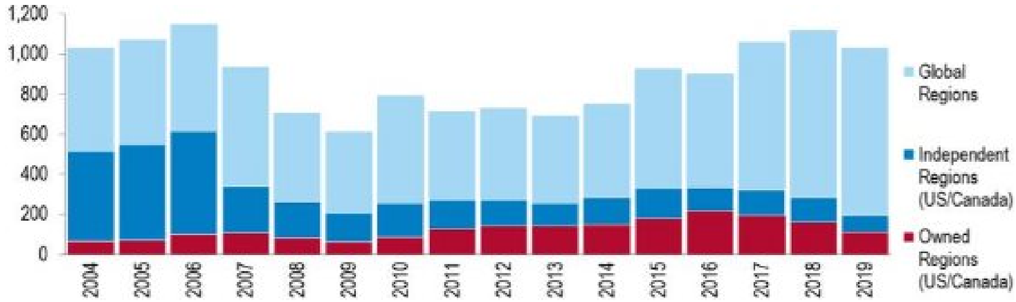



Contemporaneous with an abrupt decline in existing U.S. home sales in late 2018, we experienced a decline in our U.S. agent count from the fourth quarter of 2018 through the third quarter of 2019. To reinvigorate U.S. agent growth, we introduced several recruitment programs including some that incentivized recruitment through temporary waivers of fees for new agents. We have several initiatives designed to improve the value proposition offered to both franchisees and agents, which we believe will help recruiting and retention. Two key initiatives in 2020 are:

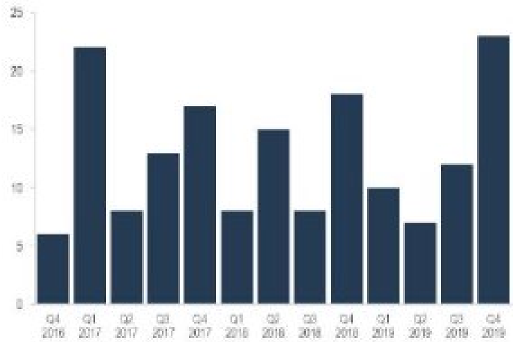
- *Technology*. We have introduced the powerful booj Platform, which is a custom-built, integrated platform with products that interact and evolve with one another. With Customer Relationship Management ("CRM") at the core of this ecosystem, the booj Platform is a holistic real estate technology solution that allows agents to be more strategic in their interactions with current transactions and new potential business, ultimately improving our agents' productivity. Currently, the platform is rolled out to U.S. Company-owned Regions and beginning in 2020, we plan to offer the platform to Canada and participating U.S. Independent Regions, with the ultimate plan to offer the booj Platform throughout our global network. As we continue to roll out the booj Platform, successful adoption and training of our brokers and agents are key priorities in 2020. In addition, we will continue to focus on enhancing and investing in the booj technology and evaluating complementary technology through partnerships or smaller acquisitions. Providing the best online and offline experience for RE/MAX and Motto affiliates and consumers is one of our primary strategic technology goals and we expect to continue to invest meaningfully in technology as we seek to enhance our overall value proposition, as with the recent acquisition of First.
- *Agent Count Growth and Retention*. We have increased our focus on the recruiting and retention of our agents by partnering with our franchise owners. In late 2019, we launched an incentive-based growth campaign that focused on maintaining and recruiting new agents. This campaign reinvigorated recruiting efforts within the network and was well received as the overall participation of franchise owners in the campaign exceeded our expectations. Heading into 2020, we will continue to expand our recruiting initiatives and will incorporate other direct contact opportunities (such as the RE/MAX annual convention, speaking tours, and other company events) with various contact points throughout 2020.

*RE/MAX and Motto Franchise Sales.* We intend to continue adding franchises in new and existing markets, and as a result, increase our global market share and brand awareness. Each incremental franchise leverages our existing infrastructure, allowing us to drive additional revenue at little incremental cost. We are committed to reinvesting in the business to enhance our value proposition through a range of new and existing programs and tools.

**RE/MAX Office Franchise Sales**



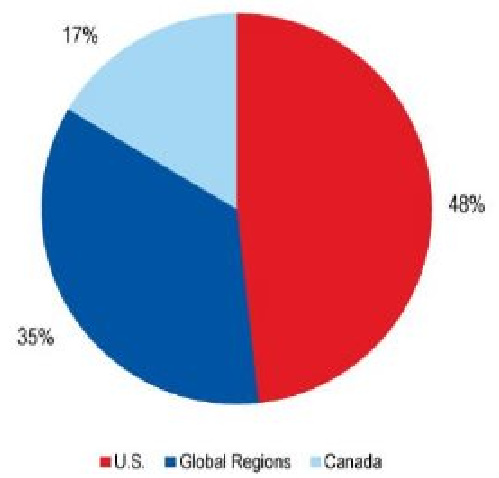

**Number of Motto Franchises Sold***



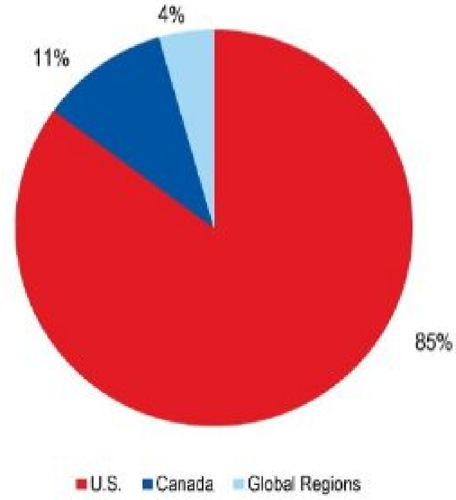

*only includes full physical Motto offices; excludes virtual offices and branchises

*Organic Growth from Global Regions.* We have a growing global presence with our agent count outside the U.S. and Canada growing almost 16% in 2019 and 33% over the past two years. Over the last two decades, the size of the RE/MAX network outside of the U.S. and Canada has grown to represent approximately a third of total RE/MAX agent count. We believe offering the booj Platform internationally is another growth opportunity we plan to take advantage of. However, we earn substantially more of our revenue in the U.S. than in other countries as a result of the higher average revenue per agent earned in Company-owned Regions than in Independent Regions, and in the U.S. and Canada as compared to the rest of the world:

**RE/MAX Agents by Geography**
As of Year-end 2019




**RE/MAX Revenue by Geography [(a)]**
Percent of 2019 Revenue




(a) Excludes revenues from the Marketing Funds, Motto and booj.

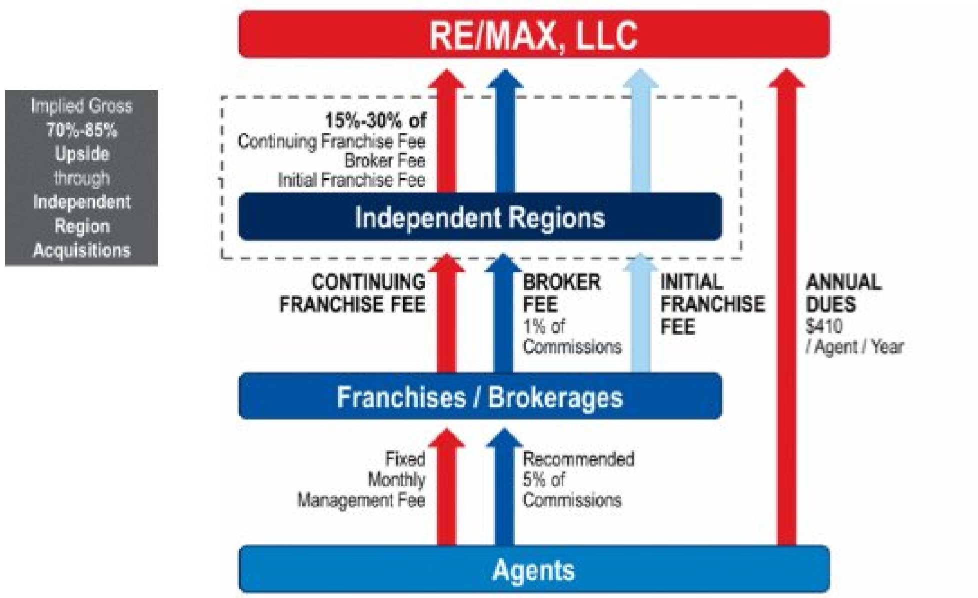
*Pricing.* Given the low fixed infrastructure cost of our RE/MAX franchise model, modest increases in aggregate fees per agent should positively affect our profitability. We may occasionally increase our aggregate fees per agent in our Company-owned Regions as we enhance the value we offer to our network. We are judicious with respect to the timing and amount of increases in aggregate fees per agent and our strategic focus remains on growing agent count through franchise sales, recruiting programs and retention initiatives. Following are the annualized average price increases for the previous five years, reflected in the year in which the increase was effective.

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| **Continuing Franchise Fees** | | | | | |
| Company-owned Regions - U.S. | - | 3.9% | - | - | - |
| Company-owned Regions - Canada | - | 1.9% | 1.9% | - | - |
| | | | | | |
| **Annual Dues** | | | | | |
| Company-owned Regions - U.S. | - | - | 2.5% | - | - |
| Company-owned Regions - Canada | - | - | 2.5% | - | - |

***Growth Catalysts through Acquisitions.*** We intend to continue to pursue acquisitions of the regional RE/MAX franchise rights in a number of Independent Regions in the U.S. and Canada, as well as other acquisitions in related areas that build on or support our core competencies in franchising and real estate and are complementary to our RE/MAX and Motto businesses.

*Independent Region Acquisitions.* The acquisition of an Independent Region franchise substantially increases our revenue per agent and provides an opportunity for us to drive enhanced profitability, as we receive a higher amount of revenue per agent in our Company-owned Regions than in our Independent Regions. While both Company-owned Regions and Independent Regions charge relatively similar fees to their brokerages and agents, we only receive a percentage of the continuing franchise fee, broker fee and initial franchise and renewal fee in Independent Regions. By acquiring regional franchise rights, we can capture 100% of these fees and substantially increase the average revenue per agent for agents in the acquired region, which, as a result of our low fixed-cost structure, further increases our overall margins. In addition, we believe we can establish operational efficiencies and improvements in financial performance of an acquired region by leveraging our existing infrastructure and experience.

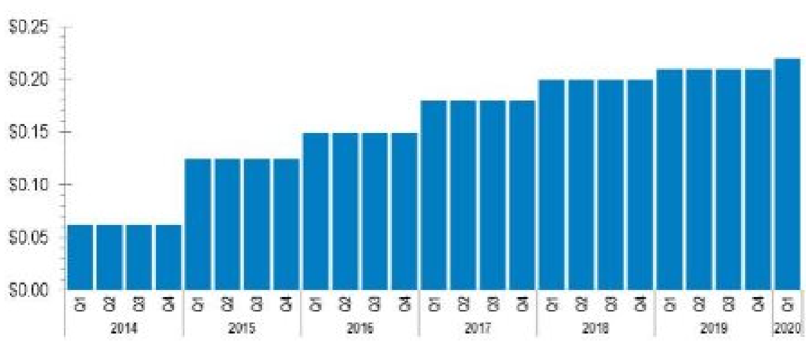
**Flow through Independent Regions**




*Other Acquisitions.* We may pursue other acquisitions, either of other brands, or of other businesses that we believe can help enhance the value proposition that we provide to the franchisees and their agents in our existing businesses, such as our recent acquisition of First. We may consider strategic acquisitions to compliment the functionality of the booj Platform and enhance the value proposition.

***Return of Capital to Shareholders.*** We are committed to returning capital to shareholders as part of our value creation strategy. We have paid quarterly dividends since the completion of our first full fiscal quarter as a publicly traded company, or April of 2014. We have annually increased our quarterly dividends since then, as we have deemed appropriate. On February 19, 2020, our Board of Directors announced a quarterly dividend of $0.22 per share.

**Quarterly Dividends**




Our disciplined approach to allocating capital allows us to return capital to shareholders while investing to drive future organic growth and catalyzing growth through acquisitions.

**Competition**

***RE/MAX.*** The residential real estate brokerage business is fragmented and highly competitive. We compete against many different types of competitors - traditional real estate brokerages; non-traditional real estate brokerages, including some that offer deeply discounted commissions to consumers, and other newer entrants, including iBuyers. We compete in different ways for franchisees, for agents, and for consumers.

The majority of brokerages are independent, with the best-known being regional players. At the individual office level, oftentimes our most formidable competition is that of a local, independent brokerage. Brokerages affiliated with franchises tend to be larger, on average, than independents and are part of a national network. Our largest national competitors in the U.S. and Canada include the brands operated by Realogy Holdings Corp. (including Century 21, Coldwell Banker, ERA, Sotheby's and Better Homes and Gardens), Berkshire Hathaway Home Services, Keller Williams Realty, Inc. and Royal LePage. Our franchisees also compete to attract and retain agents against real estate franchisors which offer 100% commissions and low fees to agents. These competitors include HomeSmart and Realty ONE Group.

We also compete against non-traditional real estate brokerages in the U.S. and Canada such as Redfin that offer deeply discounted commissions to consumers. Even among competitors with traditional models, there are variations such as the "hybrid" classification of Compass (a national bricks-and-mortar brokerage focusing on technology and funded by venture capital), and the virtual brokerage (no brokerage offices) platform of eXp Realty.

Our efforts to target consumers and connect them with a RE/MAX agent via our websites also face competition from major real estate portals, such as Zillow and Realtor.com.

We also compete for home sales against newer entrants, often referred to as iBuyers, which offer to buy homes directly from homeowners at below-market rates in exchange for speed and convenience, and then resell them shortly thereafter at market prices. Our largest national competitors in the U.S. in this category include Opendoor, Offerpad, Redfin and Zillow. Some traditional brokerages have begun to adapt to iBuyers by either partnering their agents with an iBuyer directly or by launching their own iBuyer program. Agents most often interact with iBuyers by evaluating iBuyer offers for home sellers (comparing to what the seller might receive by selling their home on the MLS), referring home sellers to an iBuyer for a referral fee or listing homes that are owned by iBuyers.

Likewise, the support services we provide to RE/MAX franchisees and agents also face competition from various providers of training, back office management, marketing, social integration and lead generation services. We believe that competition in the real estate brokerage franchise business is based principally upon the reputational strength of the brand, the quality of the services offered to franchisees, and the amount of franchise-related fees to be paid by franchisees.

The ability of our franchisees to compete with other real estate brokerages, both franchised and unaffiliated, is an important aspect of our growth strategy. A franchisee's ability to compete may be affected by a variety of factors, including the number and quality of the franchisee's independent agents and the presence and market span of the franchisee's offices. A franchisee's success may also be affected by general, regional and local housing conditions, as well as overall economic conditions.

***Motto.*** Motto does not originate loans, and therefore does not compete in the mortgage origination business. The mortgage origination business in which Motto franchisees participate is highly competitive. While there are no national mortgage brokerage franchisors in the United States at the present time other than Motto, the mortgage origination business is characterized by a variety of business models. While real estate brokerage owners are our core market for the purchase of Motto franchises, such owners may form independent, non-franchised mortgage brokerages. They may enter into joint ventures with lenders for mortgage originations, and they may elect not to enter the mortgage origination business themselves, but instead earn revenue from providing marketing and other services to mortgage lenders.

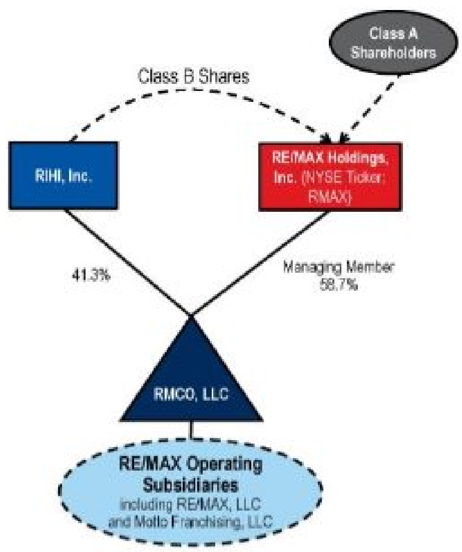
**Intellectual Property**

We regard our RE/MAX trademark, balloon logo and yard sign design trademarks as having significant value and as being an important factor in the marketing of our brand. We protect the RE/MAX and Motto brands through a combination of trademarks and copyrights. We have registered “RE/MAX” as a trademark in the U.S., Canada, and over 150 other countries and territories, and have registered various versions of the RE/MAX balloon logo and real estate yard sign design in numerous countries and territories as well. We also are the registered holder of a variety of domain names that include “remax,” “motto,” and similar variations.

**Corporate Structure and Ownership**

Holdings is a holding company incorporated in Delaware and its only business is to act as the sole manager of RMCO, LLC, (“RMCO”). In that capacity, Holdings operates and controls all of the business and affairs of RMCO. RMCO is a holding company that is the direct or indirect parent of all of our operating businesses, including RE/MAX, LLC and Motto Franchising, LLC. As of December 31, 2019, Holdings owns 58.7% of the common units in RMCO, while RIHI, Inc. (“RIHI”) owns the remaining 41.3% of common units in RMCO. RIHI, Inc. is majority owned and controlled by David Liniger, our Chairman and Co-Founder, and by Gail Liniger, our Vice Chair and Co-Founder.

The diagram below depicts our organizational structure:




The holders of Holdings Class A common stock collectively own 100% of the economic interests in Holdings, while RIHI owns 100% of the outstanding shares of Holdings Class B common stock.

On October 7, 2018, pursuant to the terms of the Company’s Certificate of Incorporation, RIHI lost its previous effective control of a majority of the voting power of Holdings common stock. RIHI owns all of Holdings’ Class B common stock which, prior to October 7, 2018, entitled RIHI to a number of votes on matters presented to Holdings stockholders equal to two times the number of RMCO common units that RIHI held. Effective October 7, 2018, the voting power of Class B common stock was reduced to equal the number of RMCO common units held, and therefore RIHI lost the controlling vote of Holdings. As a result of this change in the voting rights of the Class B common stock, RIHI no longer controls a majority of the voting power of Holdings’ common stock, and Holdings no longer constitutes a “controlled company” under the corporate governance standards of the New York Stock Exchange (the "NYSE"). RIHI remains a significant stockholder of the Company, and through its ownership of the Class B common stock, holds approximately 41.3% of the voting power of the Company's stock. Mr. Liniger also owns Class A common stock with an additional 1.2% of the voting power of the Company's stock.

**Holdings ownership of RMCO and Tax Receivable Agreements**

Holdings has twice acquired significant portions of the ownership in RMCO; first in October 2013 at the time of IPO when Holdings acquired its initial 11.5 million common units of RMCO and, second, in November and December 2015 when it acquired 5.2 million additional common units. Holdings issued Class A common stock, which it exchanged for these common units of RMCO. RIHI then sold the Class A common stock to the market.

When Holdings acquired common units in RMCO, it received a step-up in tax basis on the underlying assets held by RMCO. The step-up is principally equivalent to the difference between (1) the fair value of the underlying assets on the date of acquisition of the common units and (2) their tax basis in RMCO, multiplied by the percentage of units acquired. The majority of the step-up in basis relates to intangible assets, primarily franchise agreements and goodwill, and the step-up is often substantial. These assets are amortizable under IRS rules and result in deductions on our tax return for many years and, consequently, Holdings receives a future tax benefit. These future benefits are reflected within deferred tax assets on our consolidated balance sheets.

If Holdings acquires additional common units of RMCO from RIHI, the percentage of Holdings' ownership of RMCO will increase, and additional deferred tax assets will be created as additional tax basis step-ups occur.

In connection with the initial sale of RMCO common units in October 2013, Holdings entered into Tax Receivable Agreements ("TRAs") which require that Holdings make annual payments to the TRA holders equivalent to 85% of any tax benefits realized on each year's tax return from the additional tax deductions arising from the step-up in tax basis. We believe 85% is common for tax receivable agreements. The TRA holders as of December 31, 2019 are RIHI and Parallaxes Rain Co-Investment, LLC ("Parallaxes"). TRA liabilities were established for the future cash obligations expected to be paid under the TRAs and are not discounted. As of December 31, 2019, this liability was $37.2 million. Similar to the deferred tax assets, the TRA liabilities would increase if Holdings acquires additional common units of RMCO from RIHI.

**Employees**

As of December 31, 2019, we had approximately 500 employees. Our franchisees are independent businesses. Their employees and independent contractor sales agents are therefore not included in our employee count. None of our employees are represented by a union.

**Seasonality**

The residential housing market is seasonal, with transactional activity in the U.S. and Canada peaking in the second and third quarter of each year. Our results of operations are somewhat affected by these seasonal trends. Our Adjusted EBITDA margins are often lower in the first and fourth quarters due primarily to the impact of lower broker fees and other revenue as a result of lower overall sales volume, as well as higher selling, operating and administrative expenses in the first quarter for expenses incurred in connection with the RE/MAX annual convention.

**Government Regulation**

***Franchise Regulation***. The sale of franchises is regulated by various state laws, as well as by the Federal Trade Commission ("FTC"). The FTC requires that franchisors make extensive disclosures to prospective franchisees but does not require registration. A number of states require registration or disclosure by franchisors in connection with franchise offers and sales. Several states also have "franchise relationship laws" or "business opportunity laws" that limit the ability of the franchisor to terminate franchise agreements or to withhold consent to the renewal or transfer of these agreements. The states with relationship or other statutes governing the termination of franchises include Arkansas, California, Connecticut, Delaware, Hawaii, Illinois, Indiana, Iowa, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, Virginia, Washington and Wisconsin. Some franchise relationship statutes require a mandated notice period for termination; some require a notice and cure period; and some require that the franchisor demonstrate good cause for termination. Although we believe that our franchise agreements comply with these statutory requirements, failure to comply with these laws could result in our company incurring civil liability. In addition, while historically our franchising operations have not been materially adversely affected by such regulation, we cannot predict the effect of any future federal or state legislation or regulation.

***Real Estate and Mortgage Regulation.*** The Real Estate Settlement Procedures Act ("RESPA") and state real estate brokerage laws and mortgage regulations restrict payments which real estate brokers, mortgage brokers, and other service providers in the real estate industry may receive or pay in connection with the sales of residences and referral of settlement services, such as real estate brokerage, mortgages, homeowners' insurance and title insurance. Such laws affect the terms that we may offer in our franchise agreements with Motto franchisees and may to some extent restrict preferred vendor programs, both for Motto and RE/MAX. Federal, state and local laws, regulations and ordinances related to the origination of mortgages, may affect other aspects of the Motto business, including the extent to which we can obtain data on Motto franchisees' compliance with their franchise agreements. These laws and regulations include (i) the Federal Truth in Lending Act of 1969 ("TILA"), and Regulation Z ("Reg Z") thereunder; (ii) the Federal Equal Credit Opportunity Act ("ECOA") and Regulation B thereunder; (iii) the Federal Fair Credit Reporting Act and Regulation V thereunder; (iv) RESPA, and Regulation X thereunder; (v) the Fair Housing Act; (vi) the Home Mortgage Disclosure Act; (vii) the Gramm-Leach-Bliley Act and its implementing regulations; (viii) the Consumer Financial Protection Act and its implementing regulations; (ix) the Fair and Accurate Credit Transactions Act-FACT ACT and its implementing regulations; and (x) the Do Not Call/Do Not Fax Act and other state and federal laws pertaining to the solicitation of consumers.

**Available Information**

RE/MAX Holdings, Inc. is a Delaware corporation and its principal executive offices are located at 5075 South Syracuse Street, Denver, Colorado 80237, telephone (303) 770-5531. The Company's Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available free of charge through the "Investor Relations" portion of the Company's website, www.remax.com, as soon as reasonably practical after they are filed with the Securities and Exchange Commission ("SEC"). The content of the Company's website is not incorporated into this report. The SEC maintains a website, www.sec.gov, which contains reports, proxy and information statements, and other information filed electronically with the SEC by the Company.

**ITEM 1A. RISK FACTORS**

*RE/MAX Holdings, Inc. and its consolidated subsidiaries (collectively, the "Company," "we," "our" or "us") could be adversely impacted by various risks and uncertainties. An investment in our Class A common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as all of the other information contained in this Annual Report on Form 10-K, including our audited consolidated financial statements and the related notes thereto before making an investment decision. If any of these risks actually occur, our business, financial condition, operating results, cash flow and prospects may be materially and adversely affected. As a result, the trading price of our Class A common stock could decline and you could lose some or all of your investment.*

**We have grouped our risks according to:**

- Risks Related to Our Business and Industry;
- Risks Related to Our Organizational Structure; and
- Risks Related to Ownership of Our Class A Common Stock.

**Risks Related to Our Business and Industry**

***Our results are tied to the residential real estate market and we may be negatively impacted by downturns in this market and general global economic conditions.***

The residential real estate market tends to be cyclical and typically is affected by changes in general economic conditions which are beyond our control. These conditions include fluctuations in short-term and long-term interest rates, inflation, fluctuations in debt and equity capital markets, wage and job growth, levels of unemployment, home affordability, down payment requirements, inventory levels, consumer confidence, demographic changes, local or regional economic conditions and the general condition of the U.S., Canadian and global economies. The residential real estate market also depends upon the strength of financial institutions, which are sensitive to changes in the general macroeconomic and regulatory environment. Lack of available credit or lack of confidence in the financial sector could impact the residential real estate market. The residential real estate market could also be negatively impacted by acts of nature, such as fires, hurricanes, earthquakes, and such events may lead us to waive fees in certain impacted areas. Climate change may negatively affect the residential real estate market. Changes in local, state and federal laws or regulations that affect residential real estate transactions or encourage ownership, including but not limited to changes in tax law in late 2017 that limit the deductibility of certain mortgage interest expenses and increase the standard deduction (thereby potentially decreasing the tax benefits of homeownership) and potential future tax law changes, such as further limiting or eliminating the deductibility of certain mortgage interest expense, the application of the alternative minimum tax, and deductibility of real property taxes, could impact the residential real estate market.

Any of the above factors, and other factors discussed in this Annual Report on Form 10-K could cause a decline in the housing or mortgage markets and have a material adverse effect on our business by causing periods of lower growth or a decline in the number of home sales and/or home prices. This could lead to a decrease of the number of agents or franchises in our networks and reduce the fees we receive from our franchisees and agents, which, in turn, could adversely affect our financial condition and results of operations.

***A lack of financing for homebuyers in the U.S. residential real estate market at favorable rates and on favorable terms could have a material adverse effect on our financial performance and results of operations.***

Our business is significantly impacted by the availability of financing at favorable rates or on favorable terms for homebuyers, which may be affected by government regulations and policies.

The Dodd-Frank Act, which was passed to more closely regulate the financial services industry, created the Consumer Financial Protection Bureau ("CFPB"), an independent federal bureau, which was designed to enforce consumer protection laws, including various laws regulating mortgage finance. The Dodd-Frank Act also established new standards and practices for mortgage lending, including a requirement to determine a prospective borrower's ability to repay a loan, removing perceived incentives to originate higher cost mortgages, requiring additional disclosures to potential borrowers and restricting the fees that mortgage originators may collect. Rules implementing many of these changes protect creditors from certain liabilities for loans that meet the requirements for "qualified mortgages." ("QM loans"). The rules placed several restrictions on qualified mortgages, including caps on certain closing costs as well as limits on debt to income ("DTI") ratios for qualified mortgages.

Certain potential regulatory changes such as the termination by the CFPB of a regulatory exemption known as the "QM patch" for loans backed by Fannie Mae or Freddie Mac, the requirement to implement a new uniform residential loan application ("URLA") which may increase Equal Credit Opportunity Act ("ECOA") and other operational risks, and more activist supervision and regulation of housing finance at the state level may adversely impact the housing industry, including homebuyers' ability to finance and purchase homes.

The monetary policy of the U.S. government, and particularly the Federal Reserve Board, which regulates the supply of money and credit in the U.S., significantly affects the availability of financing at favorable rates and on favorable terms, which in turn affects the domestic real estate market. Changes in the Federal Reserve Board's policies are beyond our control, are difficult to predict, and could restrict the availability of financing on reasonable terms at favorable interest rates for homebuyers, which could have a material adverse effect on our business, results of operations and financial condition.

In addition, a reduction in government support for home financing, including the possible winding down or privatization of GSEs could further reduce the availability of financing for homebuyers in the U.S. residential real estate market. No consensus has emerged in Congress concerning potential reforms relating to Fannie Mae and Freddie Mac and a potential transition to alternative structures for the secondary market, so we cannot predict either the short or long term-effects of such regulation and its impact on homebuyers' ability to finance and purchase homes.

Furthermore, many lenders have tightened their underwriting standards since the real estate downturn, and many subprime and other alternative mortgage products are no longer as common in the marketplace. While some loosening of credit standards and a resurgence of alternative mortgage products, including non-qualified mortgages has occurred, if these mortgage loans continue to be somewhat more difficult to obtain, including in the jumbo mortgage markets, the ability and willingness of prospective buyers to finance home purchases or to sell their existing homes could be adversely affected, which would adversely affect our operating results.

While we are continuing to evaluate all aspects of legislation, regulations and policies affecting the domestic real estate market, we cannot predict whether or not such legislation, regulation and policies may increase down payment requirements, increase mortgage costs, or result in increased costs and potential litigation for housing market participants, any of which could have a material adverse effect on our financial condition and results of operations.

***We may fail to execute our strategies to grow our business, which could have a material adverse effect on our financial performance and results of operations.***

We intend to pursue a number of different strategies to grow our revenue and earnings and to deploy the cash generated by our business. We constantly strive to increase the value proposition for our agents and brokers. If we do not reinvest in our business in ways that support our agents and brokers and make the RE/MAX network attractive to agents and brokers, we may become less competitive. Additionally, we are exploring opportunities to acquire other businesses, including select RE/MAX independent regional franchises, or other businesses in the U.S. and Canada that are complementary to our core business, particularly those offering differentiated technology. If we fail to develop, execute, or focus on our business strategy, fail to make good business decisions, fail to enforce a disciplined management process to ensure that our investment of resources aligns with our strategic plan and our core management and franchising competencies or fail to properly focus resources or management attention on strategic areas, any of these could negatively impact the overall value of the Company.

***We may fail to continue our booj Platform rollout as expected or its effectiveness in attracting & retaining agents may be more limited than anticipated.***

During the first quarter of 2018, we acquired booj, a real estate technology company, primarily to develop and deliver core technology solutions designed for RE/MAX affiliates. We anticipate that this new technology will improve the RE/MAX value proposition and ultimately assist in attracting and retaining agents and franchisees. The technology platform developed by booj has been delivered to our U.S. Company-owned Regions in 2019. If the booj Platform is (a) delivered to additional regions later than expected, or (b) does not create a distinct competitive edge for franchisees and agents, or (c) has a poorer than expected adoption rate by our franchisees and agents, the introduction of such platforms may not be effective in attracting and retaining agents and franchisees.

***We may be unable to acquire regional franchise rights in independent RE/MAX regions in the U.S. and Canada or successfully integrate the independent RE/MAX regions that we have acquired.***

We continue to pursue a growth strategy of reacquiring select RE/MAX independent regional franchises in the U.S. and Canada to support our growth. The acquisition of a regional franchise enables us to focus on a consistent delivery of the RE/MAX value proposition, increases our revenue and provides an opportunity for us to enhance profitability. This growth strategy depends on our ability to find regional franchisees willing to sell the franchise rights in their regions on favorable terms, as well as our ability to finance, complete and integrate these transactions. The number of remaining independent regions in the United States and Canada is limited and therefore we may have difficulty finding suitable regional franchise acquisition opportunities at an acceptable price. Further, in the event we acquire a regional franchise, we may not be able to achieve the expected returns on our acquisition after we integrate the acquired region into our business.

Integrating acquired regions involves complex operational and personnel-related challenges and we may encounter unforeseen difficulties and higher than expected integration costs or we may not be able to deliver expected cost and growth synergies.

Future acquisitions may present other challenges and difficulties, including:

- the possible departure of a significant number of key employees;
- regulatory constraints and costs of executing our growth strategy may vary by geography;
- the possible defection of franchisees and agents to other brands or independent real estate companies;
- limits on growth due to exclusive territories granted to current franchisees by former region owners;
- the failure to maintain important business relationships and contracts of the selling region;
- legal or regulatory challenges or litigation post-acquisition, which could result in significant costs;
- potential unknown liabilities associated with acquired businesses.

A prolonged diversion of management’s attention and any delays or difficulties encountered in connection with the integration of any acquired region or region that we may acquire in the future could prevent us from realizing anticipated cost savings and revenue growth from our acquisitions.

***The failure to attract and retain highly qualified franchisees could compromise our ability to expand the RE/MAX and Motto networks.***

Our most important asset is the people in our network, and the success of our franchisees depends largely on the efforts and abilities of franchisees to attract and retain high quality agents and loan originators. If our franchisees fail to attract and retain agents and loan originators, they may fail to generate the revenue necessary to pay the contractual fees owed to us.

Additionally, although we believe our relationship with our franchisees and their agents and loan originators is open and strong, the nature of such relationships can give rise to conflict. For example, franchisees or agents/loan originators may become dissatisfied with the amount of contractual fees and dues owed under franchise or other applicable arrangements, particularly in the event that we increase fees and dues. They may disagree with certain network-wide policies and procedures, including policies dictating brand standards or affecting their marketing efforts. They may also be disappointed with our marketing campaigns. If we experience any conflicts with our franchisees on a large scale, our franchisees may decide not to renew their franchise agreements upon expiration or may file lawsuits against us or they may seek to disaffiliate with us, which could also result in litigation. These events may, in turn, materially and adversely affect our business and operating results.

***Our financial results are affected by the ability of our franchisees to attract and retain agents and loan originators.***

Our financial results are heavily dependent upon the number of RE/MAX agents and Motto offices in our global networks. The majority of our revenue is derived from recurring dues paid by our franchisee’s agents and contractual fees paid by our franchisees or regional franchise owners based on the number of agents or offices within their respective networks. Competition for real estate agents and loan originators is fierce. Our competitors may attempt to recruit the agents and loan originators of our franchisees. If our franchisees are not able to attract and retain agents and loan originators (which is not within our direct control), our agent count and revenue may decline.

***Competition in the residential real estate franchising business is intense, and we may be unable to grow our business organically, including increasing our agent count, expanding our network of franchises and their agents, and increasing franchise and agent fees, which could adversely affect our brand, our financial performance, and results of operations.***

We generally face strong competition in the residential real estate services business from other franchisors and brokerages (i.e. national, regional, independent, boutique, discount and web-based brokerages), as well as web-based companies focused on real estate. There has recently been substantial investment in real estate technology, including companies aiming to use innovative technology to disrupt the real estate market. Upon the expiration of a franchise agreement, a franchisee may choose to renew their franchise with us, operate as an independent broker or to franchise with one of our competitors. Competing franchisors may offer franchisees fees that are lower than those we charge, or that are more attractive in particular markets. Further, some of our largest competitors may have greater financial resources and larger budgets than we do to invest in technology and enhance their value proposition to agents, brokers and consumers. To remain competitive in the sale of franchises and to retain our existing franchisees at the time of the renewal of their franchise agreements, we may have to reduce the cost of renewals and/or the recurring monthly fees we charge our franchisees. We may have to offer incentives to encourage franchisees to recruit new agents. In addition, even with these measures, franchisees may choose not to renew their franchise, or may not recruit new agents.

As a result of this competition, we may face many challenges in adding franchises and attracting agents in new and existing markets to expand our network, as well as other challenges such as:

- selection and availability of suitable markets;
- finding qualified franchisees in these markets who are interested in opening franchises on terms that are favorable to us;
- increasing our local brand awareness in new markets;
- attracting and training of qualified local agents; and
- general economic and business conditions.

***The real estate market may be negatively impacted by industry changes as the result of certain class action lawsuits.***

In March and April of 2019, three putative class action complaints were filed against National Association of Realtors ("NAR"), Realogy Holdings Corp., HomeServices of America, Inc, RE/MAX Holdings, and Keller Williams Realty, Inc. The first was filed on March 6, 2019, by plaintiff Christopher Moehrl in the Northern District of Illinois. The second was filed on April 15, 2019, by plaintiff Sawbill Strategies, Inc., also in the Northern District of Illinois. These two actions have now been consolidated. A third action was filed by plaintiffs Joshua Sitzer and four other individual plaintiffs in the Western District of Missouri. The complaints (collectively "Moehrl/Sitzer suits") make substantially similar allegations and seek substantially similar relief. The plaintiffs allege that a NAR rule requires brokers to make a blanket, non-negotiable offer of buyer broker compensation when listing a property, resulting in inflated costs to sellers in violation of federal antitrust law. They further allege that certain defendants use their agreements with franchisees to require adherence to the NAR rule in violation of federal antitrust law. Amended complaints add allegations regarding buyer steering and non-disclosure of buyer-broker compensation to the buyer. These lawsuits have also prompted discussion of regulatory changes by various governments or rules established by local or state real estate boards or multiple listing services. The resolution of these complaints and/or such regulatory changes may require changes to our or our brokers business model, including changes in broker compensation. This could reduce the fees we receive from our franchisees, which, in turn, could adversely affect our financial condition and results of operations.

***A significant adoption by consumers of alternatives to full-service agents or loan originators could have a material adverse effect on our business, prospects and results of operations.***

A significant increase in consumer use of technology that eliminates or minimizes the role of the real estate agent or mortgage loan originator could have a materially adverse effect on our business, prospects and results of operations. These options include direct-buyer companies (also called iBuyers) that purchase directly from the seller at below-market rates in exchange for speed and convenience, and then resell them shortly thereafter at market prices, and discounters who reduce the role of the agent in order to offer sellers a low commission or a flat fee while giving rebates to buyers. How consumers want to buy or sell houses and finance their purchase will determine if these models reduce or replace the long-standing preference for full-service agents and loan originators.

***Our financial results are affected directly by the operating results of franchisees and their agents and loan originators, over whom we do not have direct control.***

Our financial results depend upon the operational and financial success of our franchisees and, for RE/MAX, their agents and for Motto Mortgage, their loan originators. We have limited control over these parties, particularly in Independent Regions where we exercise less control over franchisees than in Company-owned Regions. Our franchisees operate in intensely competitive markets and we have little visibility into the results of their operations. If our franchisees' financial results worsen, our revenue may decline. We terminate franchisees for non-payment, non-reporting and other non-compliance with their franchise agreements and we may terminate franchisees more frequently in the future.

***Our franchisees and their agents or loan originators could take actions that could harm our business.***

Our franchisees are independent businesses and the agents and loan originators who work within these brokerages are independent contractors or employees of the brokerages and, as such, are not our employees, and we do not exercise control over their day-to-day operations. Franchisees may not operate real estate and mortgage brokerage businesses in a manner consistent with industry standards, or may not attract and retain qualified independent contractor agents and loan originators. If franchisees and agents and loan originators were to provide diminished quality of service to customers, engage in fraud, misconduct, negligence or otherwise violate the law or realtor codes of ethics, our image and reputation may suffer materially and we may become subject to liability claims based upon such actions. Any such incidents could adversely affect our results of operations.

Brand value can be severely damaged even by isolated incidents, particularly if the incidents receive considerable negative publicity or result in litigation. Some of these incidents may relate to the way we manage our relationship with our franchisees, our growth strategies or the ordinary course of our business or our franchisees' business. Other incidents may arise from events that are or may be beyond our control and may damage our brand, such as actions taken (or not taken) by one or more franchisees or their agents and loan originators relating to health, safety, welfare or other matters; litigation and claims; failure to maintain high ethical and social standards for all of our operations and activities; failure to comply with local laws and regulations; and illegal activity targeted at us or others. Our brand value could diminish significantly if any such incidents or other matters erode consumer confidence in us, which may result in a decrease in our total agent and loan office count and, ultimately, lower revenues, which in turn would materially and adversely affect our business and results of operations.

An organized franchisee association could pose risks to our ability to set the terms of our franchise agreements and our pricing. A group of broker/owners from around the country have founded and committed to the continued success and funding of the RMX Association (RMXA), an independent association of RE/MAX franchisees, whose goal is to work in partnership with RE/MAX, LLC and each other to improve, enhance and grow the brand into the future and protect assets and grow profitability as franchisees.

***The failure of Independent Region owners to successfully develop or expand within their respective regions could adversely impact our revenue and earnings.***

We have sold regional master franchises in the U.S. and Canada and have sold and continue to sell regional master franchises in our global locations outside of Canada. While we are pursuing a strategy to acquire select regional franchise rights in the U.S. and Canada, we still rely on independent regional master franchises in Independent Regions, and in all regions located outside the U.S. and Canada. We depend on Independent Regions, which have the exclusive right to grant franchises within a particular region, to successfully develop or expand within their respective regions and to monitor franchisees' use of our brand. The failure of any of these Independent Region owners to do these things, or the termination of an agreement with a regional master franchisee could delay the development of a particular franchised area, interrupt the operation of our brand in a particular market or markets while we seek alternative methods to develop our franchises in the area, and weaken our brand image. Such an event could result in lower revenue for us, which would adversely impact our business and results of operations.

***The real estate business is highly regulated and any failure to comply with such regulations or any changes in such regulations could adversely affect our business.***

The businesses of our franchisees are highly regulated and are subject to requirements governing the licensing and conduct of real estate brokerage and brokerage-related businesses in the jurisdictions in which they do business.

Our franchisees (other than in commercial brokerage transactions) must comply with RESPA. RESPA and comparable state statutes, among other things, restrict payments which real estate brokers, agents and other settlement service providers may receive for the referral of business to other settlement service providers in connection with the closing of real estate transactions. Such laws may to some extent restrict preferred vendor arrangements involving our franchisees. RESPA and similar state laws also require timely disclosure of certain relationships or financial interests that a broker has with providers of real estate settlement services.

There is a risk that we and our franchisees could be adversely affected by current laws, regulations or interpretations or that more restrictive laws, regulations or interpretations will be adopted in the future that could make compliance more difficult or expensive.

We, or our franchisees, are also subject to various other rules and regulations such as:

- the Gramm-Leach-Bliley Act, which governs the disclosure and safeguarding of consumer financial information;
- the European Union's General Data Protection Regulation ("GDPR"), the California Consumer Privacy Act, and various other laws protecting consumer data;
- the USA PATRIOT Act;
- restrictions on transactions with persons on the Specially Designated Nationals and Blocked Persons list promulgated by the Office of Foreign Assets Control of the Department of the Treasury;
- federal and state "Do Not Call," "Do Not Fax," and "Do Not E-Mail" laws;
- the Fair Housing Act;
- laws and regulations, including the Foreign Corrupt Practices Act, that impose sanctions on improper payments;
- laws and regulations in jurisdictions outside the U.S. in which we do business;
- state and federal employment laws and regulations, including any changes that would require reclassification of independent contractors to employee status, and wage and hour regulations;
- and
- consumer fraud statutes.

Our or our franchisees' failure to comply with any of the foregoing laws and regulations may result in fines, penalties, injunctions and/or potential criminal violations. Any changes to these laws or regulations or any new laws or regulations may make it more difficult for us to operate our business and may have a material adverse effect on our operations.

***Our franchising activities are subject to a variety of state and federal laws and regulations regarding franchises, and any failure to comply with such existing or future laws and regulations could adversely affect our business.***

The sale of franchises is regulated by various state laws as well as by the Federal Trade Commission ("FTC"). The FTC requires that franchisors make extensive disclosure to prospective franchisees but does not require registration. A number of states require registration and/or disclosure in connection with franchise offers and sales. In addition, several states have "franchise relationship laws" or "business opportunity laws" that limit the ability of franchisors to terminate franchise agreements or to withhold consent to the renewal or transfer of these agreements. We believe that our franchising procedures, as well as any applicable state-specific procedures, comply in all material respects with both the FTC guidelines and all applicable state laws regulating franchising in those states in which we offer new franchise arrangements. However, noncompliance could reduce anticipated revenue, which in turn may materially and adversely affect our business and operating results.

***Most of our RE/MAX franchisees self-report their agent counts and agent commissions which drives the fees due to us, and we have limited tools to validate or verify these reports. This could impact our ability to collect revenue owed to us by our Independent Regions, franchisees, and agents, and could affect our ability to forecast our performance accurately.***

Under our franchise agreements, franchisees, including independent regions, self-report (a) the number of agents and (b) gross commissions and other statistics from home sale transactions. This data is used to determine our billings for continuing franchise fees, annual dues and broker fees. We may have limited methods of validating the data and must rely on reports submitted and our internal protocols for verifying the reasonableness of the data. If franchisees were to underreport or erroneously report such data, even if unintentionally, we may not receive all of the revenues due to us. In addition, to the extent that we were underpaid, we may not have a definitive method for determining such underpayment. If a material number of our franchisees were to underreport or erroneously report their agent counts, agent commissions or fees due to us, it could have a material adverse effect on our financial performance and results of operations. Further, agent count is a key performance indicator (KPI), and incomplete information, or information that is not reported in a timely manner could impair our ability to evaluate and forecast key business drivers and financial performance.

***Attrition of legacy booj customers could have an adverse effect on our financial results.***

The booj business we acquired in February 2018 continues to service legacy customers, unrelated to RE/MAX. Several legacy customers have discontinued their relationship with booj, causing revenue to decrease. There is a risk that the remaining legacy customers leave at a faster pace than anticipated resulting in an accelerating decline in revenue.

***We are subject to certain risks related to litigation filed by or against us, and adverse results may harm our business and financial condition.***

We cannot predict with certainty the costs of defense, the costs of prosecution, insurance coverage or the ultimate outcome of litigation and other proceedings filed by or against us, including remedies or damage awards, and adverse results in such litigation and other proceedings may harm our business and financial condition.

Such litigation and other proceedings may include, but are not limited to, securities litigation including class actions and shareholder derivative litigation, complaints from or litigation by franchisees, usually related to alleged breaches of contract or wrongful termination under the franchise arrangements, actions relating to intellectual property, commercial arrangements and franchising arrangements.

In addition, litigation against a franchisee or its affiliated sales agents by third parties, whether in the ordinary course of business or otherwise, may also include claims against us for liability by virtue of the franchise relationship. Franchisees may fail to obtain insurance naming the Company as an additional insured on such claims. In addition to increasing franchisees' costs and limiting the funds available to pay us contractual fees and dues and reducing the execution of new franchise arrangements, claims against us (including vicarious liability claims) divert our management resources and could cause adverse publicity, which may materially and adversely affect us and our brand, regardless of whether such allegations are valid or whether we are liable.

Our global operations may be subject to additional risks related to litigation, including difficulties in enforcement of contractual obligations governed by foreign law due to differing interpretations of rights and obligations, compliance with multiple and potentially conflicting laws, new and potentially untested laws and judicial systems and reduced protection of intellectual property. A substantial unsatisfied judgment against us or one of our subsidiaries could result in bankruptcy, which would materially and adversely affect our business and operating results.

***Our global operations, including those in Canada, are subject to risks not generally experienced by our U.S. operations.***

The risks involved in our global operations and relationships could result in losses against which we are not insured and therefore affect our profitability. These risks include:

- fluctuations in foreign currency exchange rates, primarily related to changes in the Canadian dollar and Euro to U.S. dollar exchange rates;
- exposure to local economic conditions and local laws and regulations, including those relating to the agents of our franchisees;
- economic and/or credit conditions abroad;
- potential adverse changes in the political stability of foreign countries or in their diplomatic relations with the U.S.;
- restrictions on the withdrawal of foreign investment and earnings;
- government policies against businesses owned by foreigners;
- diminished ability to legally enforce our contractual rights in foreign countries;
- withholding and other taxes on remittances and other payments by subsidiaries; and
- changes in tax laws regarding taxation of foreign profits.

Our global operations outside Canada generally generate substantially lower average revenue per agent than our U.S. and Canadian operations.

***Our business depends on strong brands, and any failure to maintain, protect and enhance our brand would hurt our ability to grow our business, particularly in new markets where we have limited brand recognition.***

RE/MAX is a strong brand that we believe has contributed significantly to the success of our business, and the Motto brand is gaining recognition. Maintaining, protecting and enhancing the "RE/MAX" and Motto brands is critical to growing our business. If we do not successfully build and maintain strong brands, our business could be materially harmed.

We derive significant benefit from our market share leadership and our ability to make claims regarding the same, including through use of our slogan that "Nobody in the world sells more real estate than RE/MAX" as measured by residential transaction sides. Loss of market leadership, and as a result an inability to tout the same, may hinder public and industry perception of RE/MAX as a leader in the real estate market and hurt agent recruitment and franchise sales as a result.

Inasmuch as our business is in part dependent on strong brands, our business may be subject to risks related to events and circumstances that have a negative impact on our brands. If we are exposed to adverse publicity or events that do damage to our brands and/or image, our business may suffer material adverse effects from the deterioration in our brand and image.

***Infringement, misappropriation or dilution of our intellectual property could harm our business.***

We regard our RE/MAX trademark, balloon logo and yard sign design trademarks and our Motto trademarks as having significant value and as being an important factor in the marketing of our brands. We believe that this and other intellectual property are valuable assets that are critical to our success. Not all of the trademarks or service marks that we currently use have been registered in all of the countries in which we do business, and they may never be registered in all of those countries. There can be no assurance that we will be able to adequately maintain, enforce and protect our trademarks or other intellectual property rights.

We are commonly involved in numerous proceedings, generally on a small scale, to enforce our intellectual property and protect our brands. Unauthorized uses or other infringement of our trademarks or service marks, including uses that are currently unknown to us, could diminish the value of our brand and may adversely affect our business. Effective intellectual property protection may not be available in every market. Failure to adequately protect our intellectual property rights could damage our brand and impair our ability to compete effectively.

In addition, franchisee noncompliance with the terms and conditions of our franchise agreements and our brand standards may reduce the overall goodwill of our brand, whether through diminished consumer perception of our brand, dilution of our intellectual property, the failure to meet the FTC guidelines or applicable state laws, or through the participation in improper or objectionable business practices.

***Our business is heavily reliant on technology and product development for certain key aspects of our operations.***

The systems may not perform as desired or we may experience cost overages, delays, or other factors that may distract our management from our business, which could have an adverse impact on our results of operations. Further, we may not be able to obtain future new technologies and systems, or to replace or introduce new technologies and systems as quickly as our competitors or in a cost-effective manner. Also, we may not achieve the benefits anticipated or required from any new technology or system, including those related to our recent technology acquisitions.

***We rely on traffic to our websites, including our flagship websites, remax.com and mottomortgage.com, directed from search engines. If our websites fail to rank prominently in unpaid search results, traffic to our websites could decline and our business could be adversely affected.***

Our success depends in part on our ability to attract home buyers and sellers to our websites, including our flagship websites, remax.com and mottomortgage.com through unpaid Internet search results on search engines. The number of users we attract from search engines is due in large part to how and where our websites rank in unpaid search results. These rankings can be affected by a number of factors, such as changes in ranking algorithms, many of which are not under our direct control, and they may change frequently. In addition, our website faces increasing competition for audience from real estate portal websites, such as Zillow, Trulia and Realtor.com. Our websites have experienced fluctuations in search result rankings in the past, and we anticipate fluctuations in the future. Any reduction in the number of users directed to our websites could adversely impact our business and results of operations.

***Cyberattacks, security breaches and improper access to, disclosure or deletion of our data, personally identifiable information we collect, or business records could harm our business, damage our reputation and cause losses.***

Our information technologies and systems and those of our third-party hosted services are vulnerable to breach, damage or interruption from various causes, including: (i) natural disasters, war and acts of terrorism, (ii) power losses, computer systems failure, Internet and telecommunications or data network failures, operator error, losses and corruption of data, and similar events, and (iii) employee error, malfeasance or otherwise. Of particular risk and focus in recent years is the potential penetration of internal or outsourced systems by individuals seeking to disrupt operations or misappropriate information (aka, cyberattacks). Cyberattacks, including the use of phishing and malware, continue to grow in sophistication making it impossible for us to mitigate all of these risks. Any extended interruption of our systems or exposure of sensitive data to third parties could cause significant damage to our business or our brand, for which our business interruption insurance may be insufficient to compensate us for losses that may occur.

In addition, we rely on the collection and use of personally identifiable information from franchisees, agents and consumers to conduct our business and in certain instances such data may include social security numbers, payment card numbers, or customer financial information. Global privacy legislation (including the recently enacted GDPR regulations in the European Union), enforcement and policy activity are rapidly expanding and creating a complex compliance environment. Changes in these laws may limit our data access, use, and disclosure, and may require increased expenditures by us or may dictate that we not offer certain types of services. For example, California recently enacted the California Consumer Privacy Act, which became effective on January 1, 2020 and requires covered businesses to, among other things, provide disclosures to California consumers regarding the collection, use and disclosure of such consumers' personal information and afford such consumers new rights with respect to their personal information, including the right to opt out of certain sales of personal information. We believe that further increased regulation in additional jurisdictions is likely in the area of data privacy. Should we misuse or improperly store the personally identifiable information that we collect, or should we be the victim of a cyberattack that results in improper access to such personally identifiable information, we may be subject to legal claims and regulatory scrutiny. Any legal claims, government action or damage to our reputation due to actions, or the perception that we are taking actions, inconsistent with the terms of our privacy statement, consumer expectations, or privacy-related or data protection laws and regulations, could expose us to liability and adversely impact our business and results of operations.

***Any disruption to our websites or lead generation tools could harm our business.***

We are vulnerable to certain additional risks and uncertainties associated with websites, which include our lead referral system, remax.com, global.remax.com, theremaxcollection.com, remaxcommercial.com and mottomortgage.com. These risks include changes in required technology interfaces, website downtime and other technical failures, security breaches and consumer privacy concerns. We may experience service disruptions, outages and other performance problems due to a variety of factors, including reliance on our third-party hosted services, infrastructure changes, human or software errors, capacity constraints due to an overwhelming number of users accessing our platform simultaneously, and denial of service, fraud or attacks. Our failure to address these risks and uncertainties successfully could reduce our Internet presence, generate fewer leads for our agents and damage our brand. Many of the risks relating to our website operations are beyond our control.

***We only have two primary facilities, one of which serves as our corporate headquarters. If we encounter difficulties associated with these facilities, we could face management issues that could have a material adverse effect on our business operations.***

We have two primary facilities both located in Denver, Colorado, where most of our employees are located. A significant portion of our owned computer equipment, IT team focused on agent technology, and our management is located in these facilities. Our management and employees would need to find an alternative location if we were to encounter difficulties at our corporate headquarters, including by fire or other natural disaster, which would cause disruption and expense to our business and operations.

***We rely on third parties for certain important functions and technology. Any failures by those vendors could disrupt our business operations.***

We have outsourced certain key functions to external parties, including some that are critical to financial reporting, our franchise and membership tracking/billing, the Motto loan origination system, and a number of critical consumer- and franchise/agent-facing websites. We may enter into other key outsourcing relationships in the future. If one or more of these external parties were not able to perform their functions for a period of time, perform them at an acceptable service level, or handle increased volumes, our business operations could be constrained, disrupted, or otherwise negatively affected. Our ability to monitor the activities or performance of vendors may be constrained, which makes it difficult for us to assess and manage the risks associated with these relationships.

***We are relatively new to the mortgage brokerage industry, which, along with the intense competition within the industry, may hinder our efforts to establish and grow our new mortgage brokerage franchising business, Motto Mortgage, which could have implications to the goodwill on our Consolidated Balance Sheet.***

We are pursuing a growth strategy to offer and sell residential mortgage brokerage franchises in the U.S under the “Motto Mortgage” brand and trademarks. We continue to develop operating experience in the mortgage brokerage industry. Our strategy hinges on our ability to recruit franchisees and help them recruit loan originators, to develop and maintain strong competencies within the mortgage brokerage market, on favorable conditions in the related regulatory environment and on our success in developing a strong, respected brand. We may fail to understand, interpret, implement and/or train franchisees adequately concerning compliance requirements related to the mortgage brokerage industry or the relationship between us and our franchisees, any of which failures could subject us or our franchisees to adverse actions from regulators. Motto Franchising, LLC, may also have regulatory obligations arising from its relationship with Motto franchisees; we may fail to comply with those obligations, and that failure could also subject us to adverse actions from regulators. The Motto Mortgage brand’s lack of brand recognition may hamper franchise sales efforts. In addition, residential mortgage brokerage is a highly competitive industry and Motto will suffer if we are unable to attract franchisees, which will adversely affect Motto’s growth, operations and profitability.

***We have significant debt service obligations and may incur additional indebtedness in the future.***

We have significant debt service obligations, including principal, interest and commitment fee payments due quarterly pursuant to RE/MAX, LLC’s Senior Secured Credit Facility. Our currently existing indebtedness, or any additional indebtedness we may incur, could require us to divert funds identified for other purposes for debt service and impair our liquidity position. If we cannot generate sufficient cash flow from operations to service our debt, we may need to refinance our debt, dispose of assets or issue additional equity to obtain necessary funds. We do not know whether we would be able to take such actions on a timely basis, on terms satisfactory to us, or at all. Future indebtedness may impose additional restrictions on us, which could limit our ability to respond to market conditions, to make capital investments or to take advantage of business opportunities. Our level of indebtedness has important consequences to you and your investment in our Class A common stock.

***The discontinuation of London Interbank Offered Rate ("LIBOR") may adversely affect our borrowing costs.***

The variable interest rate on our Senior Secured Credit Facility can be based on LIBOR at our option, and we have chosen the LIBOR option on a regular basis. In 2017, the Chief Executive of the U.K. Financial Conduct Authority (the “FCA”), which regulates LIBOR, announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. The discontinuation of LIBOR as a reference rate may cause interest rates under our current or future debt agreements to perform differently than in the past. The replacement with an alternative reference rate may cause unanticipated consequences and our future borrowing costs may be adversely affected. At this time, we are unable to predict what effect the discontinuance of LIBOR and the establishment of alternative reference rates will have on our borrowing costs and results of operations.

***Our operating results are subject to quarterly fluctuations due to home sales, and results for any quarter may not necessarily be indicative of the results that may be achieved for the full fiscal year.***

Historically, we have realized, and expect to continue to realize, lower Adjusted EBITDA margins in the first and fourth quarters due primarily to the impact of lower broker fees and other revenue primarily as a result of lower overall home sale transactions, and higher selling, operating and administrative expenses in the first quarter for expenses incurred in connection with our RE/MAX annual convention. Accordingly, our results of operations may fluctuate on a quarterly basis, which would cause period to period comparisons of our operating results to not be necessarily meaningful and cannot be relied upon as indicators of future annual performance.

***Expectations of the Company relating to environmental, social and governance factors may impose additional costs and expose us to new risks.***

There is an increasing focus from certain investors, employees and other stakeholders concerning corporate responsibility, specifically related to environmental, social and governance factors. Some investors may use these factors to guide their investment strategies and, in some cases, may choose not to invest in us if they believe our policies relating to corporate responsibility are inadequate. Third-party providers of corporate responsibility ratings and reports on companies have increased to meet growing investor demand for measurement of corporate responsibility performance. The criteria by which companies' corporate responsibility practices are assessed may change, which could result in greater expectations of us and cause us to undertake costly initiatives to satisfy such new criteria. If we elect not to or are unable to satisfy such new criteria, investors may conclude that our policies with respect to corporate responsibility are inadequate. We may face reputational damage in the event that our corporate responsibility procedures or standards do not meet the standards set by various constituencies. Furthermore, if our competitors' corporate responsibility performance is perceived to be greater than ours, potential or current investors may elect to invest with our competitors instead. In addition, in the event that we communicate certain initiatives and goals regarding environmental, social and governance matters, we could fail, or be perceived to fail, in our achievement of such initiatives or goals, or we could be criticized for the scope of such initiatives or goals. If we fail to satisfy the expectations of investors, employees and other stakeholders or our initiatives are not executed as planned, our reputation and financial results could be materially and adversely affected.

**Risks Related to Our Organizational Structure**

***RIHI has substantial influence over us including over decisions that require the approval of stockholders, and its interest in our business may conflict with yours.***

RIHI, a company controlled by David Liniger, our current Chairman and Co-Founder, and Gail Liniger, our Vice Chair and Co-Founder, respectively, owns all of our outstanding Class B common stock. Although RIHI no longer controls a majority of the voting power of RE/MAX Holdings' common stock, RIHI remains a significant stockholder of the Company and through its ownership of the Class B common stock holds approximately 41.3% of the voting power of the Company's stock. Mr. Liniger also owns Class A common stock with an additional 1.2% of the voting power of the Company's stock. Therefore, RIHI has the ability to significantly influence all matters submitted to a vote of our stockholders.

In addition, RIHI's entire economic interest in us is in the form of its direct interest in RMCO through the ownership of RMCO common units, the payments it may receive from us under its tax receivable agreement and the proceeds it may receive upon any redemption of its RMCO common units, including issuance of shares of our Class A common stock, upon any such redemption and any subsequent sale of such Class A common stock. As a result, RIHI's interests may conflict with the interests of our Class A common stockholders. For example, RIHI may have a different tax position from us which could influence its decisions regarding certain transactions, especially in light of the existence of the tax receivable agreements that we entered into in connection with our IPO, including whether and when we should terminate the tax receivable agreements and accelerate our obligations thereunder. In addition, RIHI could have an interest in the structuring of future transactions to take into consideration its tax or other considerations, even in situations where no similar considerations are relevant to us.

***Our tax receivable agreements require us to make cash payments based upon future tax benefits to which we may become entitled. The amounts that we may be required to pay could be significant, may be accelerated in certain circumstances and could significantly exceed the actual tax benefits that we ultimately realize.***

In connection with our IPO, we entered into tax receivable agreements with our historical owners. After one of these historical owners assigned its interest in its tax receivable agreement, these tax receivable agreements are now held by RIHI and Parallaxes Rain Co-Investment, LLC ("Parallaxes" and together, the "TRA Parties"). The amount of the cash payments that we may be required to make under the tax receivable agreements could be significant and will depend, in part, upon facts and circumstances that are beyond our control.

The tax receivable agreements provide that if certain mergers, asset sales, other forms of business combination, or other changes of control were to occur, or that if, at any time, we elect an early termination of the tax receivable agreements, then our obligations, or our successor's obligations, to make payments under the tax receivable agreements would be based on certain assumptions, including an assumption that we would have sufficient taxable income to fully utilize all potential future tax benefits that are subject to the tax receivable agreements.

As a result, (i) we could be required to make cash payments to the TRA Parties that are greater than the specified percentage of the actual benefits we ultimately realize in respect of the tax benefits that are subject to the tax receivable agreements, and (ii) if we elect to terminate the tax receivable agreements early, we would be required to make an immediate cash payment equal to the present value of the anticipated future tax benefits that are the subject of the tax receivable agreements, which payment may be made significantly in advance of the actual realization, if any, of such future tax benefits.

We will also not be reimbursed for any cash payments previously made to the TRA Parties (or their predecessors) pursuant to the tax receivable agreements if any tax benefits initially claimed by us are subsequently challenged by a taxing authority and are ultimately disallowed. Instead, any excess cash payments made by us to either of the TRA Parties will be netted against any future cash payments that we might otherwise be required to make under the terms of the tax receivable agreements. However, we might not determine that we have effectively made an excess cash payment to either of the TRA Parties for a number of years following the initial time of such payment. As a result, it is possible that we could make cash payments under the tax receivable agreements that are substantially greater than our actual cash tax savings.

**Risks Related to Ownership of Our Class A Common Stock**

***We cannot assure you that we will have the available cash to make dividend payments.***

We intend to continue to pay cash dividends quarterly. Whether we will do so, however, and the timing and amount of those dividends, will be subject to approval and declaration by our Board of Directors and will depend upon on a variety of factors, including our financial results, cash requirements and financial condition, our ability to pay dividends under our senior secured credit facility and any other applicable contracts, and other factors deemed relevant by our Board of Directors. Any dividends declared and paid will not be cumulative.

Because we are a holding company with no material assets other than our ownership of common units of RMCO, we have no independent means of generating revenue or cash flow, and our ability to pay dividends is dependent upon the financial results and cash flows of RMCO and its subsidiaries and distributions we receive from RMCO. We expect to cause RMCO to make distributions to fund our expected dividend payments, subject to applicable law and any restrictions contained in RMCO's or its subsidiaries' current or future debt agreements.

***Anti-takeover provisions in our charter documents and Delaware law might discourage or delay acquisition attempts for us that you might consider favorable.***

Our certificate of incorporation and bylaws contain provisions that may make the acquisition of our company more difficult without the approval of our Board of Directors. These provisions:

- establish a classified Board of Directors so that not all members of our Board of Directors are elected at one time;
- authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend or other rights or preferences superior to the rights of the holders of common stock;
- provide that our Board of Directors is expressly authorized to make, alter or repeal our bylaws;
- delegate the sole power to a majority of our Board of Directors to fix the number of directors;
- provide the power of our Board of Directors to fill any vacancy on our Board of Directors, whether such vacancy occurs as a result of an increase in the number of directors or otherwise;
- eliminate the ability of stockholders to call special meetings of stockholders; and

- establish advance notice requirements for nominations for elections to our Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Our certificate of incorporation also contains a provision that provides us with protections similar to Section 203 of the Delaware General Corporation Law, and prevents us from engaging in a business combination with a person who acquires at least 15% of our common stock for a period of three years from the date such person acquired such common stock unless board or stockholder approval is obtained prior to the acquisition, except that David and Gail Liniger are deemed to have been approved by our Board of Directors, and thereby not subject to these restrictions. These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of our Company, even if doing so would benefit our stockholders. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and to cause us to take other corporate actions you desire.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our corporate headquarters is located in leased offices in Denver, Colorado. The lease consists of approximately 231,000 square feet and expires in April 2028. We also lease an office building in Denver, Colorado for our booj operations. The lease consists of approximately 20,000 square feet and expires in February 2034.

**ITEM 3. LEGAL PROCEEDINGS**

As disclosed in Note 15 *Commitments and Contingencies*, from time to time we are involved in litigation, claims and other proceedings relating to the conduct of our business, and the disclosures set forth in Note 15 relating to certain legal matters is incorporated herein by reference. Such litigation and other proceedings may include, but are not limited to, actions relating to intellectual property, commercial arrangements, franchising arrangements, brokerage disputes, vicarious liability based upon conduct of individuals or entities outside of our control including franchisees and independent agents, and employment law claims. Litigation and other disputes are inherently unpredictable and subject to substantial uncertainties and unfavorable resolutions could occur. Often these cases raise complex factual and legal issues, which are subject to risks and uncertainties and which could require significant time and resources from management. Although we do not believe any currently pending litigation will have a material adverse effect on our business, financial condition or operations, there are inherent uncertainties in litigation and other claims and regulatory proceedings and such pending matters could result in unexpected expenses and liabilities and might materially adversely affect our business, financial condition or operations, including our reputation.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

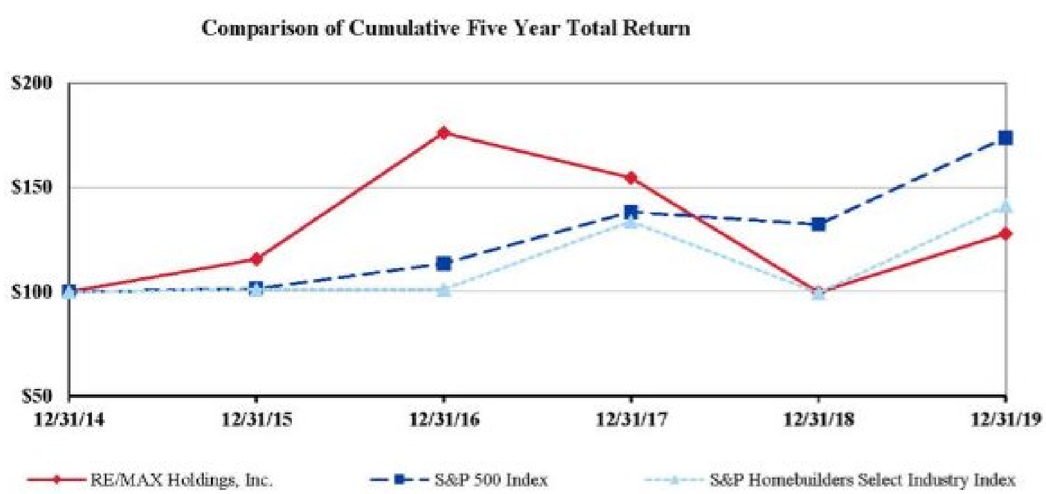
Our Class A common stock trades on the New York Stock Exchange ("NYSE") under the symbol "RMAX". As of February 20, 2020, we had 65 stockholders of record of our Class A common stock. This number does not include stockholders whose stock is held in nominee or street name by brokers. All shares of Class B common stock are owned by RIHI, Inc. ("RIHI"), and there is no public market for these shares.

For the years ended December 31, 2019 and 2018 we declared a $0.21 and $0.20 per share dividend for each quarter during those calendar years, respectively. We intend to continue to pay a cash dividend on shares of Class A common stock on a quarterly basis. However the timing and amount of those dividends will be subject to approval and declaration by our Board of Directors and will depend on a variety of factors, including the financial results and cash flows of RMCO, LLC and its consolidated subsidiaries ("RMCO"), distributions we receive from RMCO, cash requirements and financial condition, our ability to pay dividends under our senior secured credit facility and any other applicable contracts, and other factors deemed relevant by our Board of Directors. All dividends declared and paid will not be cumulative. See Note 5, *Earnings Per Share and Dividends* to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further information.

**Performance Graph**

The following graph and table depict the total return to stockholders from December 31, 2013 through December 31, 2019, relative to the performance of the S&P 500 Index and S&P Homebuilders Select Industry Index. The graph assumes that $100 was invested at the closing price on December 31, 2014 and that all dividends were reinvested.

The performance graph is not intended to be indicative of future performance. The performance graph shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any of the Company's filings under the Securities Act of 1933, as amended, or the Exchange Act.



**ITEM 6. SELECTED FINANCIAL DATA**

The following tables set forth our selected historical consolidated financial results and other data as of the dates and for the periods indicated. The selected consolidated statements of income data for the years ended December 31, 2019, 2018 and 2017, and the consolidated balance sheets data as of December 31, 2019 and 2018 have been derived from our audited consolidated financial statements (“financial statements”) included elsewhere in this Annual Report on Form 10-K.

The selected consolidated statements of income data for the years ended December 31, 2016 and 2015 and the selected consolidated balance sheets data as of December 31, 2017, 2016 and 2015 have been derived from our audited financial statements not included in this Annual Report on Form 10-K.

As of December 31, 2014, RE/MAX Holdings, Inc. (“Holdings”) owned 39.9% of the common membership units in RMCO, LLC and its consolidated subsidiaries (“RMCO”), and as of December 31, 2019, Holdings owns 58.7% of the common membership units in RMCO. Holdings’ economic interest in RMCO increased primarily due to the issuance of shares of Class A common stock as a result of RIHI’s redemption of 5.2 million common units in RMCO during the fourth quarter of 2015. Holdings’ only business is to act as the sole manager of RMCO and in that capacity, Holdings operates and controls all of the business and affairs of RMCO.

Our selected historical financial data may not be indicative of our future financial condition, future results of operations or future cash flows.

You should read the information set forth below in conjunction with our historical financial statements and the notes to those statements and “Item 7.—Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Annual Report on Form 10-K.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2016 | 2015 (1) |
| | (in thousands, except per share amounts and agent data) | | | | |
| Total revenue: | | | | | |
| Continuing franchise fees | $ 99,928 | $ 101,104 | $ 93,694 | $ 81,197 | $ 73,750 |
| Annual dues | 35,409 | 35,894 | 33,767 | 32,653 | 31,758 |
| Broker fees | 45,990 | 46,871 | 43,801 | 37,209 | 32,334 |
| Marketing Funds fees | 72,299 | — | — | — | — |
| Franchise sales and other revenue | 28,667 | 28,757 | 22,452 | 24,471 | 25,468 |
| Brokerage revenue | — | — | — | 112 | 13,558 |
| Total revenue | 282,293 | 212,626 | 193,714 | 175,642 | 176,868 |
| Operating expenses: | | | | | |
| Selling, operating and administrative expenses | 118,890 | 120,179 | 106,946 | 88,037 | 91,561 |
| Marketing Funds expenses | 72,299 | — | — | — | — |
| Depreciation and amortization | 22,323 | 20,678 | 20,512 | 16,094 | 15,124 |
| Loss (gain) on sale or disposition of assets, net | 342 | 63 | 660 | 178 | (3,397) |
| Gain on reduction in tax receivable agreement liability | — | (6,145) | (32,736) | — | — |
| Total operating expenses | 213,854 | 134,775 | 95,382 | 104,309 | 103,288 |
| Operating income | 68,439 | 77,851 | 98,332 | 71,333 | 73,580 |
| Other expenses, net: | | | | | |
| Interest expense | (12,229) | (12,051) | (9,996) | (8,596) | (10,413) |
| Interest income | 1,446 | 676 | 352 | 160 | 178 |
| Foreign currency transaction (losses) gains | 109 | (312) | 174 | (86) | (1,661) |
| Loss on early extinguishment of debt | — | — | — | (796) | (94) |
| Equity in earnings of investees | — | — | — | — | 1,215 |
| Total other expenses, net | (10,674) | (11,687) | (9,470) | (9,318) | (10,775) |
| Income before provision for income taxes | 57,765 | 66,164 | 88,862 | 62,015 | 62,805 |
| Provision for income taxes | (10,909) | (16,342) | (57,542) | (15,167) | (12,030) |
| Net income | 46,856 | 49,822 | 31,320 | 46,848 | 50,775 |
| Less: net income attributable to non-controlling interests | 21,816 | 22,939 | 21,221 | 24,627 | 34,363 |
| Net income attributable to RE/MAX Holdings, Inc. | $ 25,040 | $ 26,883 | $ 10,099 | $ 22,221 | $ 16,412 |
| **Earnings Per Share Data:** | | | | | |
| Basic | $ 1.41 | $ 1.52 | $ 0.57 | $ 1.26 | $ 1.30 |
| Diluted | $ 1.40 | $ 1.51 | $ 0.57 | $ 1.26 | $ 1.28 |
| **Other Data:** | | | | | |
| Agent count at period end (unaudited) | 130,889 | 124,280 | 119,041 | 111,915 | 104,826 |
| Cash dividends declared per share of Class A common stock | $ 0.84 | $ 0.80 | $ 0.72 | $ 0.60 | $ 2.00 |

(1) Effective January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), the new revenue recognition standard, retrospectively. Financial results for 2015 have not been recast and are therefore not comparable.

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2016 | 2015 (1) |
| | (in thousands) | | | | |
| Cash and cash equivalents | $ 83,001 | $ 59,974 | $ 50,807 | $ 57,609 | $ 110,212 |
| Restricted cash (2) | 20,600 | — | — | — | — |
| Franchise agreements, net | 87,670 | 103,157 | 119,349 | 109,140 | 61,939 |
| Goodwill | 159,038 | 150,684 | 135,213 | 126,633 | 71,871 |
| Total assets | 542,352 | 428,373 | 413,934 | 444,683 | 383,786 |
| Payable pursuant to tax receivable agreements, including current portion | 37,223 | 40,787 | 53,175 | 98,809 | 100,035 |
| Debt, including current portion | 225,681 | 227,787 | 228,986 | 230,820 | 200,357 |
| Total stockholders' equity | 98,376 | 75,014 | 45,408 | 40,615 | 39,414 |

(1) Effective January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), the new revenue recognition standard, retrospectively. Financial results for 2015 have not been recast and therefore are not comparable.

(2) Restricted cash is attributable to the Marketing Funds, which were acquired January 1, 2019. See Note 6, *Acquisitions* to the accompanying consolidated financial statements for more information.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis should be read in conjunction with our consolidated financial statements ("financial statements") and accompanying notes thereto included elsewhere in this Annual Report on Form 10-K. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. See "Forward-Looking Statements" and "Item 1A.—Risk Factors" for a discussion of the uncertainties, risks and assumptions associated with these statements. Actual results may differ materially from those contained in any forward-looking statements.*

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

**Financial and Operational Highlights – Year Ended December 31, 2019**
*(Compared to the year ended December 31, 2018 unless otherwise noted)*

- Deployed the booj Platform to the majority of agents in U.S. Company-owned Regions
- Acquired First, a data science and machine learning company.
- Total agent count increased by 5.3% to 130,889 agents.
- U.S. and Canada combined agent count increased 0.3% to 84,688 agents.
- Total open Motto Mortgage offices increased to 111 offices.
- Revenue of $282.3 million, up 32.8% from the prior year. Excluding the acquisition of the Marketing Funds, revenue decreased $2.6 million from the prior year.
- Net income attributable to RE/MAX Holdings, Inc. of $25.0 million.
- Adjusted EBITDA of $103.5 million and Adjusted EBITDA margin of 36.7%. Adjusted EBITDA margin decreased from the prior year because of the acquisition of the Marketing Funds, which increased revenue, but had no impact to Adjusted EBITDA.

As of December 31, 2019, we grew our total agent count 5.3% as compared to 2018, surpassing 130,000 agents for the first time in our history, led by strong growth in our international markets. During 2019, our stable business model delivered resilient revenue and margin performance despite the soft housing market that prevailed during the first part of the year. Agent count in the combined U.S. and Canada markets were virtually flat at 0.3% growth from the prior year, with improvement in the fourth quarter. Rejuvenating agent count growth in the U.S. has been and will continue to be a top priority. Some of the more impactful forces on our U.S. agent count growth in the fourth quarter of 2019 included: our enterprise-wide focus on growth, our ongoing technology transformation, improving housing market conditions and perhaps most notably, the introduction of several recruiting initiatives including some that incentivized recruitment through temporary waivers of fees for new agents. Motto continued to expand with 111 open franchises as of December 31, 2019, which is an increase of 42.3% since December 31, 2018. Revenue, excluding the Marketing Funds, declined 1.2% during 2019 as compared to the prior year period, driven by weak housing market conditions in the U.S. and parts of Canada during the first part of the year, decreased average agent count in the U.S. and Canada owned regions and attrition of some of booj's legacy customers, offset by the expansion of Motto and healthy international agent growth. Adjusted EBITDA decreased $0.8 million primarily due to higher bad debt expense, higher property tax expense, additional training expenses for the launch of the booj technology platform and lower organic revenue, partially offset by lower professional fees and severance costs.

We continued to invest in our value proposition and began introducing the powerful, fully integrated booj Platform that has been custom-built for RE/MAX's unique entrepreneurial culture in the third quarter of 2019 in our U.S. Company-owned Regions, with additional functionality added in the fourth quarter. We deployed an enhanced consumer facing app and www.remax.com experience in January 2020 and plan to continue to innovate and release ongoing updates to the

Platform in the future. Later in 2020, we plan to offer the booj Platform to participating U.S. Independent Regions and to Canada. Ultimately, we plan to offer the booj Platform throughout our global network. We will continue to invest in future growth opportunities, including those that diversify our revenue like the exciting First mobile app, which we expect to be accretive in 2021 but to adversely impact Adjusted EBITDA in 2020 by $1.5 million to $2.5 million.

**Financial and Operational Highlights – Year Ended December 31, 2018**
*(Compared to year ended December 31, 2017 unless otherwise noted)*

- Total agent count increased by 4.4% to 124,280 agents.
- U.S. and Canada combined agent count increased 0.2% to 84,449 agents.
- Total open Motto Mortgage franchises more than doubled to 78 offices.
- Revenue increased 9.8% to $212.6 million.
- Net income attributable to RE/MAX Holdings, Inc. of $26.9 million.
- Adjusted EBITDA of $104.3 million and Adjusted EBITDA margin of 49.1%.

During 2018, we grew organic revenue 4.5% primarily due to agent count increases, Motto expansion, rising average home prices, event-based revenue from our annual convention in the U.S. and a July 1, 2017 annual dues fee increase in the U.S. and Canada. Our 2018 revenue growth was also impacted by having waived approximately $2.0 million of continuing franchise fees and brokers fees in the prior year for hurricane-impacted associates. We grew our network agent count 4.4% and our U.S. and Canadian combined agent count by 0.2%, and we sold 1,120 RE/MAX franchises worldwide, including 285 franchises in the U.S. and Canada combined.

Expenses increased primarily due to increased investments in technology, costs to support booj's legacy operations assisting its external customers, severance and other payroll related expenses, and operating costs to support Motto's growth. These increases were partially offset by a $3.7 million loss recognized in the prior year related to subleasing a portion of our corporate office building and costs of a litigation settlement. Interest expense also increased $2.1 million due to rising interest rates.

We also focused on pursuing potential growth catalysts by acquiring booj, a real estate technology company, for a purchase price of $26.3 million. With booj, we expect to deliver core technology solutions designed for and with RE/MAX affiliates in 2019. We believe this new technology will make our highly productive agents even more efficient and successful and help RE/MAX franchisees recruit and retain agents.

**Selected Operating and Financial Highlights**

For comparability purposes, the following table sets forth our agent count, Motto open offices, franchise sales and results of operations for the periods presented in our audited financial statements included elsewhere in this Annual Report on Form 10-K. The period-to-period comparison of agent count, Motto open offices, franchise sales and financial results is not necessarily indicative of future performance.

| | December 31, | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| Total agent count growth | 5.3 % | 4.4 % | 6.4 % |
| | | | |
| **Agent Count:** | | | |
| U.S. | 63,121 | 63,122 | 63,162 |
| Canada | 21,567 | 21,327 | 21,112 |
| U.S. and Canada Total | 84,688 | 84,449 | 84,274 |
| Outside U.S. and Canada | 46,201 | 39,831 | 34,767 |
| Network-wide agent count | 130,889 | 124,280 | 119,041 |
| | | | |
| **Motto open offices (2)** | 111 | 78 | 31 |

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| **RE/MAX franchise sales (1)** | 1,030 | 1,120 | 1,059 |
| **Motto franchise sales (2)** | 52 | 49 | 60 |

(1) Includes franchise sales in the U.S., Canada and global regions.
(2) Excludes virtual offices and branchises.

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| Total revenue | $ 282,293 | $ 212,626 | $ 193,714 |
| Total selling, operating and administrative expenses | $ 118,890 | $ 120,179 | $ 106,946 |
| Operating income | $ 68,439 | $ 77,851 | $ 98,332 |
| Net income attributable to RE/MAX Holdings, Inc. | $ 25,040 | $ 26,883 | $ 10,099 |
| Adjusted EBITDA (1) | $ 103,515 | $ 104,316 | $ 102,145 |
| Adjusted EBITDA margin (1) | 36.7 % | 49.1 % | 52.7 % |

(1) See “—Non-GAAP Financial Measures” for further discussion of Adjusted EBITDA and Adjusted EBITDA margin and a reconciliation of the differences between Adjusted EBITDA and net income, which is the most comparable U.S. generally accepted accounting principles (“U.S. GAAP”) measure for operating performance. Adjusted EBITDA margin represents Adjusted EBITDA as a percentage of total revenue. Adjusted EBITDA margins decreased considerably from the prior year because of the acquisition of the Marketing Funds, which increased revenue significantly, but had no impact to Adjusted EBITDA.

**Results of Operations**

***Year Ended December 31, 2019 vs. Year Ended December 31, 2018***

***Revenue***

A summary of the components of our revenue is as follows (in thousands except percentages):

| | Year Ended December 31, | | Change Favorable/(Unfavorable) | |
|---|---|---|---|---|
| | 2019 | 2018 | $ | % |
| Revenue: | | | | |
| Continuing franchise fees | $ 99,928 | $ 101,104 | $ (1,176) | (1.2)% |
| Annual dues | 35,409 | 35,894 | (485) | (1.4)% |
| Broker fees | 45,990 | 46,871 | (881) | (1.9)% |
| Marketing Funds fees | 72,299 | — | 72,299 | n/m |
| Franchise sales and other revenue | 28,667 | 28,757 | (90) | (0.3)% |
| Total revenue | $ 282,293 | $ 212,626 | $ 69,667 | 32.8 % |

n/m – not meaningful

Consolidated revenue increased due to acquisitions of the Marketing Funds and having a full year of booj revenue due to acquisition timing, which added $73.4 million, or 34.6%, partially offset by a decrease in organic revenue of $3.1 million, or 1.5% and foreign currency movements of $0.6 million, or 0.3%.

*Continuing Franchise Fees*

Revenue from continuing franchise fees decreased primarily due to agent count decreases in the U.S. and Company-owned Regions in Canada during most of the year, partially offset by Motto expansion. While U.S. agent count was flat year-over-year, it was down a large portion of 2019 with most of the increases coming in the fourth quarter, driven notably by the introduction of recruiting initiatives, some of which waived continuing franchise fees for a limited period of time. We estimate that we will forgo $2.0 million to $3.0 million in revenue through the third quarter of 2020 from these waivers.

*Annual Dues*

Revenue from annual dues declined due to agent count declines in the U.S. and Company-owned Regions in Canada.

*Broker Fees*

Revenue from broker fees decreased primarily due to agent count declines in the U.S. and Company-owned Regions in Canada and lower total transactions per agent, partially offset by rising home prices.

*Marketing Funds fees*

Revenue from the Marketing Funds fees increased due to the acquisition of the Marketing Funds on January 1, 2019.

*Franchise Sales and Other Revenue*

Franchise sales and other revenue was relatively flat as lower revenue from preferred marketing arrangements, event-based revenue from our RE/MAX annual convention in the U.S. and continued attrition of booj's legacy customer base was mostly offset by booj revenue in the current year for periods we did not own booj in the prior year. We expect the continued booj legacy customer attrition to lower other revenue by approximately $3.0 million in 2020.

***Operating Expenses***

A summary of the components of our operating expenses is as follows (in thousands, except percentages):

| | Year Ended December 31, | | Change Favorable/(Unfavorable) | |
|---|---|---|---|---|
| | 2019 | 2018 | $ | % |
| Operating expenses: | | | | |
| Selling, operating and administrative expenses | $ 118,890 | $ 120,179 | $ 1,289 | 1.1 % |
| Marketing Funds expenses | 72,299 | — | (72,299) | n/m |
| Depreciation and amortization | 22,323 | 20,678 | (1,645) | (8.0)% |
| Loss (gain) on sale or disposition of assets, net | 342 | 63 | (279) | (442.9) |
| Gain on reduction in tax receivable agreement liability | — | (6,145) | (6,145) | 100.0 % |
| Total operating expenses | $ 213,854 | $ 134,775 | $ (79,079) | (58.7)% |
| Percent of revenue | 75.8 % | 63.4 % | | |

n/m – not meaningful

*Selling, Operating and Administrative Expenses*

Selling, operating and administrative expenses consisted of personnel costs, professional fee expenses, lease costs and other expenses. Other expenses within selling, operating and administrative expenses include certain marketing and production costs that are not paid by the Marketing Funds, including travel and entertainment costs, and costs associated with our conventions in the U.S. and other events.

A summary of the components of our selling, operating and administrative expenses is as follows (in thousands, except percentages):

| | Year Ended December 31, | | Change Favorable/(Unfavorable) | |
|---|---|---|---|---|
| | 2019 | 2018 | $ | % |
| Selling, operating and administrative expenses: | | | | |
| Personnel | $ 63,022 | $ 62,935 | $ (87) | (0.1)% |
| Professional fees | 11,159 | 15,631 | 4,472 | 28.6 % |
| Lease costs | 8,805 | 9,104 | 299 | 3.3 % |
| Other | 35,904 | 32,509 | (3,395) | (10.4)% |
| Total selling, operating and administrative expenses | $ 118,890 | $ 120,179 | $ 1,289 | 1.1 % |
| Percent of revenue | 42.1 % | 56.5 % | | |

Total selling, operating and administrative expenses decreased as follows:

- Personnel costs remained relatively flat due to an increase in equity-based compensation expense of $1.8 million (See Note 13 *Equity-Based Compensation*) and other personnel costs, mostly offset by lower severance.
- Professional fees decreased primarily due to costs incurred in 2018 related to an investigation by a special committee of our Board of Directors (the "Special Committee") of $2.5 million and a decrease of $1.0 million for technology costs (which includes the impact of charging certain costs to the Marketing Funds in 2019. See Note 2 *Summary of Significant Accounting Policies*), partially offset by a slight increase in legal fees in the current year, driven by the Moehrl/Sitzer suits (See Note 15 *Commitments and Contingencies*). We expect legal fees will increase approximately $1.5 million in 2020.
- Other selling, operating and administrative expenses increased primarily due to a favorable fair value adjustment to our contingent consideration liability in 2018 that did not recur in 2019 (See Note 11 *Fair Value Measurements*), increases in bad debt expense, increases in property tax expense (driven by an increase in the

assessed value of our corporate headquarters) and additional training expenses for the launch of the booj Platform.

*Marketing Funds Expenses*

Marketing Funds expenses increased due to the acquisition of the Marketing Funds on January 1, 2019. We recognize an equal and offsetting amount of expenses to revenue such that there is no impact to our overall profitability.

*Depreciation and Amortization*

Depreciation and amortization expense increased primarily due to amortization expense related to the deployment of various technology initiatives.

*Gain on Reduction in TRA Liability*

The gain on reduction in TRA liability during the year ended December 31, 2018 resulted from changes in tax law arising from the Tax Cuts and Jobs Act, enacted in December 2017 and further clarified in 2018. These tax law changes resulted in reductions to the value of deferred tax assets the Company holds and related reduction in the value of the TRA liabilities. The gain of $6.1 million in 2018 is a result of changes in the taxation of foreign derived income, which the Company recognized after performing a detailed review during 2018 of these complex provisions. See Note 12, *Income Taxes* for additional information.

***Other Expenses, Net***

A summary of the components of our operating expenses is as follows (in thousands, except percentages):

| | Year Ended December 31, | | Change Favorable/(Unfavorable) | |
|---|---|---|---|---|
| | 2019 | 2018 | $ | % |
| Other expenses, net: | | | | |
| Interest expense | $ (12,229) | $ (12,051) | $ (178) | (1.5)% |
| Interest income | 1,446 | 676 | 770 | 113.9 % |
| Foreign currency transaction gains (losses) | 109 | (312) | 421 | 134.9 % |
| Total other expenses, net | $ (10,674) | $ (11,687) | $ 1,013 | 8.7 % |
| Percent of revenue | 3.8 % | 5.5 % | | |

Other expenses, net decreased due to an increase in interest income due to rising interest rates and having larger cash balances to invest in 2019 compared to 2018, and foreign currency gains that were primarily a result of fluctuations of the Canadian dollar against the U.S. dollar, partially offset by an increase in interest expense due to an increase in interest rates on our Senior Secured Credit Facility.

***Provision for Income Taxes***

Our effective income tax rate decreased to 18.9% from 24.7% for the years ended December 31, 2019 and 2018, respectively, primarily due to a valuation allowance recognized in 2018. Our effective income tax rate depends on many factors, including a rate benefit attributable to the fact that the portion of RMCO's earnings attributable to the non-controlling interests are not subject to corporate-level taxes because RMCO is classified as a partnership for U.S. federal income tax purposes and therefore is treated as a "flow-through entity," as well as annual changes in state and foreign income tax rates. See Note 4, *Non-controlling Interest* for further details on the allocation of income taxes between Holdings and the non-controlling interest.

***Adjusted EBITDA***

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

Adjusted EBITDA was $103.5 million for the year ended December 31, 2019, a decrease of $0.8 million from the comparable prior year period. Adjusted EBITDA decreased primarily due to increases in bad debt expense, organic revenue declines, property tax expense and technology training expenses, offset by lower event and advertising expenses, severance, legal and other professional fees as compared to the prior year period.

***Year Ended December 31, 2018 vs. Year Ended December 31, 2017***

***Revenue***

A summary of the components of our revenue for the years ended December 31, 2018 and 2017 is as follows (in thousands, except percentages):

| | Year Ended December 31, | | Change Favorable/(Unfavorable) | |
|---|---|---|---|---|
| | 2018 | 2017 | $ | % |
| Revenue: | | | | |
| Continuing franchise fees | $ 101,104 | $ 93,694 | $ 7,410 | 7.9 % |
| Annual dues | 35,894 | 33,767 | 2,127 | 6.3 % |
| Broker fees | 46,871 | 43,801 | 3,070 | 7.0 % |
| Franchise sales and other revenue | 28,757 | 22,452 | 6,305 | 28.1 % |
| Total revenue | $ 212,626 | $ 193,714 | $ 18,912 | 9.8 % |

Consolidated revenue increased $18.9 million, or 9.8%, due to:

- organic growth of $8.8 million, or 4.5%, primarily as a result of agent count increases, Motto expansion, rising average home prices, event-based revenue from our annual convention in the U.S. and contributions from the July 1, 2017 annual dues fee increase, and the impact of having waived approximately $2.0 million of continuing franchise fees and broker fees for hurricane-impacted associates during 2017;
- acquisitions of Northern Illinois and booj added $10.0 million, or 5.2%; and
- foreign currency movements increased revenue $0.2 million, or 0.1%.

*Continuing Franchise Fees*

Revenue from continuing franchise fees increased primarily as a result of contributions from the acquisition of RE/MAX of Northern Illinois, which added $3.1 million, Motto expansion and agent count growth. Additionally, the Company waived approximately $1.4 million of continuing franchise fees for hurricane-impacted associates during 2017.

*Annual Dues*

Revenue from annual dues increased primarily due to an increase in agent count in the U.S. and Canada and the July 1, 2017 fee increase. Revenue from annual dues is not affected by our acquisitions of Independent Regions because agents in the U.S. and Canadian Independent Regions already pay annual dues to us in the same amounts as agents in Company-owned Regions.

*Broker Fees*

Revenue from broker fees increased primarily due to contributions from the acquisition of RE/MAX of Northern Illinois, which added $1.1 million, organic growth driven primarily by rising average home prices, and having waived approximately $0.6 million of broker fees for hurricane-impacted associates during 2017, partially offset by declines in total transactions per agent.

*Franchise Sales and Other Revenue*

Franchise sales and other revenue increased primarily due to revenue contributed from booj of $5.6 million and event-based revenue from our annual convention in the U.S.

***Operating Expenses***

A summary of the components of our operating expenses for the years ended December 31, 2018 and 2017 is as follows (in thousands, except percentages):

| | Year Ended December 31, | | Change Favorable/(Unfavorable) | |
|---|---|---|---|---|
| | 2018 | 2017 | $ | % |
| Operating expenses: | | | | |
| Selling, operating and administrative expenses | $ 120,179 | $ 106,946 | $ (13,233) | (12.4)% |
| Depreciation and amortization | 20,678 | 20,512 | (166) | (0.8)% |
| Loss on sale or disposition of assets, net | 63 | 660 | 597 | 90.5 % |
| Gain on reduction in tax receivable agreement liability | (6,145) | (32,736) | (26,591) | (81.2)% |
| Total operating expenses | $ 134,775 | $ 95,382 | $ (39,393) | (41.3)% |
| Percent of revenue | 63.4 % | 49.2 % | | |

*Selling, Operating and Administrative Expenses*

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

A summary of the components of our selling, operating and administrative expenses for the years ended December 31, 2018 and 2017 is as follows (in thousands, except percentages):

| | Year Ended December 31, | | Change Favorable/(Unfavorable) | |
|---|---|---|---|---|
| | 2018 | 2017 | $ | % |
| Selling, operating and administrative expenses: | | | | |
| Personnel | $ 62,935 | $ 45,063 | $ (17,872) | (39.7)% |
| Professional fees | 15,631 | 16,927 | 1,296 | 7.7 % |
| Rent and related facility operations | 9,104 | 12,860 | 3,756 | 29.2 % |
| Other | 32,509 | 32,096 | (413) | (1.3)% |
| Total selling, operating and administrative expenses | $ 120,179 | $ 106,946 | $ (13,233) | (12.4)% |
| Percent of revenue | 56.5 % | 55.2 % | | |

Total selling, operating and administrative expenses increased as follows:

- Personnel costs increased primarily due to $5.7 million in costs, including incremental stock-based compensation expense, to support our increased investments in technology, $5.1 million in costs to support booj's legacy operations assisting its external customers, severance and other payroll related expenses, and operating costs to support Motto.
- Professional fees decreased primarily due to a decrease in acquisition-related costs compared to the prior year and costs incurred during the third quarter of 2017 in connection with litigation related to our 2013 acquisition of the net assets of Tails (See Note 15, *Commitments and Contingencies*) and other legal fees, partially offset by investments in technology.
- Rent and related facility operations decreased primarily due to a $3.7 million loss recognized during the third quarter of 2017 related to subleasing a portion of our corporate office building.
- Other selling, operating and administrative expenses increased slightly primarily due to increased costs to support booj's legacy operations assisting its external customers, increased costs for RE/MAX of Northern Illinois and Motto, increases in expenses related to higher attendance at our annual convention in the U.S., and increases in bad debt expense. These increases were largely offset by charges in 2017 that did not recur, including a $2.6 million net litigation settlement related to our 2013 acquisition of the net assets of Tails (See Note 15, *Commitments and Contingencies*) and the refresh of the RE/MAX brand. Additionally, during the year ended December 31, 2018, we adjusted the estimated fair value of the contingent consideration liability related to the acquisition of Full House (See Note 11, *Fair Value Measurements*).

*Depreciation and Amortization*

Depreciation and amortization expense increased primarily due to an increase in amortization expense related to intangibles acquired in connection with the acquisitions of RE/MAX of Northern Illinois and booj. See Note 6, *Acquisitions* for additional information. These increases were largely offset by a reduction in amortization expense related to certain acquired franchise agreements becoming fully amortized.

*Loss on Sale or Disposition of Assets, Net*

The change in loss on sale or disposition of assets, net was primarily due to the $0.5 million loss recognized during the year ended December 31, 2017 for a final settlement of certain provisions of the asset sale agreement related to the December 31, 2015 disposition of Sacagawea, LLC d/b/a/ RE/MAX Equity Group ("RE/MAX Equity Group").

*Gain on Reduction in TRA Liability*

The gain on reduction in TRA liability resulted from changes in tax law arising from the Tax Cuts and Jobs Act, enacted in December 2017 and further clarified in 2018. These tax law changes resulted in reductions to the value of deferred tax assets the Company holds and related reduction in the value of the TRA liabilities. The gain of $6.1 million in 2018 is a result of changes in the taxation of foreign derived income, which the Company recognized after performing a detailed review during 2018 of these complex provisions. The gain on reduction in TRA liability of $32.7 million in 2017 is a result of the reduction in the corporate tax rate from 35% to 21%. See Note 12, *Income Taxes* for additional information.

***Other Expenses, Net***

A summary of the components of our other expenses, net for the years ended December 31, 2018 and 2017 is as follows (in thousands, except percentages):

| | Year Ended December 31, | | Change Favorable/(Unfavorable) | |
|---|---|---|---|---|
| | **2018** | **2017** | **$** | **%** |
| Other expenses, net: | | | | |
| Interest expense | $ (12,051) | $ (9,996) | $ (2,055) | (20.6)% |
| Interest income | 676 | 352 | 324 | 92.0 % |
| Foreign currency transaction (loss) gain | (312) | 174 | (486) | n/m |
| Total other expenses, net | $ (11,687) | $ (9,470) | $ (2,217) | (23.4)% |
| Percent of revenue | 5.5 % | 4.9 % | | |

n/m – not meaningful

Other expenses, net increased primarily due to an increase in interest expense as a result of increasing interest rates on our Senior Secured Credit Facility and a change in foreign currency transaction (losses) gains that were primarily as a result of fluctuations of the Canadian dollar against the U.S. dollar.

***Provision for Income Taxes***

Our effective income tax rate decreased to 24.7% from 64.8% for the years ended December 31, 2018 and 2017, respectively, primarily due to the Tax Cuts and Jobs Act enacted in December 2017 which resulted in a substantial decrease in our corporate tax rate. See Note 12, *Income Taxes* for further information on the impact of the Tax Cuts and Jobs Act. Our effective income tax rate depends on many factors, including a rate benefit attributable to the fact that the portion of RMCO, LLC's earnings attributable to the non-controlling interests are not subject to corporate-level taxes because RMCO, LLC ("RMCO") is classified as a partnership for U.S. federal income tax purposes and therefore is treated as a "flow-through entity." See Note 4, *Non-controlling Interest* for further details on the allocation of income taxes between RE/MAX Holdings and the non-controlling interest.

***Adjusted EBITDA***

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

Adjusted EBITDA was $104.3 million for the year ended December 31, 2018, an increase of $2.2 million from the comparable prior year period. Adjusted EBITDA increased primarily due to contributions from the acquisition of RE/MAX of Northern Illinois, agent count growth, rising average home prices and the impact of having waived continuing franchise fees and broker fees for hurricane-impacted associates during 2017. The increases were partially offset by increased investments in technology and personnel, severance expense and operating costs to support booj's legacy operations assisting its external customers.

**Non-GAAP Financial Measures**

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

We define Adjusted EBITDA as EBITDA (consolidated net income before depreciation and amortization, interest expense, interest income and the provision for income taxes, each of which is presented in our audited financial statements included elsewhere in this Annual Report on Form 10-K), adjusted for the impact of the following items that are either non-cash or that we do not consider representative of our ongoing operating performance: gain or loss on sale or disposition of assets and sublease, equity-based compensation expense, acquisition related expense, gain on reduction in tax receivable agreement liability, Special Committee investigation and remediation expense, expense or income related to changes in the estimated fair value measurement of contingent consideration and other non-recurring items.

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

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

- these measures do not reflect changes in, or cash requirements for, our working capital needs;
- these measures do not reflect our interest expense, or the cash requirements necessary to service interest or principal payments on our debt;
- these measures do not reflect our income tax expense or the cash requirements to pay our taxes;
- these measures do not reflect the cash requirements to pay dividends to stockholders of our Class A common stock and tax and other cash distributions to our non-controlling unitholders;
- these measures do not reflect the cash requirements pursuant to the Tax Receivable Agreements ("TRAs");
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often require replacement in the future, and these measures do not reflect any cash requirements for such replacements;
- although equity-based compensation is a non-cash charge, the issuance of equity-based awards may have a dilutive impact on earnings per share; and
- other companies may calculate these measures differently, so similarly named measures may not be comparable.

A reconciliation of Adjusted EBITDA to net income is set forth in the following table (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Net income | $ 46,856 | $ 49,822 | $ 31,320 |
| Depreciation and amortization | 22,323 | 20,678 | 20,512 |
| Interest expense | 12,229 | 12,051 | 9,996 |
| Interest income | (1,446) | (676) | (352) |
| Provision for income taxes | 10,909 | 16,342 | 57,542 |
| EBITDA | 90,871 | 98,217 | 119,018 |
| (Gain) loss on sale or disposition of assets and sublease, net | 342 | (139) | 4,260 |
| Equity-based compensation expense | 10,934 | 9,176 | 2,900 |
| Acquisition-related expense (1) | 1,127 | 1,634 | 5,889 |
| Gain on reduction in tax receivable agreement liability (2) | — | (6,145) | (32,736) |
| Special Committee investigation and remediation expense (3) | — | 2,862 | 2,634 |
| Fair value adjustments to contingent consideration (4) | 241 | (1,289) | 180 |
| Adjusted EBITDA | $ 103,515 | $ 104,316 | $ 102,145 |

(1) Acquisition-related expense includes legal, accounting, advisory and consulting fees incurred in connection with the acquisition and integration of acquired companies.
(2) Gain on reduction in tax receivable agreement liability is a result of the Tax Cuts and Jobs Act enacted in December 2017 and further clarified in 2018. See Note 12, *Income Taxes* for additional information.
(3) Special Committee investigation and remediation expense relates to costs incurred in relation to the previously disclosed investigation by the special committee of independent directors of actions of certain members of our senior management and the implementation of the remediation plan.
(4) Fair value adjustments to contingent consideration include amounts recognized for changes in the estimated fair value of the contingent consideration liability. See Note 11, *Fair Value Measurements* to the accompanying consolidated financial statements for additional information

**Liquidity and Capital Resources**

***Overview of Factors Affecting Our Liquidity***

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

(i) cash receipt of revenues;

(ii) payment of selling, operating and administrative expenses;

(iii) investments in technology and Motto;

(iv) cash consideration for acquisitions and acquisition-related expenses;

(v) principal payments and related interest payments on our Senior Secured Credit Facility;

(vi) dividend payments to stockholders of our Class A common stock;

(vii) distributions and other payments to non-controlling unitholders pursuant to the terms of RMCO's limited liability company operating agreement ("the RMCO, LLC Agreement");

(viii) corporate tax payments paid by the Company; and

(ix) payments to the TRA parties pursuant to the TRAs.

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

***Financing Resources***

RMCO and RE/MAX, LLC, a wholly owned subsidiary of RMCO, have a credit agreement with JPMorgan Chase Bank, N.A., as administrative agent, and various lenders party thereto (the “Senior Secured Credit Facility”). The Senior Secured Credit Facility provides to RE/MAX, LLC $235.0 million in term loans and a $10.0 million revolving facility.

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

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

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

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

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

As of December 31, 2019, we had $225.3 million of term loans outstanding, net of an unamortized discount and issuance costs, $0.4 million of long-term financing assumed with the acquisition of booj and no revolving loans outstanding under our Senior Secured Credit Facility. As of December 31, 2019, the interest rate on the term loan facility was 4.55%. If any loan or other amounts are outstanding under the revolving line of credit, the Senior Secured Credit Facility requires compliance with a leverage ratio and an interest coverage ratio. A commitment fee of 0.5% per annum accrues on the amount of unutilized revolving line of credit.

As needs arise, we may seek additional financing in the public capital markets. On October 15, 2019 we filed a registration statement on Form S-3 (“shelf registration”) allowing for the sale of up to $400 million in additional financing. The SEC declared the shelf registration effective on December 30, 2019.

***Sources and Uses of Cash***

As of December 31, 2019, and 2018, we had $83.0 million and $60.0 million, respectively, in cash and cash equivalents, of which approximately $1.1 million were denominated in foreign currencies, respectively.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Cash provided by (used in): | | | |
| Operating activities | $ 78,975 | $ 76,064 | $ 63,288 |
| Investing activities | (876) | (33,675) | (37,918) |
| Financing activities | (34,542) | (33,152) | (33,235) |
| Effect of exchange rate changes on cash | 70 | (70) | 1,063 |
| Net change in cash, cash equivalents and restricted cash | $ 43,627 | $ 9,167 | $ (6,802) |

*Operating Activities*

During the year ended December 31, 2019, Adjusted EBITDA was relatively flat, but cash provided by operating activities increased because of:

- a decrease in TRA payments between years of $2.7 million driven by the impacts of the Tax Cut & Jobs Act;
- a net payment in February 2018 of $2.6 million to satisfy the terms of a litigation settlement that occurred in 2018 that did not recur in 2019; partially offset by
- lower receipts of initial franchise sales as compared to revenue recognized, with a net impact of $2.1 million and
- timing differences on various operating assets and liabilities.

During the year ended December 31, 2018, cash provided by operating activities increased because of:

- an increase of Adjusted EBITDA of $2.2 million, which includes $3.3 million of severance costs accrued but unpaid in the current year period versus the prior year period;
- a decrease of $7.1 million in timing of TRA payments in the current year versus the prior year; and
- timing differences on various operating assets and liabilities.

The increase in cash provided by operating activities was partially offset by the February 2018 net payment of $2.6 million to satisfy the terms of a litigation settlement in which no comparable transactions occurred in the prior year period.

*Investing Activities*

During the year ended December 31, 2019, cash used in investing activities was primarily the result of the acquisition of First and investments in technology, especially the booj Platform, mostly offset by restricted cash acquired in connection with the acquisition of the Marketing Funds. See Note 6, *Acquisitions* to the accompanying consolidated financial statements for more information.

During the year ended December 31, 2018, cash used in investing activities increased primarily because of the acquisition of booj, investments in training materials and cash used for technology investments.

*Financing Activities*

During the year ended December 31, 2019, cash used in financing activities increased primarily due to:

- an increase in distributions paid to non-controlling unitholders, and
- an increase in cash paid to Class A common stockholders and non-controlling unitholders due to our Board of Directors declaring a dividend of $0.21 per share on all outstanding shares of Class A common stock in all four quarters of 2019 compared to a dividend of $0.20 per share on all outstanding shares of Class A common stock in all four quarters of 2018.

During the year ended December 31, 2018, cash used in financing activities decreased primarily due to:

- a decrease in distributions paid to non-controlling unitholders, offset by
- an increase in cash paid to Class A common stockholders and non-controlling unitholders due to our Board of Directors declaring a dividend of $0.20 per share on all outstanding shares of Class A common stock in all four quarters of 2018 compared to a dividend of $0.18 per share on all outstanding shares of Class A common stock in all four quarters of 2017, as well as
- an increase in cash paid related to financing assumed with the acquisition of booj.

***Capital Allocation Priorities***

*Liquidity*

Our objective is to maintain a strong liquidity position. We have existing cash balances, cash flows from operating activities, access to our revolving line of credit and incremental facilities under our Senior Secured Credit Facility available to support the needs of our business. Should additional liquidity needs arise, our recently filed shelf registration, effective December 30, 2019, would permit access to public capital markets.

*Acquisitions*

As part of our growth strategy we may pursue reacquisitions of Independent Regions in the U.S. and Canada as well as additional acquisitions or investments in complementary businesses, services and technologies that would provide access to new markets, revenue streams, or otherwise complement our existing operations. We would fund any such growth with existing cash balances, funds generated from operations, access to capital under our Senior Secured Credit Facility and access to public capital markets via our recently filed shelf registration.

*Capital Expenditures*

The total aggregate amount for purchases of property and equipment and capitalization of software was $13.2 million, $7.8 million and $2.2 million in 2018, 2017 and 2016, respectively. These amounts primarily related to investments in technology and training materials. In order to expand our technological capabilities, we plan to continue to re-invest in our business in order to improve operational efficiencies and enhance the tools and services provided to the franchisees, agents, and loan originators in our networks. Total capital expenditures for 2020 are expected to be between $17 million and $19 million as a result of combined investments in technology and including between $7 million and $8 million related to the refresh and efficiency enhancements of our corporate headquarters. See Financial and Operational Highlights above for additional information.

*Dividends*

Our Board of Directors declared quarterly cash dividends of $0.21 and $0.20 per share on all outstanding shares of Class A common stock every quarter in 2019 and 2018, respectively, as disclosed in Note 5, *Earnings Per Share and Dividends*. On February 19, 2020, our Board of Directors announced a quarterly dividend of $0.22 per share on all outstanding shares of Class A common stock, which is payable on March 18, 2020 to stockholders of record at the close of business on March 4, 2020. The declaration of additional future dividends, and, if declared, the amount of any such future dividend, will be subject to our actual future earnings and capital requirements and will be at the discretion of our Board of Directors; however, we currently intend to continue to pay a cash dividend on shares of Class A common stock on a quarterly basis.

***Distributions and Other Payments to Non-controlling Unitholders by RMCO***

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

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

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

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

Throughout the year until completion of its tax return with respect to such year, RMCO may pay required or pro-rata true-up distributions to its members, if cash is available for such purposes, with respect to actual taxable income for the prior year. See Note 4, *Non-controlling Interest* for further details on distributions made by RMCO.

*Payments Pursuant to the Tax Receivable Agreements*

As of December 31, 2019, the Company reflected a total liability of $37.2 million under the terms of its TRAs. The liability pursuant to the TRAs will increase upon future exchanges by RIHI of RMCO common units, with the increase representing 85% of the estimated future tax benefits, if any, resulting from such exchanges. Payments are made on this liability as tax benefits are realized by Holdings.

Distributions and other payments pursuant to the RMCO, LLC Agreement and TRAs were comprised of the following (in thousands):

| | Year Ended December 31, 2019 | Year Ended December 31, 2018 |
|---|---|---|
| Distributions and other payments pursuant to the RMCO, LLC Agreement: | | |
| Required distributions for taxes and pro rata distributions as a result of distributions to RE/MAX Holdings in order to satisfy its estimated tax liabilities | $ 4,880 | $ 4,511 |
| Dividend distributions | 10,550 | 10,048 |
| Total distributions to RIHI | 15,430 | 14,559 |
| Payments pursuant to the TRAs | 3,556 | 6,305 |
| Total distributions to RIHI and TRA payments | $ 18,986 | $ 20,864 |

***Contractual Obligations***

The following table summarizes our contractual obligations as of December 31, 2019 and the effect such obligations are expected to have on our liquidity and cash flows in future periods (in thousands):

| | Payments due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | After 5 years |
| Senior Secured Credit Facility (including current portion) (1) (2) | $ 227,363 | $ 2,350 | $ 4,700 | $ 220,313 | $ — |
| Other long-term financing (including current portion) (3) | 362 | 298 | 64 | — | — |
| Interest payments on credit facility (4) | 40,688 | 10,466 | 20,550 | 9,672 | — |
| Interest payments on other long-term debt (3) | 24 | 23 | 1 | — | — |
| Lease obligations (5) | 74,944 | 7,868 | 16,433 | 17,005 | 33,638 |
| Payments pursuant to tax receivable agreements (6) | 37,223 | 3,583 | 7,273 | 6,803 | 19,564 |
| Vendor contracts (7) | 49,904 | 38,403 | 11,413 | 88 | — |
| Estimated undiscounted contingent consideration payments (8) | 9,052 | 402 | 1,750 | 2,864 | 4,036 |
| | $ 439,560 | $ 63,393 | $ 62,184 | $ 256,745 | $ 57,238 |

(1) We have reflected full payment of our Senior Secured Credit Facility in December 2023 at maturity.
(2) The Senior Secured Credit Facility may require additional prepayments throughout the term of the loan if the total leverage ratio as of the last day of such fiscal year is greater than 2.75 to 1.0. If the total leverage ratio as of the last day of such fiscal year is not greater than 2.75 to 1.0 no excess cash flow principal prepayment is required.
(3) Includes financing assumed with the acquisition of booj.
(4) The variable interest rate on the Senior Secured Credit Facility is assumed at the interest rate in effect as of December 31, 2019 of 4.55%.
(5) We are obligated under non-cancelable leases for offices and equipment. Future payments under these leases and commitments, net of payments to be received under sublease agreements of $4.7 million in the aggregate, are included in the table above.
(6) As described elsewhere in this Annual Report on Form 10-K, we entered into TRAs, that will provide for the payment by us of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that we realize as a result of tax deductions arising from the increase in tax basis in RMCO’s assets.
(7) Represents outstanding purchase orders with vendors initiated in the ordinary course of business for operating and capital expenditures.
(8) Represents estimated payments to the former owner of Motto as required per the purchase agreement.

***Commitments and Contingencies***

Our management does not believe there are any matters involving us that could result, individually or in the aggregate, in a material adverse effect on our financial condition, results of operations and cash flows.

***Off Balance Sheet Arrangements***

We have no material off balance sheet arrangements as of December 31, 2019.

***Critical Accounting Judgments and Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts and disclosures in the financial statements and accompanying notes. Several of the estimates and assumptions we are required to make relate to matters that are inherently uncertain as they pertain to future events. We base estimates on historical experience and other assumptions believed to be reasonable under the circumstances and evaluate these estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are discussed in Note 2, *Summary of Significant Accounting Policies*. We believe that the accounting policies and estimates discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

*Motto Goodwill and Contingent Consideration*

We assess goodwill for impairment at least annually or whenever an event occurs, or circumstances change that would indicate impairment may have occurred at the reporting unit level. Reporting units are driven by the level at which segment management reviews operating results. We perform our required impairment testing annually on October 1.

During 2019, 2018 and 2017, we performed the qualitative impairment assessments for all reporting units. Except for the Motto Franchising reporting unit, the fair value of the reporting units significantly exceeded their carrying values at the latest assessment date.

The Motto Franchising segment, which has a carrying value of goodwill as of December 31, 2019 of $11.8 million, is an early-stage business and its fair value is tied primarily to franchise sales over the next several years and the discount rate used in our discounted cash flow analysis. Failure to achieve targeted franchise sales (which are currently estimated at between 50 and 80 per year over the next 10 years) would likely result in an impairment of this goodwill balance.

We have not recorded any goodwill impairments during the years ended December 31, 2019, 2018 and 2017.

Contingent consideration consists of an earn-out obligation in connection with the acquisition of Full House, in which we are required to pay additional purchase consideration totaling 8% of gross receipts generated by the acquired business each year through 2026 with no limitation as to the maximum payout. Contingent consideration is recorded at fair value, which is measured at the present value of the consideration expected to be transferred. The fair value of contingent consideration is re-measured at the end of each reporting period with the change in fair value recognized in selling, operating and administrative expenses in the Consolidated Statements of Income. Similar to the goodwill discussion above, estimates of the fair value of contingent consideration are also impacted by Motto franchise sales over the next several years and discount rates. See Note 11, *Fair Value Measurement* for additional information. Contingent consideration obligations were $5.0 million and $5.1 million at December 31, 2019 and 2018.

*Purchase Accounting for Acquisitions*

We allocate the purchase price of an acquired business to its identifiable assets and liabilities based on estimated fair values. The excess of the purchase price over the amount allocated to the identifiable assets less liabilities is recorded as goodwill. Purchase price allocations require management to make assumptions and apply judgment to estimate the fair value of acquired assets and liabilities. Management estimates the fair value of assets and liabilities primarily using discounted cash flow analysis.

We engage outside appraisal firms to assist in the fair value determination of identifiable intangible assets, primarily franchise rights. The timing and amount of expected future cash flows used in the valuation requires estimates, among other items, of revenue and agent growth rates, operating expenses and expected operating cash flow margins. The development of these cash flows, and the discount rate applied to the cash flows, is subject to inherent uncertainties. We adjust the preliminary purchase price allocation, as necessary, after the acquisition closing date through the end of the measurement period of one year or less as we finalize valuations for the assets acquired and liabilities assumed. If estimates or assumptions used to complete the initial purchase price allocation and estimate the fair value of acquired assets and liabilities significantly differed from assumptions made in the final valuation, the allocation of purchase price between goodwill and intangibles could significantly differ. Such a difference would impact future earnings through amortization expense of these intangibles. In addition, if forecasts supporting the valuation of the intangible assets or goodwill are not achieved, impairments could arise, as discussed further above.

*Deferred Tax Assets and TRA Liability*

As discussed in Item 1. Business, Holdings has twice acquired significant portions of the ownership in RMCO. When Holdings acquired this ownership in the form of common units, it received a significant step-up in tax basis on the underlying assets held by RMCO. The step-up is principally equivalent to the difference between (1) the fair value of the underlying assets on the date of acquisition of the common units and (2) their tax basis in RMCO, multiplied by the percentage of units acquired. The majority of the step-up in basis relates to intangibles assets, primarily franchise agreements and goodwill, and is included within deferred tax assets on our consolidated balance sheets. The computation of the step-up requires valuations of the intangible assets of RMCO and has the same complexities and estimates as discussed in *Purchase Accounting for Acquisitions* above. In addition, the step-up is governed by complex IRS rules that limit which intangibles are subject to step-up, and also imposes further limits on the amount of step-up. Given the magnitude of the deferred tax assets and complexity of the calculations, small adjustments to our model used to calculate these deferred tax assets can result in material changes to the amounts recognized. If more common units of RMCO are redeemed by RIHI, the percentage of RE/MAX Holdings' ownership of RMCO will increase, and additional deferred tax assets will be created as additional tax basis step-ups occur.

Pursuant to the TRA agreements, Holdings makes annual payments to RIHI and Parallaxes Rain Co-Investment, LLC ("Parallaxes") (a successor to the TRAs prior owners) equivalent to 85% of any tax benefits realized on each year's tax return from the additional tax deductions arising from the step-up in tax basis. A TRA liability of $37.2 million exists as of December 31, 2019 for the future cash obligations expected to be paid under the TRAs and is not discounted. The calculation of this liability is a function of the step-up described above and therefore has the same complexities and estimates. Similar to the deferred tax assets, these liabilities would increase if RIHI redeems additional common units of RMCO.

*General Litigation Matters*

We are subject to litigation claims arising in the ordinary course of business. We accrue for contingencies related to litigation matters if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because these matters are inherently unpredictable and unfavorable developments or resolutions can occur, assessing litigation matters is highly subjective and requires judgments about future events. We regularly review litigation matters to determine whether our accruals and related disclosures are adequate. The amount of ultimate loss may differ from these estimates. See Note 15, *Commitments and Contingencies* for more information related to litigation matters.

***New Accounting Pronouncements***

See Note 2, *Summary of Significant Accounting Policies* for recently issued accounting pronouncements applicable to us and the effect of those standards on our financial statements and related disclosures.

## ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

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

***Interest Rate Risk***

We are subject to interest rate risk in connection with borrowings under our Senior Secured Credit Facility which bear interest at variable rates. At December 31, 2019, $227.4 million in term loans were outstanding under our Senior Secured Credit Facility. We currently do not engage in any interest rate hedging activity, but given our variable rate borrowings, we monitor interest rates and if appropriate, may engage in hedging activity prospectively. The interest rate on our Senior Secured Credit Facility is currently based on LIBOR, subject to a floor of 0.75%, plus an applicable margin of 2.75%. As of December 31, 2019, the interest rate was 4.55%%. If LIBOR rises, then each hypothetical 0.25% increase would result in additional annual interest expense of $0.6 million. To mitigate a portion of this risk, we invest our cash balances in short-term investments that earn interest at variable rates.

***Currency Risk***

We have a network of global franchisees in over 110 countries and territories. Fluctuations in exchange rates of the U.S. dollar against foreign currencies can result, and have resulted, in fluctuations in (a) revenue and operating income due to a portion of our revenue being denominated in foreign currencies and (b) foreign exchange transaction gains and losses due primarily to cash and accounts receivable balances denominated in foreign currencies, with the Canadian dollar representing the most significant exposure. We currently do not engage in any foreign exchange hedging activity of our revenues but may do so in the future; however, we actively convert cash balances into U.S. dollars to mitigate currency risk on cash positions. During the year ended December 31, 2019, a hypothetical 5% strengthening/weakening in the value of the U.S. dollar compared to the Canadian dollar would have resulted in a decrease/increase to operating income of approximately $1.0 million.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors
RE/MAX Holdings, Inc.:

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of RE/MAX Holdings, Inc. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 21, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

*Change in Accounting Principle*

As discussed in Note 2 to the consolidated financial statements, the Company has elected to change its method of accounting for leases as of January 1, 2019 due to the adoption of ASC Topic 842, *Leases*.

*Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

*Critical Audit Matter*

T he critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgment. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*Assessment of the carrying value of goodwill for the Motto reporting unit*

As discussed in notes 2 and 8 to the consolidated financial statements, the goodwill balance as of December 31, 2019 was $159.0 million, of which $11.8 million related to the Motto reporting unit. The Motto reporting unit includes Motto Franchising, a mortgage brokerage franchisor. The Company performs goodwill impairment testing on an annual basis and whenever events or changes in circumstances indicate that the carrying value of a reporting unit might exceed its fair value.

We identified the assessment of the carrying value of goodwill for the Motto reporting unit as a critical audit matter. Assessing the estimated fair value of the Motto reporting unit required the application of subjective auditor judgment. Specifically, evaluating certain assumptions, such as franchise sales forecasts and the discount rate, used to determine the fair value of the reporting unit required subjective auditor judgment.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's goodwill impairment assessment process, including controls related to the determination of the fair value of the reporting unit, the related franchise sales forecasts, and the assumptions used to develop the discount rate. We evaluated the Company's forecasted franchise sales by comparing the growth assumptions to historical franchise sales of the Company. We compared the Company's historical franchise sales forecasts to historical actual results to assess the Company's ability to accurately forecast franchise sales. We involved a valuation professional with specialized skill and knowledge, who assisted in:

• Evaluating the Company's selected discount rate based on historic results, franchise sales forecasts, discount rates used in prior valuations of the reporting unit, and discount rates from publicly available venture capital studies; and
• Assessing the valuation methodology used by the Company to estimate the fair value of the Motto reporting unit.

/s/KPMG LLP

We have served as the Company's auditor since 2003.

Denver, Colorado
February 21, 2020

## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
RE/MAX Holdings, Inc.:

*Opinion on Internal Control Over Financial Reporting*

We have audited RE/MAX Holdings, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated February 21, 2020 expressed an unqualified opinion on those consolidated financial statements.

*Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Controls over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

*Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/KPMG LLP

Denver, Colorado
February 21, 2020

**RE/MAX HOLDINGS, INC.**
**Consolidated Balance Sheets**
***(In thousands, except share and per share amounts)***

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 83,001 | $ 59,974 |
| Restricted cash | 20,600 | — |
| Accounts and notes receivable, current portion, less allowances of $12,538 and $7,980, respectively | 28,644 | 21,185 |
| Income taxes receivable | 896 | 533 |
| Other current assets | 9,638 | 5,855 |
| Total current assets | 142,779 | 87,547 |
| Property and equipment, net of accumulated depreciation of $14,940 and $13,280, respectively | 5,444 | 4,390 |
| Operating lease right of use assets | 51,129 | — |
| Franchise agreements, net | 87,670 | 103,157 |
| Other intangible assets, net | 32,315 | 22,965 |
| Goodwill | 159,038 | 150,684 |
| Deferred tax assets, net | 52,595 | 53,852 |
| Income taxes receivable, net of current portion | 1,690 | 1,379 |
| Other assets, net of current portion | 9,692 | 4,399 |
| **Total assets** | $ 542,352 | $ 428,373 |
| **Liabilities and stockholders' equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 2,983 | $ 1,890 |
| Accrued liabilities | 60,163 | 13,143 |
| Income taxes payable | 6,854 | 208 |
| Deferred revenue | 25,663 | 25,489 |
| Current portion of debt | 2,648 | 2,622 |
| Current portion of payable pursuant to tax receivable agreements | 3,583 | 3,567 |
| Operating lease liabilities | 5,102 | — |
| Total current liabilities | 106,996 | 46,919 |
| Debt, net of current portion | 223,033 | 225,165 |
| Payable pursuant to tax receivable agreements, net of current portion | 33,640 | 37,220 |
| Deferred tax liabilities, net | 293 | 400 |
| Income taxes payable, net of current portion | — | 5,794 |
| Deferred revenue, net of current portion | 18,763 | 20,224 |
| Operating lease liabilities, net of current portion | 55,959 | — |
| Other liabilities, net of current portion | 5,292 | 17,637 |
| Total liabilities | 443,976 | 353,359 |
| Commitments and contingencies (note 15) | | |
| Stockholders' equity: | | |
| Class A common stock, par value $.0001 per share, 180,000,000 shares authorized; 17,838,233 shares issued and outstanding as of December 31, 2019; 17,754,416 shares issued and outstanding as of December 31, 2018 | 2 | 2 |
| Class B common stock, par value $.0001 per share, 1,000 shares authorized; 1 share issued and outstanding as of December 31, 2019 and December 31, 2018 | — | — |
| Additional paid-in capital | 466,945 | 460,101 |
| Retained earnings | 30,525 | 20,559 |
| Accumulated other comprehensive income, net of tax | 414 | 328 |
| Total stockholders' equity attributable to RE/MAX Holdings, Inc. | 497,886 | 480,990 |
| Non-controlling interest | (399,510) | (405,976) |
| Total stockholders' equity | 98,376 | 75,014 |
| **Total liabilities and stockholders' equity** | $ 542,352 | $ 428,373 |

*See accompanying notes to consolidated financial statements*

**RE/MAX HOLDINGS, INC.**
**Consolidated Statements of Income**
***(In thousands, except share and per share amounts)***

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Revenue: | | | |
| Continuing franchise fees | $ 99,928 | $ 101,104 | $ 93,694 |
| Annual dues | 35,409 | 35,894 | 33,767 |
| Broker fees | 45,990 | 46,871 | 43,801 |
| Marketing Funds fees | 72,299 | — | — |
| Franchise sales and other revenue | 28,667 | 28,757 | 22,452 |
| Total revenue | 282,293 | 212,626 | 193,714 |
| Operating expenses: | | | |
| Selling, operating and administrative expenses | 118,890 | 120,179 | 106,946 |
| Marketing Funds expenses | 72,299 | — | — |
| Depreciation and amortization | 22,323 | 20,678 | 20,512 |
| Loss on sale or disposition of assets, net | 342 | 63 | 660 |
| Gain on reduction in tax receivable agreement liability (note 4) | — | (6,145) | (32,736) |
| Total operating expenses | 213,854 | 134,775 | 95,382 |
| Operating income | 68,439 | 77,851 | 98,332 |
| Other expenses, net: | | | |
| Interest expense | (12,229) | (12,051) | (9,996) |
| Interest income | 1,446 | 676 | 352 |
| Foreign currency transaction gains (losses) | 109 | (312) | 174 |
| Total other expenses, net | (10,674) | (11,687) | (9,470) |
| Income before provision for income taxes | 57,765 | 66,164 | 88,862 |
| Provision for income taxes | (10,909) | (16,342) | (57,542) |
| Net income | $ 46,856 | $ 49,822 | $ 31,320 |
| Less: net income attributable to non-controlling interest (note 4) | 21,816 | 22,939 | 21,221 |
| Net income attributable to RE/MAX Holdings, Inc. | $ 25,040 | $ 26,883 | $ 10,099 |
| | | | |
| Net income attributable to RE/MAX Holdings, Inc. per share of Class A common stock | | | |
| Basic | $ 1.41 | $ 1.52 | $ 0.57 |
| Diluted | $ 1.40 | $ 1.51 | $ 0.57 |
| Weighted average shares of Class A common stock outstanding | | | |
| Basic | 17,812,065 | 17,737,649 | 17,688,533 |
| Diluted | 17,867,752 | 17,767,499 | 17,731,800 |
| Cash dividends declared per share of Class A common stock | $ 0.84 | $ 0.80 | $ 0.72 |

*See accompanying notes to consolidated financial statements.*

**RE/MAX HOLDINGS, INC.**
**Consolidated Statements of Comprehensive Income**
***(In thousands)***

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Net income | $ 46,856 | $ 49,822 | $ 31,320 |
| Change in cumulative translation adjustment | 166 | (253) | 1,037 |
| Other comprehensive income (loss), net of tax | 166 | (253) | 1,037 |
| Comprehensive income | 47,022 | 49,569 | 32,357 |
| Less: comprehensive income attributable to non-controlling interest | 21,896 | 22,817 | 21,752 |
| Comprehensive income attributable to RE/MAX Holdings, Inc., net of tax | $ 25,126 | $ 26,752 | $ 10,605 |

*See accompanying notes to consolidated financial statements.*

# RE/MAX HOLDINGS, INC.
## Consolidated Statements of Stockholders' Equity
*(In thousands, except unit and share amounts)*

| | Class A common stock | | Class B common stock | | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss), net of tax | Non-controlling interest | Total stockholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | | |
| **Balances, January 1, 2017** | 17,652,548 | $ 2 | 1 | $ — | $ 448,713 | $ 10,676 | $ (47) | $ (418,729) | $ 40,615 |
| Net income | — | — | — | — | — | 10,099 | — | 21,221 | 31,320 |
| Distributions to non-controlling unitholders | — | — | — | — | — | — | — | (17,257) | (17,257) |
| Equity-based compensation expense and related dividend equivalents | 58,426 | — | — | — | 2,900 | (53) | — | — | 2,847 |
| Dividends to Class A common stockholders | — | — | — | — | — | (12,740) | — | — | (12,740) |
| Change in accumulated other comprehensive income | — | — | — | — | — | — | 506 | 531 | 1,037 |
| Payroll taxes related to net settled restricted stock units | (13,983) | — | — | — | (816) | — | — | — | (816) |
| Other | — | — | — | — | 402 | — | — | — | 402 |
| **Balances, December 31, 2017** | 17,696,991 | $ 2 | 1 | $ — | $ 451,199 | $ 7,982 | $ 459 | $ (414,234) | $ 45,408 |
| Net income | — | — | — | — | — | 26,883 | — | 22,939 | 49,822 |
| Distributions to non-controlling unitholders | — | — | — | — | — | — | — | (14,559) | (14,559) |
| Equity-based compensation expense and related dividend equivalents | 73,462 | — | — | — | 9,314 | (112) | — | — | 9,202 |
| Dividends to Class A common stockholders | — | — | — | — | — | (14,194) | — | — | (14,194) |
| Change in accumulated other comprehensive income | — | — | — | — | — | — | (131) | (122) | (253) |
| Payroll taxes related to net settled restricted stock units | (16,037) | — | — | — | (895) | — | — | — | (895) |
| Other | — | — | — | — | 483 | — | — | — | 483 |
| **Balances, December 31, 2018** | 17,754,416 | $ 2 | 1 | $ — | $ 460,101 | $ 20,559 | $ 328 | $ (405,976) | $ 75,014 |
| Net income | — | — | — | — | — | 25,040 | — | 21,816 | 46,856 |
| Distributions to non-controlling unitholders | — | — | — | — | — | — | — | (15,430) | (15,430) |
| Equity-based compensation expense and related dividend equivalents | 106,390 | — | — | — | 7,375 | (104) | — | — | 7,271 |
| Dividends to Class A common stockholders | — | — | — | — | — | (14,970) | — | — | (14,970) |
| Change in accumulated other comprehensive income | — | — | — | — | — | — | 86 | 80 | 166 |
| Payroll taxes related to net settled restricted stock units | (22,573) | — | — | — | (1,110) | — | — | — | (1,110) |
| Other | — | — | — | — | 579 | — | — | — | 579 |
| **Balances, December 31, 2019** | 17,838,233 | $ 2 | 1 | $ — | $ 466,945 | $ 30,525 | $ 414 | $ (399,510) | $ 98,376 |

*See accompanying notes to consolidated financial statements.*

**RE/MAX HOLDINGS, INC.**
**Consolidated Statements of Cash Flows**
***(In thousands)***

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Cash flows from operating activities: | | | |
| Net income | $ 46,856 | $ 49,822 | $ 31,320 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 22,323 | 20,678 | 20,512 |
| Bad debt expense | 4,964 | 2,257 | 1,109 |
| Loss (gain) on sale or disposition of assets and sublease, net | 342 | (139) | 4,260 |
| Equity-based compensation expense | 10,934 | 9,176 | 2,900 |
| Deferred income tax expense | 2,310 | 9,511 | 47,931 |
| Fair value adjustments to contingent consideration | 241 | (1,289) | 180 |
| Payments pursuant to tax receivable agreements | (3,556) | (6,305) | (13,371) |
| Non-cash change in tax receivable agreement liability | — | (6,145) | (32,736) |
| Other, net | 910 | 1,127 | 1,146 |
| Changes in operating assets and liabilities | | | |
| Accounts and notes receivable, current portion | (5,614) | (3,241) | (2,825) |
| Advances from/to affiliates | — | 581 | (106) |
| Other current and noncurrent assets | (6,084) | 2,170 | (2,724) |
| Other current and noncurrent liabilities | 6,737 | (3,466) | 1,592 |
| Income taxes receivable/payable | 178 | 1,099 | (605) |
| Deferred revenue, current and noncurrent | (1,566) | 228 | 4,705 |
| Net cash provided by operating activities | 78,975 | 76,064 | 63,288 |
| Cash flows from investing activities: | | | |
| Purchases of property, equipment and capitalization of software | (13,226) | (7,787) | (2,198) |
| Acquisitions, net of cash acquired of $55, $362 and $0, respectively | (14,945) | (25,888) | (35,720) |
| Restricted cash acquired with the Marketing Funds acquisition | 28,495 | — | — |
| Other | (1,200) | — | — |
| Net cash used in investing activities | (876) | (33,675) | (37,918) |
| Cash flows from financing activities: | | | |
| Payments on debt | (2,622) | (3,171) | (2,366) |
| Distributions paid to non-controlling unitholders | (15,430) | (14,559) | (17,260) |
| Dividends and dividend equivalents paid to Class A common stockholders | (15,074) | (14,306) | (12,793) |
| Payment of payroll taxes related to net settled restricted stock units | (1,110) | (895) | (816) |
| Payment of contingent consideration | (306) | (221) | — |
| Net cash used in financing activities | (34,542) | (33,152) | (33,235) |
| Effect of exchange rate changes on cash | 70 | (70) | 1,063 |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 43,627 | 9,167 | (6,802) |
| Cash, cash equivalents and restricted cash, beginning of year | 59,974 | 50,807 | 57,609 |
| Cash, cash equivalents and restricted cash, end of period | $ 103,601 | $ 59,974 | $ 50,807 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid for interest | $ 11,690 | $ 11,525 | $ 9,972 |
| Net cash paid for income taxes | $ 8,429 | $ 5,769 | $ 10,078 |
| Schedule of non-cash investing activities: | | | |
| Increase (decrease) in accounts payable and accrued liabilities for purchases of property, equipment and capitalization of software | $ (94) | $ 1,080 | $ 295 |

*See accompanying notes to consolidated financial statements.*

## 1. Business and Organization

RE/MAX Holdings, Inc. (“Holdings”) completed an initial public offering (the “IPO”) of its shares of Class A common stock on October 7, 2013. Holdings’ only business is to act as the sole manager of RMCO, LLC (“RMCO”). As of December 31, 2019, Holdings owns 58.7% of the common membership units in RMCO, while RIHI, Inc. (“RIHI”) owns the remaining 41.3%. Holdings and its consolidated subsidiaries, including RMCO, are referred to hereinafter as the “Company.”

The Company is a franchisor in the real estate industry, franchising real estate brokerages globally under the RE/MAX brand (“RE/MAX”) and mortgage brokerages within the United States (“U.S.”) under the Motto Mortgage brand (“Motto”). RE/MAX, founded in 1973, has over 130,000 agents operating in over 8,000 offices and a presence in more than 110 countries and territories. Motto, founded in 2016, is the first nationally franchised mortgage brokerage in the U.S. During 2018, the Company acquired all membership interests in booj, LLC, formerly known as Active Website, LLC, (“booj”), a real estate technology company. RE/MAX and Motto are 100% franchised and do not operate any real estate or mortgage brokerage offices.

### *Holdings Capital Structure*

Holdings has two classes of common stock, Class A common stock and Class B common stock:

*Class A common stock*

Holders of shares of Class A common stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Additionally, holders of shares of Class A common stock are entitled to receive dividends when and if declared by the Company’s Board of Directors, subject to any statutory or contractual restrictions on the payment of dividends.

Holders of shares of Class A common stock do not have preemptive, subscription, redemption or conversion rights.

*Class B common stock*

RIHI is the sole holder of Class B common stock and is controlled by David Liniger, the Company’s Chairman and Co-Founder, and Gail Liniger, the Company’s Vice Chair and Co-Founder. On October 7, 2018, pursuant to the terms of the Company’s Certificate of Incorporation, RIHI lost its previous effective control of a majority of the voting power of Holdings common stock. RIHI owns all Holdings’ Class B common stock which, prior to October 7, 2018, entitled RIHI to a number of votes on matters presented to Holdings stockholders equal to two times the number of RMCO common units that RIHI held. Effective October 7, 2018, the voting power of Class B common stock was reduced to equal the number of RMCO common units held, and therefore RIHI lost the controlling vote of Holdings. As a result of this change in the voting rights of the Class B common stock, RIHI no longer controls a majority of the voting power of Holdings’ common stock, and Holdings is no longer considered a “controlled company” under the corporate governance standards of the New York Stock Exchange (the “NYSE”).

Holders of shares of Class B common stock do not have preemptive, subscription, redemption or conversion rights.

Holders of shares of Class A common stock and Class B common stock vote together as a single class on all matters presented to the Company’s stockholders for their vote or approval, except as otherwise required by applicable law.

## 2. Summary of Significant Accounting Policies

### *Basis of Presentation*

The accompanying consolidated financial statements (“financial statements”) and notes thereto included in this Annual Report on Form 10-K have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). The accompanying financial statements include the accounts of Holdings and its consolidated subsidiaries. All significant intercompany accounts and transactions have been eliminated. In the opinion of management, the accompanying financial statements reflect all normal and recurring adjustments necessary to present fairly the

Company's financial position as of December 31, 2019 and 2018, the results of its operations and comprehensive income, changes in its stockholders' equity and its cash flows for the years ended December 31, 2019, 2018 and 2017.

On January 1, 2019 the Company acquired all of the regional and pan-regional advertising fund entities previously owned by its founder and Chairman of the Board of Directors, David Liniger, for a nominal amount. During 2018, the Company completed the acquisition of booj, and during 2017 the Company completed the acquisition of an independent region. Their results of operations, cash flows and financial positions are included in the financial statements from their respective dates of acquisition. See Note 6, *Acquisitions* for additional information.

***Use of Estimates***

The preparation of the accompanying 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 the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Reclassifications***

Certain items in the Consolidated Statement of Cash Flows have been reclassified in the years ended December 31, 2018 and 2017 to conform with the current year presentation.

***Segment Reporting***

The Company operates under the following segments:

- RE/MAX Franchising – comprises the operations of the Company's owned and independent global franchising operations under the RE/MAX brand name and corporate-wide shared services expenses.

- Motto Franchising – comprises the operations of the Company's mortgage broker franchising operations under the Motto Mortgage brand name and does not include any charges related to the corporate-wide shared services expenses.

- Marketing Funds – comprises the operations of the Company's marketing campaigns designed to build and maintain brand awareness and the development and operation of agent marketing technology.

- Other – comprises the legacy operations of booj (see Note 6, *Acquisitions* for additional information), which, due to quantitative insignificance, do not meet the criteria of a reportable segment.

See Note 18 *Segment Information* for additional information about segment reporting.

***Principles of Consolidation***

Holdings consolidates RMCO and records a non-controlling interest in the accompanying Consolidated Balance Sheets and records net income attributable to the non-controlling interest and comprehensive income attributable to the non-controlling interest in the accompanying Consolidated Statements of Income and Consolidated Statements of Comprehensive Income, respectively.

***Revenue Recognition***

The Company generates the substantial majority of its revenue from contracts with customers. The Company's franchise agreements offer the following benefits to the franchisee: common use and promotion of RE/MAX and Motto trademarks; distinctive sales and promotional materials; access to technology; marketing tools and training; standardized supplies and other materials used in RE/MAX and Motto offices; and recommended procedures for operation of RE/MAX and Motto offices. The Company concluded that these benefits are highly related and all a part of one performance obligation for each franchise agreement, a license of symbolic intellectual property that is billed through a variety of fees including continuing franchise fees, annual dues, broker fees, marketing funds fees and franchise sales, described below. The Company has other performance obligations associated with contracts with customers in other revenue for training, marketing and events, and legacy booj customers. The method used to measure progress is over the passage of time for most streams of revenue. The following is a description of principal activities from which the Company generates its revenue.

*Continuing Franchise Fees*

Continuing franchise fees are fixed contractual fees paid monthly (a) by regional franchise owners in Independent Regions or franchisees in Company-owned Regions based on the number of RE/MAX agents in the respective franchised region or office or (b) by Motto franchisees based on the number of offices open. Motto offices reach the full monthly billing once the Motto office has been open for 12 to 14 months. This revenue is recognized in the month for which the fee is billed. This revenue is a usage-based royalty as it is dependent on the number of RE/MAX agents or number of Motto offices.

*Annual Dues*

Annual dues are a fixed membership fee paid annually by RE/MAX agents directly to the Company to be a part of the RE/MAX network and use the RE/MAX brand. Annual dues are a flat fee per agent. The Company defers the annual dues revenue when billed and recognizes the revenue ratably over the 12-month period to which it relates. Annual dues revenue is a usage-based royalty as it is dependent on the number of RE/MAX agents.

The activity in the Company's deferred revenue for annual dues is included in "Deferred revenue" and "Deferred revenue, net of current portion" on the Consolidated Balance Sheets, and consists of the following in aggregate (in thousands):

| | Balance at beginning of period | New billings | Revenue recognized[(a)] | Balance at end of period |
|---|---|---|---|---|
| Year ended December 31, 2019 | $ 15,877 | $ 35,514 | $ (35,409) | $ 15,982 |

(a) Revenue recognized related to the beginning balance was $14.4 million for the year ended December 31, 2019.

*Broker Fees*

Broker fees are assessed against real estate commissions paid by customers when a RE/MAX agent sells a home. Generally, the amount paid is 1% of the total commission on the transaction, although in Independent Regions in Canada it is not charged. Additionally, agents in Company-owned Regions existing prior to 2004, the year the Company began assessing broker fees, are generally "grandfathered" and continue to be exempt from paying a broker fee. As of December 31, 2019, grandfathered agents represented approximately 17% of total agents in U.S. Company-owned Regions. Revenue from broker fees is recognized as a sales-based royalty and recognized in the month when a home sale transaction occurs. Motto franchisees do not pay any fees based on the number or dollar value of loans brokered.

*Marketing Funds Fees*

Marketing Funds fees are fixed contractual fees paid monthly by franchisees based on the number of RE/MAX agents in the respective franchised region or office or the number of Motto offices. These revenues are obligated to be used for marketing campaigns to build brand awareness and to support agent marketing technology. Amounts received into the Marketing Funds are recognized as revenue in the month for which the fee is billed. This revenue is a usage-based royalty as it is dependent on the number of RE/MAX agents or number of Motto offices.

All assets of the Marketing Funds are contractually restricted for the benefit of franchisees, and the Company recognizes an equal and offsetting liability on the Company's balance sheet for all amounts received. Additionally, this results in recording an equal and offsetting amount of expenses against all revenues such that there is no impact to overall profitability of the Company from these revenues.

*Franchise Sales*

Franchise sales comprises revenue from the sale or renewal of franchises. A fee is charged upon a franchise sale or renewal. Those fees are deemed to be a part of the license of symbolic intellectual property and are recognized as revenue over the contractual term of the franchise agreement, which is typically 5 years for RE/MAX and 7 years for Motto franchise agreements. The activity in the Company's franchise sales deferred revenue accounts consists of the following (in thousands):

| | Balance at beginning of period | New billings | Revenue recognized[(a)] | Balance at end of period |
|---|---|---|---|---|
| Year ended December 31, 2019 | $ 27,560 | $ 7,750 | $ (9,426) | $ 25,884 |

(a) Revenue recognized related to the beginning balance was $8.4 million for the year ended December 31, 2019.

*Commissions Related to Franchise Sales*

Commissions paid on franchise sales are recognized as an asset and amortized over the contract life of the franchise agreement. The activity in the Company's capitalized contract costs for commissions (which are included in "other current assets" and "other assets, net of current portion" on the Consolidated Balance Sheets) consist of the following (in thousands):

| | Balance at beginning of period | Expense recognized | Additions to contract cost for new activity | Balance at end of period |
|---|---|---|---|---|
| Year ended December 31, 2019 | $ 3,748 | $ (1,290) | $ 1,120 | $ 3,578 |

*Other Revenue*

Other revenue is primarily revenue from preferred marketing arrangements and event-based revenue from training and other programs. Revenue from preferred marketing arrangements involves both flat fees paid in advance as well as revenue sharing, both of which are generally recognized over the period of the arrangement and are recorded net as the Company does not control the good or service provided. Event-based revenue is recognized when the event occurs and until then amounts collected are included in "Deferred revenue". Other revenue also includes revenue from booj's legacy operations for its external customers as booj continues to provide technology products and services, such as websites, mobile apps, reporting and website tools, to its legacy customers and technology subscription revenue such as for the First app.

***Disaggregated Revenue***

In the following table, segment revenue is disaggregated by geographical area (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| U.S. | $ 164,867 | $ 170,496 | $ 160,538 |
| Canada | 23,024 | 23,771 | 23,189 |
| Global | 11,745 | 10,237 | 9,431 |
| Total RE/MAX Franchising | 199,636 | 204,504 | 193,158 |
| U.S. | 64,906 | — | — |
| Canada | 6,559 | — | — |
| Global | 834 | — | — |
| Total Marketing Funds | 72,299 | — | — |
| Motto Franchising [(a)] | 4,542 | 2,536 | 556 |
| Other | 5,816 | 5,586 | — |
| Total | $ 282,293 | 212,626 | 193,714 |

(a) Revenue from the Motto Franchising segment is derived exclusively within the U.S.

In the following table, segment revenue is disaggregated by Company-owned or Independent Regions in the U.S., Canada and Global (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Company-owned Regions | $ 128,972 | $ 133,925 | $ 125,092 |
| Independent Regions | 44,686 | 46,289 | 44,799 |
| Global and Other | 25,978 | 24,290 | 23,267 |
| Total RE/MAX Franchising | 199,636 | 204,504 | 193,158 |
| Marketing Funds | 72,299 | — | — |
| Motto Franchising | 4,542 | 2,536 | 556 |
| Other | 5,816 | 5,586 | — |
| Total | $ 282,293 | $ 212,626 | $ 193,714 |

***Transaction Price Allocated to the Remaining Performance Obligations***

The following table includes estimated revenue by year, excluding certain other immaterial items, expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period (in thousands):

| | 2020 | 2021 | 2022 | 2023 | 2024 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Annual dues | $ 15,982 | $ — | $ — | $ — | $ — | $ — | $ 15,982 |
| Franchise sales | 7,141 | 5,801 | 4,368 | 2,881 | 1,589 | 4,104 | 25,884 |
| Total | $ 23,123 | $ 5,801 | $ 4,368 | $ 2,881 | $ 1,589 | $ 4,104 | $ 41,866 |

***Cash, Cash Equivalents and Restricted Cash***

All cash held by the Marketing Funds is contractually restricted. The following table reconciles the amounts presented for cash, both unrestricted and restricted, in the Consolidated Balance Sheets to the amounts presented in the Consolidated Statements of Cash Flows (in thousands):

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Cash and cash equivalents | $ 83,001 | $ 59,974 |
| Restricted cash | 20,600 | — |
| Total cash, cash equivalents and restricted cash | $ 103,601 | $ 59,974 |

***Services Provided to the Marketing Funds by RE/MAX Franchising***

RE/MAX Franchising charges the Marketing Funds for various services it performs. These services are primarily comprised of (a) providing agent marketing technology, including customer relationship management tools, the www.remax.com website, agent and office websites, and mobile apps, (b) dedicated employees focused on marketing campaigns, and (c) various administrative services including accounting and legal. Because these costs are ultimately paid by the Marketing Funds, they do not impact the net income of Holdings as the Marketing Funds have no reported net income.

Costs charged from RE/MAX Franchising to the Marketing Funds are as follows (in thousands):

| | Year Ended December 31, 2019 |
|---|---|
| Technology development - operating | $ 6,244 |
| Technology development - capital | 5,095 |
| Marketing staff and administrative services [a] | 3,763 |
| Total | $ 15,102 |

(a) Costs charged to the Marketing Funds for the years ended December 31, 2018 and 2017, while the Marketing Funds were a related party, were $3.8 million and $3.4 million, respectively.

Prior to January 1, 2019, the Marketing Funds were not owned by the Company (see Note 6 *Acquisitions*). During that time, the Marketing funds still incurred significant technology costs, however, these services were provided by and paid directly to third parties and were not provided by the Company. In 2019, RE/MAX Franchising (through the booj technology team) began providing these services as noted above.

***Selling, Operating and Administrative Expenses***

Selling, operating and administrative expenses primarily consist of personnel costs, including salaries, benefits, payroll taxes and other compensation expenses, professional fees, lease costs, as well as expenses for marketing to customers, to expand the Company's franchises and outsourced technology services.

***Fair Value of Financial Instruments***

The carrying amounts of financial instruments, net of any allowances, including cash equivalents, accounts and notes receivable, accounts payable and accrued expenses approximate fair value due to their short-term nature.

***Accounts and Notes Receivable***

Accounts receivable arising from monthly billings do not bear interest. The Company provides limited financing of certain franchise sales through the issuance of notes receivable with the associated interest recorded in "Interest income" in the accompanying Consolidated Statements of Income. Amounts collected on notes receivable are included in "Net cash provided by operating activities" in the accompanying Consolidated Statements of Cash Flows.

The Company records allowances against its accounts and notes receivable balances for estimated probable losses. Increases and decreases in the allowance for doubtful accounts are established based upon changes in the credit quality of receivables and are included as a component of "Selling, operating and administrative expenses" in the accompanying Consolidated Statements of Income. The allowance for doubtful accounts and notes is based on historical experience, general economic conditions, and the credit quality of specific accounts.

The activity in the Company's allowances against accounts and notes receivable consists of the following (in thousands):

| | Balance at beginning of period | Additions/charges to cost and expense for allowances for doubtful accounts [a] | Deductions/write-offs | Balance at end of period |
|---|---|---|---|---|
| Year Ended December 31, 2019 | $ 7,980 | $ 4,964 | $ (406) | $ 12,538 |
| Year Ended December 31, 2018 | $ 7,223 | $ 2,257 | $ (1,500) | $ 7,980 |
| Year Ended December 31, 2017 | $ 6,458 | $ 1,109 | $ (344) | $ 7,223 |

(a) For the year ended December 31, 2019, $1.5 million of expense was attributable to the acquired Marketing Funds.

***Accumulated Other Comprehensive Income (Loss) and Foreign Currency Translation***

Accumulated other comprehensive income (loss) includes all changes in equity during a period that have yet to be recognized in income, except those resulting from transactions with stockholders and is comprised of foreign currency translation adjustments.

As of December 31, 2019, the Company, directly and through its franchisees, conducted operations in over 110 countries and territories, including the U.S. and Canada. The functional currency for the Company's operations is the U.S. dollar, except for its Canadian subsidiary which is the Canadian Dollar.

Assets and liabilities of the Canadian subsidiary are translated at the spot rate in effect at the applicable reporting date, and the consolidated statements of income and cash flows are translated at the average exchange rates in effect during the applicable period. Exchange rate fluctuations on translating consolidated foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded as a component of "Accumulated other comprehensive income," and periodic changes are included in comprehensive income. When the Company sells a part or all of its investment in a foreign entity resulting in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided, it releases any related cumulative translation adjustment into net income.

Foreign currency denominated monetary assets and liabilities and transactions occurring in currencies other than the Company's or the Company's consolidated foreign subsidiaries' functional currencies are recorded based on exchange rates at the time such transactions arise. Changes in exchange rates with respect to amounts recorded in the accompanying Consolidated Balance Sheets related to these non-functional currency transactions result in transaction gains and losses that are reflected in the accompanying Consolidated Statements of Income as "Foreign currency transaction (losses) gains."

***Property and Equipment***

Property and equipment, including leasehold improvements, are initially recorded at cost. Depreciation is provided for on a straight-line method over the estimated useful lives of each asset class and commences when the property is placed in service. Amortization of leasehold improvements is provided for on a straight-line method over the estimated benefit period of the related assets or the lease term, if shorter.

***Franchise Agreements and Other Intangible Assets***

The Company's franchise agreements result from franchise rights acquired from Independent Region acquisitions and are initially recorded at fair value. The Company amortizes the franchise agreements over their estimated useful life on a straight-line basis.

The Company also purchases and develops software for internal use. Software development costs and upgrade and enhancement costs incurred during the application development stage that result in additional functionality are capitalized. Costs incurred during the preliminary project and post-implementation-operation stages are expensed as incurred. Capitalized software costs are generally amortized over a term of two to five years. Purchased software licenses are amortized over their estimated useful lives.

In addition, the Company owns the principal trademarks, service marks and trade names that it uses in conjunction with operating its business. These intangible assets increase when the Company pays to file trademark applications in the U.S. and certain other jurisdictions globally. The Company's trademarks are amortized on a straight-line basis over their estimated useful lives.

The Company reviews its franchise agreements and other intangible assets subject to amortization for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is assessed by a comparison of the carrying amount of an asset group to estimated undiscounted future cash flows expected to be generated from such asset. If not recoverable, the excess of the carrying amount of an asset over its estimated discounted cash flows would be charged to operations as an impairment loss. For each of the years ended December 31, 2019, 2018 and 2017, there were no material impairments indicated for such assets.

***Goodwill***

Goodwill is an asset representing the future economic benefits arising from the other assets acquired in a business combination that are not individually identified and separately recognized. The Company assesses goodwill for impairment at least annually at the reporting unit level or whenever an event occurs that would indicate impairment may have occurred. Reporting units are driven by the level at which segment management reviews operating results. The Company performs its required impairment testing annually on October 1.

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 impairment test consists of comparing the estimated fair value of each reporting unit with its carrying amount, including goodwill. The fair value of a reporting unit is determined by forecasting results, such as franchise sales for Motto, and applying and assumed discount rate to determine fair value as of the test date. 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. Goodwill impairment exists when the estimated implied fair value of a reporting unit's goodwill is less than its carrying value.

The Company did not record any goodwill impairments during the years ended December 31, 2019, 2018 and 2017.

***Income Taxes***

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Management periodically assesses the recoverability of its deferred tax assets based upon expected future earnings, future deductibility of the asset and changes in applicable tax laws and other factors. If management determines that it is not likely that the deferred tax asset will be fully recoverable in the future, a valuation allowance may be established for the difference between the asset balance and the amount expected to be recoverable in the future. The allowance will result in a charge to the Company's Consolidated Statements of Income.

RMCO complies with the requirements of the Internal Revenue Code that are applicable to limited liability companies that have elected to be treated as partnerships, which allow for the complete pass-through of taxable income or losses to RMCO's unitholders, who are individually responsible for any federal tax consequences. The share of U.S. income allocable to Holdings results in a provision for income taxes for the federal and state taxes on that portion of income. The share of U.S. income allocable to RIHI does not result in a provision for income taxes for federal and state taxes given Holdings does not consolidate RIHI. RMCO is subject to certain global withholding taxes, which are ultimately allocated to both Holdings and RIHI since they are paid by RMCO.

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.

***Equity-Based Compensation***

The Company recognizes compensation expense associated with equity-based compensation as a component of "Selling, operating and administrative expenses" in the accompanying Consolidated Statements of Income. All equity-based compensation is required to be measured at fair value on the grant date, is expensed over the requisite service, generally over a three-year period, and forfeitures are accounted for as they occur. The Company recognizes compensation expense on awards on a straight-line basis over the requisite service period for the entire award. Refer to Note 13, *Equity-Based Compensation* for additional discussion regarding details of the Company's equity-based compensation plans.

***Recently Adopted Accounting Pronouncements***

In February 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220),* which adjusts the classification of stranded tax effects resulting from the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. ASU 2018-02 became effective for the Company on January 1, 2019. The standard is to be applied either in the period of adoption or retrospectively to each period affected by the Tax Cuts and Jobs Act. The Company completed the majority of its accounting for the tax effects of the Tax Cuts and Jobs Act as of December 31, 2017. The amendments of ASU 2018-02 did not have a significant impact on the Company’s consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, with several subsequent amendments, which requires lessees to recognize the assets and liabilities that arise from operating and finance leases on the consolidated balance sheets, with a few exceptions. ASU 2016-02 became effective for the Company on January 1, 2019 and replaced the existing lease guidance in U.S. GAAP when it became effective. The Company did not retrospectively recast prior periods presented and instead adjusted assets and liabilities on January 1, 2019. In addition, the Company elected the package of practical expedients permitted under the transition guidance, which allowed the Company to forgo reassessing (a) whether a contract contains a lease, (b) lease classification, and (c) whether capitalized costs associated with a lease are initial direct costs. The practical expedient was applied consistently to all the Company’s leases, including those for which the Company acts as the lessor. In addition, the Company elected the practical expedient relating to the combination of lease and non-lease components as a single lease component. The Company chose not to apply the hindsight practical expedient. The new lease guidance has been applied to all the Company’s leases as of January 1, 2019, which impacted how operating lease assets and liabilities were recorded within the Consolidated Balance Sheet, resulting in the recording of approximately $65.8 million of lease liabilities and approximately $55.6 million of right-of-use (“ROU”) assets on the Consolidated Balance Sheet. Deferred rent and sublease loss balances as of January 1, 2019 of approximately $9.3 million and approximately $2.4 million, respectively, and intangible assets of approximately $1.5 million were subsumed into the ROU asset at transition. Adoption of the new standard did not materially affect the Company’s consolidated net earnings and had no impact on cash flows. See Note 3, *Leases,* for more information.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350)*, which simplifies the subsequent measurement of goodwill by eliminating step two from the goodwill impairment test. The Company early adopted ASU 2017-04 and it was effective for annual and interim impairment tests beginning January 1, 2019 using a prospective approach. The adoption of this standard had no impact on the Company’s financial statements and related disclosures.

***New Accounting Pronouncements Not Yet Adopted***

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract,* which clarifies that implementation costs incurred by customers in cloud computing arrangements are deferred if they would be capitalized by customers in the software licensing arrangements under the internal-use software guidance. ASU 2018-15 also clarifies that any capitalized costs should not be recorded to “Depreciation and amortization” in the Consolidated Statements of Income. ASU 2018-15 is effective for the Company beginning January 1, 2020 and provides for the alternative to adopt the ASU (a) prospectively only for new costs incurred after the adoption date or (b) by adjusting existing costs to comply with this standard, including the requirement to present the amortization of costs outside “Depreciation and amortization”. The Company plans to adopt this ASU prospectively to all new implementation costs incurred after adoption. Given this implementation approach, the adoption of the standard on January 1, 2020 will have no immediate impact.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)*, which eliminates certain disclosure requirements for fair value measurements and requires new or modified disclosures. ASU 2018-13 is effective for the Company beginning January 1, 2020; early adoption is permitted. Certain changes are applied retrospectively to each period presented and others are to be applied either in the period of adoption or prospectively. The Company believes the amendments of ASU 2018-13 will not have a significant impact on the Company’s financial statements and related disclosures.

**3. Leases**

The Company leases corporate offices, a distribution center, billboards and certain equipment. As all franchisees are independently owned and operated, there are no leases recognized for any offices used by the Company's franchisees. The leases have remaining lease terms ranging from less than a year up to 14, some of which include one or more options to renew, with renewal terms that can extend the lease term from one to 20 years depending on the lease. Of these renewal options, the Company determined that none are reasonably certain to be exercised. All the Company's material leases are classified as operating leases.

The Company has a lease for its corporate headquarters office building (the "Master Lease") that expires in 2028. The Company may, at its option, extend the Master Lease for two renewal periods of 10 years. Under the terms of the Master Lease, the Company pays an annual base rent, which escalates 3% each year, including the first optional renewal period. The second optional renewal period resets to fair market rental value, and the rent escalates 3% each year until expiration. The Company pays for insurance, property taxes and operating expenses of the leased space. The Master Lease is the Company's only significant lease.

The Company acts as the lessor for four sublease agreements on its corporate headquarters, consisting solely of operating leases, each of which include a renewal option for the lessee to extend the length of the lease. Renewal options for two of the sublease agreements are contingent upon renewal of the corporate headquarters lease, which is not reasonably certain to be exercised in 2028. As such, the Company determined these sublease renewal options are not reasonably certain to be exercised. Renewal options for the remaining two sublease agreements have already been exercised and will expire before the end of the corporate headquarters lease in 2028.

The Company has made an accounting policy election not to recognize right-of-use assets and lease liabilities that arise from any of its short-term leases. All leases with a term of 12 months or less at commencement, for which the Company is not reasonably certain to exercise available renewal options that would extend the lease term past 12 months, will be recognized on a straight-line basis over the lease term.

The Company used its Senior Secured Credit Facility interest rate to extrapolate a rate for each of its leases to calculate the present value of the lease liability and right-of-use asset. A summary of the Company's lease cost is as follows (in thousands, except for weighted-averages):

| | Year Ended December 31, 2019 |
|---|---|
| **Lease Cost** | |
| Operating lease cost (a) | $ 12,259 |
| Sublease income | (1,508) |
| Short-term lease cost (b) | 6,495 |
| Total lease cost | $ 17,246 |
| **Other information** | |
| Cash paid for amounts included in the measurement of lease liabilities | |
| Operating cash outflows from operating leases | $ 8,507 |
| Weighted-average remaining lease term in years - operating leases | 8.4 |
| Weighted-average discount rate - operating leases | 6.3 % |

(a) Includes approximately $3.7 million of taxes, insurance and maintenance.
(b) Includes expenses associated with short-term leases of billboard advertisements and is included in "Marketing Funds expenses" on the Consolidated Statements of Income.

Maturities under non-cancellable leases as of December 31, 2019 were as follows (in thousands):

| | Rent Payments | Sublease Receipts | Total Cash Outflows |
|---|---|---|---|
| Year ending December 31: | | | |
| 2020 | $ 8,756 | $ (888) | $ 7,868 |
| 2021 | 9,010 | (775) | 8,235 |
| 2022 | 9,002 | (804) | 8,198 |
| 2023 | 9,173 | (822) | 8,351 |
| 2024 | 9,439 | (785) | 8,654 |
| Thereafter | 34,235 | (597) | 33,638 |
| Total lease payments | $ 79,615 | $ (4,671) | $ 74,944 |
| Less: imputed interest | 18,554 | | |
| Present value of lease liabilities | $ 61,061 | | |

As previously disclosed in our 2018 Annual Report on Form 10-K and under the previous lease accounting, maturities under non-cancellable leases as of December 31, 2018 were as follows (in thousands):

| | Rent Payments | Sublease Receipts | Total Cash Outflows |
|---|---|---|---|
| Year ending December 31: | | | |
| 2019 | $ 9,402 | $ (1,087) | $ 8,315 |
| 2020 | 9,601 | (873) | 8,728 |
| 2021 | 9,341 | (775) | 8,566 |
| 2022 | 9,011 | (804) | 8,207 |
| 2023 | 9,169 | (827) | 8,342 |
| Thereafter | 43,556 | (1,382) | 42,174 |
| Total lease payments | $ 90,080 | $ (5,748) | $ 84,332 |

**4. Non-controlling Interest**

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

| | As of December 31, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Shares | Ownership % | Shares | Ownership % |
| Non-controlling interest ownership of common units in RMCO | 12,559,600 | 41.3 % | 12,559,600 | 41.4 % |
| Holdings outstanding Class A common stock (equal to Holdings common units in RMCO) | 17,838,233 | 58.7 % | 17,754,416 | 58.6 % |
| Total common units in RMCO | 30,397,833 | 100.0 % | 30,314,016 | 100.0 % |

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

| | Year Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | | 2017 | | |
| | RE/MAX Holdings, Inc. | Non-controlling interest | Total | RE/MAX Holdings, Inc. | Non-controlling interest | Total | RE/MAX Holdings, Inc. | Non-controlling interest | Total |
| Weighted average ownership percentage of RMCO[(a)] | 58.6 % | 41.4 % | 100.0 % | 58.6 % | 41.4 % | 100.0 % | 58.5 % | 41.5 % | 100.0 % |
| Income before provision for income taxes[(a)] | $ 33,850 | $ 23,915 | $ 57,765 | $ 41,238 | $ 24,926 | $ 66,164 | $ 65,493 | $ 23,369 | $ 88,862 |
| Provision for income taxes[(b)(c)] | (8,810) | (2,099) | (10,909) | (14,355) | (1,987) | (16,342) | (55,394) | (2,148) | (57,542) |
| Net income | $ 25,040 | $ 21,816 | $ 46,856 | $ 26,883 | $ 22,939 | $ 49,822 | $ 10,099 | $ 21,221 | $ 31,320 |

(a) The weighted average ownership percentage of RMCO differs from the allocation of income before provision for income taxes between Holdings and the non-controlling interest due to (i) certain relatively insignificant expenses and (ii) the significant gain on reduction in TRA liability in 2018 and 2017 attributable only to Holdings. See Note 12, *Income Taxes* for additional information.

(b) The provision for income taxes attributable to Holdings is primarily comprised of U.S. federal and state income taxes on its proportionate share of the pass-through income from RMCO. It also includes Holdings' share of taxes directly incurred by RMCO and its subsidiaries, related primarily to tax liabilities in certain foreign jurisdictions. In 2018 and 2017, the provision for income taxes attributable to Holdings also includes a significant decrease in the value of deferred tax assets. See Note 12, *Income Taxes* for additional information.

(c) The provision for income taxes attributable to the non-controlling interest represents its share of taxes related primarily to tax liabilities in certain foreign jurisdictions directly incurred by RMCO or its subsidiaries. Because RMCO is a pass-through entity there is no U.S. federal and state income tax provision recorded on the non-controlling interest.

***Distributions and Other Payments to Non-controlling Unitholders***

Under the terms of RMCO's limited liability company operating agreement, RMCO makes cash distributions to non-controlling unitholders on a pro-rata basis. The distributions paid or payable to non-controlling unitholders are summarized as follows (in thousands):

| | Year Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Tax and other distributions | $ 4,880 | $ 4,511 |
| Dividend distributions | 10,550 | 10,048 |
| Total distributions to non-controlling unitholders | $ 15,430 | $ 14,559 |

On February 19, 2020, the Company declared a distribution to non-controlling unitholders of $2.8 million, which is payable on March 18, 2020.

***Holdings Ownership of RMCO and Tax Receivable Agreements***

Holdings has twice acquired significant portions of the ownership in RMCO; first in October 2013 at the time of IPO when Holdings acquired its initial 11.5 million common units of RMCO and, second, in November and December 2015 when it acquired 5.2 million additional common units. Holdings issued Class A common stock, which it exchanged for these common units of RMCO. RIHI then sold the Class A common stock to the market.

When Holdings acquired common units in RMCO, it received a step-up in tax basis on the underlying assets held by RMCO. The step-up is principally equivalent to the difference between (1) the fair value of the underlying assets on the date of acquisition of the common units and (2) their tax basis in RMCO, multiplied by the percentage of units acquired. The majority of the step-up in basis relates to intangibles assets, primarily franchise agreements and goodwill, and the step-up is often substantial. These assets are amortizable under IRS rules and result in deductions on the Company's tax return for many years and consequently, Holdings receives a future tax benefit. These future benefits are reflected within deferred tax assets on the Company's consolidated balance sheets.

If Holdings acquires additional common units of RMCO from RIHI, the percentage of Holdings' ownership of RMCO will increase, and additional deferred tax assets will be created as additional tax basis step-ups occur.

In connection with the initial sale of RMCO common units in October 2013, Holdings entered into Tax Receivable Agreements ("TRAs") which require that Holdings make annual payments to the TRA holders equivalent to 85% of any tax benefits realized on each year's tax return from the additional tax deductions arising from the step-up in tax basis. The TRA holders as of December 31, 2019 are RIHI and Parallaxes Rain Co-Investment, LLC ("Parallaxes"). TRA liabilities were established for the future cash obligations expected to be paid under the TRAs and are not discounted. As of December 31, 2019, this liability was $37.2 million and was recorded within "Current portion of payable pursuant to tax receivable agreements" and "Payable pursuant to tax receivable agreement" in the Consolidated Balance Sheets. Similar to the deferred tax assets, the TRA liabilities would increase if Holdings acquires additional common units of RMCO from RIHI.

Both deferred tax assets and TRA liability were substantially reduced by the Tax Cuts and Jobs Act enacted in December 2017. The reduction in the corporate tax rate from 35% to 21% resulted in comparable reductions in both the deferred tax asset amounts and the TRA liabilities. The deferred tax assets and TRA liabilities were further reduced in 2018 as a result of the foreign tax provisions contained in the Tax Cuts and Jobs Act. See Note 12, *Income Taxes* for further information on the impact of the Tax Cuts and Jobs Act.

## 5. Earnings Per Share and Dividends

### *Earnings Per Share*

Basic earnings per share ("EPS") measures the performance of an entity over the reporting period. Diluted EPS measures the performance of an entity over the reporting period while giving effect to all potentially dilutive common shares that were outstanding during the period. The treasury stock method is used to determine the dilutive effect of time-based restricted stock units. The dilutive effect of performance-based restricted stock units is measured using the guidance for contingently issuable shares.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| **Numerator** | | | |
| Net income attributable to RE/MAX Holdings, Inc. | $ 25,040 | $ 26,883 | $ 10,099 |
| **Denominator for basic net income per share of Class A common stock** | | | |
| Weighted average shares of Class A common stock outstanding | 17,812,065 | 17,737,649 | 17,688,533 |
| **Denominator for diluted net income per share of Class A common stock** | | | |
| Weighted average shares of Class A common stock outstanding | 17,812,065 | 17,737,649 | 17,688,533 |
| Add dilutive effect of the following: | | | |
| Restricted stock units | 55,687 | 29,850 | 43,267 |
| Weighted average shares of Class A common stock outstanding, diluted | 17,867,752 | 17,767,499 | 17,731,800 |
| **Earnings per share of Class A common stock** | | | |
| Net income attributable to RE/MAX Holdings, Inc. per share of Class A common stock, basic | $ 1.41 | $ 1.52 | $ 0.57 |
| Net income attributable to RE/MAX Holdings, Inc. per share of Class A common stock, diluted | $ 1.40 | $ 1.51 | $ 0.57 |

Outstanding Class B common stock does not share in the earnings of Holdings and is therefore not a participating security. Accordingly, basic and diluted net income per share of Class B common stock has not been presented.

***Dividends***

Dividends declared and paid during each quarter ended per share on all outstanding shares of Class A common stock were as follows (in thousands, except per share information):

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2017 | |
| **Quarter end declared** | **Date paid** | **Per share** | **Date paid** | **Per share** | **Date paid** | **Per share** |
| March 31 | March 20, 2019 | $ 0.21 | March 21, 2018 | $ 0.20 | March 22, 2017 | $ 0.18 |
| June 30 | May 29, 2019 | 0.21 | May 30, 2018 | 0.20 | May 31, 2017 | 0.18 |
| September 30 | August 29, 2019 | 0.21 | August 29, 2018 | 0.20 | August 30, 2017 | 0.18 |
| December 31 | November 27, 2019 | 0.21 | November 28, 2018 | 0.20 | November 29, 2017 | 0.18 |
| | | $ 0.84 | | $ 0.80 | | $ 0.72 |

On February 19, 2020, the Company's Board of Directors declared a quarterly dividend of $0.22 per share on all outstanding shares of Class A common stock, which is payable on March 18, 2020 to stockholders of record at the close of business on March 4, 2020.

**6. Acquisitions**

***First***

On December 16, 2019, the Company acquired First Leads, Inc. ("First") for $15 million in cash generated from operations. First is a mobile app that leverages data science, machine learning and human interaction to help real estate professionals better leverage the value of their personal network and was acquired to complement the Company's technology offerings and booj Platform.

***Marketing Funds***

On January 1, 2019, the Company acquired all of the regional and pan-regional advertising fund entities previously owned by its founder and Chairman of the Board of Directors, David Liniger, for a nominal amount. As in the past, the Marketing Funds are contractually obligated to use the funds collected to support both regional and pan-regional marketing campaigns designed to build and maintain brand awareness and to support the Company's agent marketing technology. The Company does not plan for the use of the funds to change because of this acquisition and consolidation. The acquisitions of the Marketing Funds are part of the Company's succession plan, and ownership of the Marketing Funds by the franchisor is a common structure. Expenses incurred with the acquisition of the Marketing Funds were not material.

The total assets equal the total liabilities of the Marketing Funds and beginning January 1, 2019, are reflected in the consolidated financial statements of the Company. The Company also began recognizing revenue from the amounts collected, which substantially increased its revenues and expenses.

The following table summarizes the Company's allocation of the purchase price to the fair value of assets acquired and liabilities assumed (in thousands):

| | |
|---|---|
| Restricted cash | $ 28,495 |
| Other current assets | 8,472 |
| Property and equipment | 788 |
| Other assets, net of current portion | 126 |
| Total assets acquired | 37,881 |
| Other current liabilities | 37,881 |
| Total liabilities assumed | 37,881 |
| Total acquisition price | $ - |

The Marketing Funds constitutes a business and 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.

***Booj, LLC***

On February 26, 2018, the Company acquired all membership interests in booj using $26.3 million in cash generated from operations, plus up to approximately $10.0 million in equity-based compensation to be earned over time, based on grant date fair value, which will be accounted for as compensation expense in the future (see Note 13, *Equity-Based Compensation* for additional information). The Company acquired booj in order to deliver core technology solutions designed for and with RE/MAX affiliates.

The following table summarizes the Company's allocation of the purchase price to the fair value of assets acquired and liabilities assumed (in thousands):

| | |
|---|---|
| Cash | $ 362 |
| Other current assets | 367 |
| Property and equipment | 625 |
| Software | 7,400 |
| Trademarks | 500 |
| Non-compete agreement | 1,200 |
| Customer relationships | 800 |
| Other intangible assets | 1,589 |
| Other assets, net of current portion | 336 |
| Total assets acquired, excluding goodwill | 13,179 |
| Current portion of debt | (606) |
| Other current liabilities | (557) |
| Debt, net of current portion | (805) |
| Total liabilities assumed | (1,968) |
| Goodwill | 15,039 |
| Total purchase price | $ 26,250 |

Booj constitutes a business and 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 largest intangible assets acquired were valued using an income approach which utilizes Level 3 inputs and are being amortized over a weighted-average useful life using the straight-line method. The excess of the total purchase price over the fair value of the identifiable assets acquired was recorded as goodwill. The goodwill is attributable to expected synergies and projected long-term revenue growth for the RE/MAX network. All of the goodwill recognized is tax deductible.

***Independent Region Acquisition***

On November 15, 2017, the Company acquired certain assets of RE/MAX of Northern Illinois, Inc. for $35.7 million using cash generated from operations. The Company acquired the franchise agreements issued by the Company permitting the sale of RE/MAX franchises in the corresponding region as well as the franchise agreements between the region and the franchisees. The Company acquired these assets in order to expand its owned and operated regional franchising operations.

***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 the Marketing Funds had occurred January 1, 2018, the acquisition of booj had occurred on January 1, 2017 and the acquisition of RE/MAX of Northern Illinois had occurred on January 1, 2016. The historical financial information has been adjusted to give effect to events that are (1) directly attributed to the acquisitions, (2) factually supportable and (3) expected to have a continuing impact on the combined results, including additional amortization expense associated with the valuation of the acquired franchise agreements. This unaudited pro forma information should not be relied upon as necessarily being indicative of the historical results that would have been obtained if the acquisitions had actually occurred on that date, nor of the results that may be obtained in the future.

| | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|
| | (in thousands, except per share amounts) | |
| Total revenue | $ 287,394 | $ 205,059 |
| Net income attributable to Holdings | $ 26,131 | $ 7,628 |
| Basic earnings per common share | $ 1.47 | $ 0.43 |
| Diluted earnings per common share | $ 1.47 | $ 0.43 |

**7. Property and Equipment**

Property and equipment consist of the following (in thousands):

| | Depreciable Life | As of December 31, 2019 | As of December 31, 2018 |
|---|---|---|---|
| Leasehold improvements | Shorter of estimated useful life or life of lease | $ 3,327 | $ 3,278 |
| Office furniture, fixtures and equipment | 2 - 10 years | 17,057 | 14,392 |
| Total property and equipment | | 20,384 | 17,670 |
| Less accumulated depreciation | | (14,940) | (13,280) |
| Total property and equipment, net | | $ 5,444 | $ 4,390 |

Depreciation expense was $1.7 million, $1.2 million and $0.9 million for the years ended December 31, 2019, 2018 and 2017, respectively.

**8. Intangible Assets and Goodwill**

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

| | Weighted Average Amortization Period | As of December 31, 2019 | | | As of December 31, 2018 | | |
|---|---|---|---|---|---|---|---|
| | | Initial Cost | Accumulated Amortization | Net Balance | Initial Cost | Accumulated Amortization | Net Balance |
| Franchise agreements | 12.5 | $ 180,867 | $ (93,197) | $ 87,670 | $ 180,867 | $ (77,710) | $ 103,157 |
| Other intangible assets: | | | | | | | |
| Software [(a)] | 4.0 | $ 36,680 | $ (9,653) | $ 27,027 | $ 20,579 | $ (5,802) | $ 14,777 |
| Trademarks | 9.3 | 1,904 | (1,037) | 867 | 1,857 | (839) | 1,018 |
| Non-compete agreements | 7.7 | 3,700 | (1,546) | 2,154 | 3,700 | (896) | 2,804 |
| Training materials | 5.0 | 2,400 | (640) | 1,760 | 2,350 | (157) | 2,193 |
| Other [(b)] | 5.0 | 800 | (293) | 507 | 2,389 | (216) | 2,173 |
| Total other intangible assets | 4.6 | $ 45,484 | $ (13,169) | $ 32,315 | $ 30,875 | $ (7,910) | $ 22,965 |

(a) As of December 31, 2019, and December 31, 2018, capitalized software development costs of $10.5 million and $4.5 million, respectively, were related to technology projects not yet complete and ready for their intended use and thus were not subject to amortization.

(b) Other consists of customer relationships and a favorable market lease, both obtained in connection with the acquisition of booj. The favorable market lease was subsumed into "Operating lease right of use assets" on the accompanying Consolidated Balance Sheet upon adopting the new lease standard on January 1, 2019. See Note 2, *Summary of Significant Accounting Policies* for additional information.

Amortization expense was $20.6 million, $19.5 million and $19.6 million for the years ended December 31, 2019, 2018 and 2017, respectively.

As of December 31, 2019, the estimated future amortization expense for the next five years related to intangible assets includes the estimated amortization expense associated with the Company's intangible assets assumed with the acquisition of booj and is as follows (in thousands):

| **Year ending December 31:** | | |
|---|---|---|
| 2020 | $ | 25,438 |
| 2021 | | 25,122 |
| 2022 | | 21,946 |
| 2023 | | 14,594 |
| 2024 | | 12,146 |
| | $ | 99,246 |

The following table presents changes to goodwill for the period from January 1, 2018 to December 31, 2019 (in thousands):

| | RE/MAX Franchising | Motto Franchising | Total |
|---|---|---|---|
| **Balance, January 1, 2018** | $ 123,413 | $ 11,800 | $ 135,213 |
| Goodwill recognized related to acquisitions[(a)] | 15,039 | — | 15,039 |
| Adjustments to acquisition accounting during the measurement period | 700 | — | 700 |
| Effect of changes in foreign currency exchange rates | (268) | — | (268) |
| **Balance, December 31, 2018** | 138,884 | 11,800 | 150,684 |
| Goodwill recognized related to acquisitions[(a)] | 8,207 | — | 8,207 |
| Effect of changes in foreign currency exchange rates | 147 | — | 147 |
| **Balance, December 31, 2019** | $ 147,238 | $ 11,800 | $ 159,038 |

(a) The purpose of the booj and First acquisitions is to deliver technology solutions to RE/MAX franchisees and agents. As such, the Company allocated the goodwill arising from these acquisitions to RE/MAX Franchising. See Note 6*, Acquisitions* for additional information.

**9. Accrued Liabilities**

Accrued liabilities consist of the following (in thousands):

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Marketing Funds [(a)] | $ 39,672 | $ — |
| Accrued payroll and related employee costs | 11,900 | 6,517 |
| Accrued taxes | 2,451 | 1,480 |
| Accrued professional fees | 2,047 | 2,010 |
| Other | 4,093 | 3,136 |
| | $ 60,163 | $ 13,143 |

(a) Consists primarily of liabilities recognized to reflect the contractual restriction that all funds collected in the Marketing Funds must be spent for designated purposes. See Note 2, *Summary of Significant Accounting Policies* for additional information. As previously noted, the Marketing Funds were acquired on January 1, 2019.

**10. Debt**

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

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Senior Secured Credit Facility | $ 227,363 | $ 229,713 |
| Other long-term financing(a) | 362 | 635 |
| Less unamortized debt issuance costs | (1,182) | (1,481) |
| Less unamortized debt discount costs | (862) | (1,080) |
| Less current portion(a) | (2,648) | (2,622) |
| | $ 223,033 | $ 225,165 |

(a) Includes financing assumed with the acquisition of booj. As of December 31, 2019 and 2018, the carrying value of this financing approximates the fair value.

Maturities of debt are as follows (in thousands):

| Year Ended December 31, 2019 | |
|---|---|
| 2020 | $ 2,648 |
| 2021 | 2,414 |
| 2022 | 2,350 |
| 2023 | 220,313 |
| | $ 227,725 |

***Senior Secured Credit Facility***

In July 2013, the Company entered into a credit agreement with several lenders and administered by a bank, referred to herein as the "2013 Senior Secured Credit Facility." In December 2016, the 2013 Senior Secured Credit Facility was amended and restated, referred to herein as the "Senior Secured Credit Facility." The Senior Secured Credit Facility consists of a $235.0 million term loan facility which matures on December 15, 2023 and a $10.0 million revolving loan facility which must be repaid on December 15, 2021. In connection with the Senior Secured Credit Facility, the Company incurred costs of $3.5 million during 2016, of which $1.4 million was recorded in "Debt, net of current portion" in the accompanying Consolidated Balance Sheets and is being amortized to interest expense over the term of the Senior Secured Credit Facility and the remaining $2.1 million was expensed as incurred.

Borrowings under the term loans and revolving loans accrue interest, at the Company's option on (a) LIBOR provided LIBOR shall be no less than 0.75% plus an applicable margin of 2.75% and, provided further, that LIBOR shall be adjusted for reserve requirements for eurocurrency liabilities, if any (the "LIBOR rate") or (b) the greatest of (i) JPMorgan Chase Bank N.A.'s prime rate, (ii) the NYFRB Rate (as defined in the Senior Secured Credit Facility) plus 0.50% and (iii) the one-month Eurodollar Rate plus 1%, (such greatest rate, the "ABR") plus, in each case, the applicable margin. The applicable margin for ABR loans is 1.75%. As of December 31, 2019, the Company selected the LIBOR rate resulting in an interest rate on the term loan facility of 4.55%.

The Senior Secured Credit Facility requires RE/MAX, LLC to repay term loans and reduce revolving commitments with (i) 100.0% of proceeds of any incurrence of additional debt not permitted by the Senior Secured Credit Facility, (ii) 100.0% of proceeds of asset sales and 100.0% of amounts recovered under insurance policies, subject to certain exceptions and a reinvestment right and (iii) 50.0% of excess cash flow at the end of the applicable fiscal year if RE/MAX, LLC's total leverage ratio as defined in the Senior Secured Credit Facility is in excess of 3.25:1.00, with such percentage decreasing to zero as RE/MAX, LLC's leverage ratio decreases below 2.75 to 1.0. The Company's total leverage ratio was less than 2.75 to 1.0 as of December 31, 2019, and as a result, the Company does not expect to make an excess cash flow principal prepayment within the next 12-month period. The Company may make optional prepayments on the term loan facility at any time without penalty; however, no such optional prepayments were made during the year ended December 31, 2019.

Whenever amounts are drawn under the revolving line of credit, the Senior Secured Credit Facility requires compliance with a leverage ratio and an interest coverage ratio. A commitment fee of 0.5% per annum accrues on the amount of unutilized revolving line of credit. As of December 31, 2019, no amounts were drawn on the revolving line of credit.

### 11. Fair Value Measurements

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, the Company follows a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices for identical instruments in active markets.
- Level 2: Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations, in which all significant inputs are observable in active markets. The fair value of the Company's debt reflects a Level 2 measurement and was estimated based on quoted prices for the Company's debt instruments in an inactive market.
- Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions. Level 3 liabilities that are measured at fair value on a recurring basis consist of the Company's contingent consideration related to the acquisition of Motto.

A summary of the Company's liabilities measured at fair value on a recurring basis is as follows (in thousands):

| | As of December 31, 2019 | | | | As of December 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair Value | Level 1 | | Level 3 | Fair Value | Level 1 | Level 2 | Level 3 |
| **Liabilities** | | | | | | | | |
| Contingent consideration | $ 5,005 | $ — | — | $ 5,005 | $ 5,070 | $ — | $ — | $ 5,070 |

The Company is required to pay additional purchase consideration totaling 8% of gross receipts collected by Motto each year (the "Revenue Share Year") through September 30, 2026, with no limitation as to the maximum payout. The annual payment is required to be made within 120 days of the end of each Revenue Share Year. Each Revenue Share Year ends September 30. The fair value of the contingent purchase consideration represents the forecasted discounted cash payments that the Company expects to pay. Increases or decreases in the fair value of the contingent purchase consideration can result from changes in discount rates as well as the timing and amount of forecasted revenues. The forecasted revenue growth assumption that is most sensitive related to assumed franchise sales count for which the forecast assumes between 50 and 80 franchises sold annually. This assumption is based on historical sales and an assumption of growth over time. A 10% reduction in the number of franchise sales would decrease the liability by $0.3 million. A 1% change to the discount rate applied to the forecast changes the liability by approximately $0.2 million. The Company measures this liability each reporting period and recognizes changes in fair value, if any, in "Selling, operating and administrative expenses" in the accompanying Consolidated Statements of Income.

The table below presents a reconciliation of the contingent consideration (in thousands):

| | |
|---|---|
| **Balance at January 1, 2018** | $ 6,580 |
| Fair value adjustments (a) | (1,289) |
| Cash payments | (221) |
| **Balance at December 31, 2018** | 5,070 |
| Fair value adjustments (a) | 241 |
| Cash payments | (306) |
| **Balance at December 31, 2019** | $ 5,005 |

(a) Fair value adjustments relate to realignment of future franchise sales assumptions to more closely reflect historical sales trends from inception to date.

The Company assesses categorization of assets and liabilities by level at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer. There were no transfers between Levels I, II and III during the year ended December 31, 2019.

The following table summarizes the carrying value and estimated fair value of the Senior Secured Credit Facility (in thousands):

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value Level 2 | Carrying Amount | Fair Value Level 2 |
| Senior Secured Credit Facility | $ 225,319 | $ 227,363 | $ 227,152 | $ 221,673 |

**12. Income Taxes**

“Income before provision for income taxes” as shown in the accompanying Consolidated Statements of Income is comprised of the following (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Domestic | $ 44,343 | $ 52,798 | $ 77,346 |
| Foreign | 13,422 | 13,366 | 11,516 |
| Total | $ 57,765 | $ 66,164 | $ 88,862 |

Components of the “Provision for income taxes” in the accompanying Consolidated Statements of Income consist of the following (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| **Current** | | | |
| Federal | $ 2,533 | $ 1,393 | $ 3,239 |
| Foreign | 4,929 | 4,738 | 5,203 |
| State and local | 1,137 | 700 | 1,169 |
| Total current expense | 8,599 | 6,831 | 9,611 |
| **Deferred expense** | | | |
| Federal | 2,084 | 8,795 | 47,045 |
| Foreign | (142) | 12 | 323 |
| State and local | 368 | 704 | 563 |
| Total deferred expense | 2,310 | 9,511 | 47,931 |
| **Provision for income taxes** | $ 10,909 | $ 16,342 | $ 57,542 |

The provision for income taxes attributable to Holdings includes all U.S. federal and state income taxes on Holdings’ proportionate share of RMCO’s net income. The provision for income taxes attributable to entities other than Holdings represents taxes imposed directly on RMCO and its subsidiaries, primarily foreign taxes that are allocated to the non-controlling interest.

A reconciliation of the U.S. statutory income tax rate to the Company's effective tax rate is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| U.S. statutory tax rate | 21.0 % | 21.0 % | 35.0 % |
| Increase due to state and local taxes, net of federal benefit | 3.1 | 3.1 | 2.6 |
| Non-creditable foreign taxes | 1.1 | 1.2 | - |
| Foreign derived intangible income deduction | (1.5) | (1.3) | - |
| Income attributable to non-controlling interests | (7.2) | (7.3) | (12.5) |
| Uncertain Tax Positions | 1.0 | 0.8 | 0.6 |
| Other | 1.4 | (0.8) | (0.8) |
| Subtotal | 18.9 | 16.7 | 24.9 |
| Impact of TRA adjustment on NCI (a) | - | 0.7 | 4.5 |
| Effect of permanent difference - TRA adjustment (b) | - | (2.2) | (13.6) |
| Tax Reform Rate Change (c) | - | - | 49.0 |
| Valuation allowance recognized on basis step-ups | - | 9.5 | - |
| | 18.9 % | 24.7 % | 64.8 % |

(a) Reflects additional impact of non-controlling interest adjustment being on a larger base of income that includes the gain on reduction in TRA liability.
(b) Reflects the impact of gain on TRA liability reduction, which is not taxable.
(c) Reflects reduction in deferred tax assets and resulting increase in deferred tax expense due to U.S. Federal rate declining from 35% to 21%.

In December 2017, the Tax Cut and Jobs Act (the "TCJA") was enacted, which included a significant reduction in the U.S. corporate income tax rate from 35% to 21% along with several changes to taxation of foreign derived income. In 2017, the Company recorded a $42.8 million charge to "Provision for income taxes" in the accompanying Consolidated Statements of Income for the reduction in the value of its deferred tax assets related to this tax rate change (reflected in the rate reconciliation table above as a 49.0% adjustment in 2017). Correspondingly, the TRA liabilities were reduced because of the rate change, resulting in a benefit to operating income of $32.7 million. The net effect of these two adjustments was a reduction to 2017 net income of $10.1 million. When the aforementioned adjustments were recorded in 2017, the Company was still evaluating several aspects of the TCJA, most notably around foreign derived income.

In 2018, the Company completed its evaluation of the impacts to its foreign derived income, particularly the tax credits received for foreign taxes and deductions allowed under the newly created foreign-derived intangible income deduction. The SEC staff issued Staff Accounting Bulletin 118 and later ASU 2018-05, which provided all companies through December of 2018 to finalize provisional estimates of the impacts of the TCJA.

Starting with tax year 2018, the Company has foreign tax credit limitation due to the U.S. federal tax rate being lower than many foreign jurisdictions, particularly Canada. Certain of the tax basis step-ups, described in Note 4, *Non-controlling interest,* are related to intangible assets from the Company's Western Canada operations. The deductions expected to be taken from these tax basis step-ups are no longer expected to be realized by the Company due to now being subject to a foreign tax credit limitation. As a result, the Company recognized a $6.3 million valuation allowance against the related deferred tax assets and an increase in "Provision for income taxes" in the accompanying Consolidated Statements of Income (reflected in the rate reconciliation table above as a 9.5% adjustment in 2018). The loss in value of the step-up, along with other less significant changes, also reduced the value of the TRA liabilities, resulting in a $6.1 benefit to operating income. The net impact of these items was insignificant to net income. In addition, the Company is now limited on the amount of foreign tax credit that can be claimed in its U.S. return.

The Company will continue to evaluate tax planning opportunities as well as monitor any changes that might be contained in the final regulations related to foreign derived income. Such remaining final regulations are expected in 2020.

Income taxes (payable) receivable, net were ($4.3) million and $0.3 million at December 31, 2019 and 2018, respectively.

Deferred income taxes are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the accompanying Consolidated Balance Sheets.

These temporary differences result in taxable or deductible amounts in future years. Details of the Company's deferred tax assets and liabilities are summarized as follows (in thousands):

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Long-term deferred tax assets** | | |
| Goodwill, other intangibles and other assets | $ 42,800 | $ 48,427 |
| Imputed interest deduction pursuant to tax receivable agreements | 2,651 | 2,719 |
| Operating lease liabilities | 1,618 | 1,845 |
| Compensation and benefits | 3,043 | 2,131 |
| Allowance for doubtful accounts | 1,629 | 944 |
| Motto contingent liability | 783 | 748 |
| Deferred revenue | 3,706 | 3,939 |
| Foreign tax credit carryforward | 1,862 | 1,259 |
| Net operating loss | 2,641 | — |
| Other | 950 | 1,435 |
| Total long-term deferred tax assets | 61,683 | 63,447 |
| Valuation allowance [(a)] | (7,184) | (7,051) |
| Total long-term deferred tax assets, net of valuation allowance | 54,499 | 56,396 |
| **Long-term deferred tax liabilities** | | |
| Property and equipment and other long lived assets | (1,494) | (2,944) |
| Other | (703) | — |
| Total long-term deferred tax liabilities | (2,197) | (2,944) |
| Net long-term deferred tax assets | 52,302 | 53,452 |
| **Total deferred tax assets and liabilities** | $ 52,302 | $ 53,452 |

(a) Includes a valuation allowance on deferred tax assets for goodwill and intangibles in the Company's Western Canada operations, as well as foreign tax credit carryforwards.

As of December 31, 2019, the Company generated $1.1 million in unutilized foreign tax credits. These credits may be carried back one year and carried forward for 10 years until utilized. This amount is included in the valuation allowance as of December 31, 2019.

Net deferred tax assets are recorded related to differences between the financial reporting basis and the tax basis of Holdings' proportionate share of the net assets of RMCO. Based on the Company's historical taxable income and its expected future earnings, management evaluates the uncertainty associated with booking tax benefits and determines whether the deferred tax assets are more likely than not to be realized, including evaluation of deferred tax liabilities and the expectation of future taxable income. If not expected to be realized, a valuation allowance is recognized to offset the deferred tax asset.

The Company and its subsidiaries file, or will file, income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. Holdings will file its 2019 income tax returns by October 15, 2020. RMCO is not subject to domestic federal income taxes as it is a flow-through entity; however, RMCO is still required to file an annual U.S. Return of Partnership Income. With respect to state and local jurisdictions and countries outside of the U.S., the Company and its subsidiaries are typically subject to examination for three to four years after the income tax returns have been filed. As such, income tax returns filed since 2015 are subject to examination.

***Uncertain Tax Positions***

In 2019, the Company corrected immaterial errors to recognize uncertain tax position liabilities, and related tax expense for certain foreign tax matters, along with deferred tax assets for amounts of such foreign taxes expected to be creditable in the U.S. The Company concluded that the omission of tax expense for these matters from prior period financials was immaterial to each of the affected reporting periods and therefore amendment of previously filed reports was not required. However, the Company corrected those amounts in the prior years included herein. These adjustments resulted in an increase in "Provision for income taxes" of $0.5 million for each of the years ended December 31, 2018, and 2017, respectively. In addition, the Company recognized an uncertain tax position liability of $5.8 million (including interest and penalties), an income tax receivable of $1.4 million, a deferred tax asset of $0.2 million and a resulting reduction in "Total stockholders' equity" of $4.2 million as of December 31, 2018 in the Consolidated Balance Sheets. The Company recognized a $3.7 million reduction in "Total stockholders' equity" in the Consolidated Statements of Stockholders' Equity as of December 31, 2017 in relation to this correction.

While the Company believes the liabilities recognized for uncertain tax positions are adequate to cover reasonably expected tax risks, there can be no assurance that an issue raised by a tax authority will be resolved at a cost that does not exceed the liability recognized. Interest and penalties are accrued on uncertain tax positions and included in the "Provision for income taxes" in the accompanying Consolidated Statements of Income.

Uncertain tax position liabilities represent the aggregate tax effect of differences between the tax return positions and the amounts otherwise recognized in the consolidated financial statements and are recognized in "Income taxes payable" in the Consolidated Balance Sheets. A reconciliation of the beginning and ending amount, excluding interest and penalties is as follows:

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Balance, January 1** | $ 4,278 | $ 3,703 |
| Increase related to current period tax positions | 532 | 575 |
| **Balance, December 31[(a)]** | $ 4,810 | $ 4,278 |

(a) Excludes accrued interest and penalties of $1.9 million and $1.5 million for the years ended December 31, 2019 and 2018, respectively. These related interest and penalties are recognized in "Income taxes payable" within the Consolidated Balance Sheets.

The Company's uncertain tax position has a reasonable possibility of being paid within the next 12 months.

### 13. Equity-Based Compensation

The RE/MAX Holdings, Inc. 2013 Omnibus Incentive Plan (the "Incentive Plan") includes restricted stock units which may have time-based or performance-based vesting criteria. The Company recognizes equity-based compensation expense in "Selling, operating and administrative expenses" in the accompanying Consolidated Statements of Income. The Company recognizes corporate income tax benefits relating to the vesting of restricted stock units in "Provision for income taxes" in the accompanying Consolidated Statements of Income.

Employee stock-based compensation expense under the Company's Incentive Plan, net of the amount capitalized in internally developed software, is as follows (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Expense from Time-based awards [(a)] | $ 7,554 | $ 5,189 | $ 2,523 |
| Expense from Performance-based awards [(a)(b)] | (179) | 4,126 | 377 |
| Expense from bonus to be settled in shares [(c)] | 3,788 | — | — |
| Equity-based compensation capitalized [(a)] | (229) | (139) | — |
| Equity-based compensation expense | 10,934 | 9,176 | 2,900 |
| Tax benefit from equity-based compensation | (1,548) | (1,297) | (637) |
| Deficit / (excess) tax benefit from equity-based compensation | 55 | (145) | (324) |
| Net compensation cost | $ 9,441 | $ 7,734 | $ 1,939 |

(a) Includes expense recognized and costs capitalized in connection with the awards granted to booj employees and former owners at the time of acquisition.

(b) Expense recognized for performance-based awards is re-assessed each quarter based on expectations of achievement against the performance conditions. For the year ended December 31, 2019, the Company reversed expense that had been recognized in 2018 for awards granted for certain booj work deliverables. This reversal was primarily a result of modifying the awards to extend the due date of the performance conditions, primarily through December 31, 2019, as the achievement of the goals at the previous date was no longer probable. Accounting for these modifications resulting in the reversal of the cumulative expense previously recognized and expensing the modified awards over the new vesting period resulting in a net $0.3 million recognized in 2019. Also, for the year ended December 31, 2019, certain conditions were no longer deemed probable of being met for other performance awards tied to the achievement of a revenue target measured over a three-year performance period. The cumulative expense previously recognized was reversed in the current period, resulting in a negative expense of ($0.5) million in 2019.

(c) In 2019, the Company revised its annual bonus plan so that half of the bonus for most employees will be settled in shares. The share amounts to be issued will be determined based on the stock price at the time of vesting in early 2020. These amounts are recognized as "Accrued liabilities" in the accompanying Consolidated Balance Sheets and are not included in "Additional paid-in capital" until shares are issued.

***Time-based Restricted Stock Units***

Time-based restricted stock units ("RSUs") are valued using the Company's closing stock price on the date of grant. Grants awarded to the Company's Board of Directors generally vest over a one-year period. Grants awarded to the Company's employees, other than booj employees and former owners in connection with the acquisition, generally vest equally in annual installments over a three-year period. Grants awarded to booj employees and former owners in connection with the acquisition vest in three installments over a four-year period. Compensation expense is recognized on a straight-line basis over the vesting period.

The following table summarizes equity-based compensation activity related to RSUs:

| | RSUs | Weighted average grant date fair value per share |
|---|---|---|
| **Balance, January 1, 2019** | 298,610 | $ 51.97 |
| Granted [a] | 257,087 | $ 38.43 |
| Shares vested (including tax withholding) [b] | (80,008) | $ 43.30 |
| Forfeited | (20,237) | $ 45.41 |
| **Balance, December 31, 2019** | 455,452 | $ 46.15 |

(a) The weighted average grant date fair value for the years ended December 31, 2018 and 2017 were $53.04 and $55.45 per RSU granted, respectively.

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

At December 31, 2019, there was $12.6 million of total unrecognized RSU expense. This compensation expense is expected to be recognized over the weighted-average remaining vesting period of 2.1 years for RSUs.

***Performance-based Restricted Stock Units***

Performance-based restricted stock units ("PSUs") granted to employees, other than booj employees and former owners in connection with the acquisition, are stock-based awards in which the number of shares ultimately received depends on the Company's achievement of either a specified revenue target or the Company's total shareholder return ("TSR") relative to a peer company index over a three-year performance period or achievement of both. If the minimum threshold conditions are not met, no shares will vest. The number of shares that could be issued range from 0% to 150% of the participant's target award. PSUs are valued on the date of grant using a Monte Carlo simulation for the TSR element of the award. PSUs that vest upon achievement of a specified revenue target are valued using the Company's closing stock price on the date of grant. The Company's expense will be adjusted based on the estimated achievement of revenue versus target. Earned PSUs cliff-vest at the end of the three-year performance period. Compensation expense is recognized on a straight-line basis over the vesting period based on the Company's probable performance, with cumulative to-date adjustments made when revenue performance expectations change.

PSUs granted to booj employees and former owners in connection with the acquisition are stock-based awards in which the number of shares ultimately received depends on the achievement of certain technology milestones set forth in the related purchase agreement. The number of shares that could be issued range from 0% to 100% of the participant's target award. The awards were valued using the Company's closing stock price on the date of grant. The Company's expense will be adjusted based on the estimated achievement of the milestones. The majority of these PSUs vested July 29, 2019 and December 31, 2019. The remaining PSUs vest on February 15, 2020 to the extent the corresponding milestones are achieved and provided the participant is still an employee of the Company at the time of vesting. Compensation expense is recognized on a straight-line basis over the vesting period based on the Company's estimated performance, subject to adjustment for changes in expectations of the achievement of the technology milestones.

The following table summarizes equity-based compensation activity related to PSUs:

| | PSUs | Weighted average grant date fair value per share |
|---|---|---|
| **Balance, January 1, 2019** | 179,615 | $ 55.75 |
| Granted [(a)(b)] | 119,410 | $ 38.87 |
| Shares vested | (97,436) | $ 36.20 |
| Forfeited | (61,625) | $ 56.24 |
| **Balance, December 31, 2019** | 139,964 | $ 45.31 |

(a) Represents the total participant target award.
(b) The weighted average grant date fair value for the years ended December 31, 2018 and 2017 were $55.38 and $57.88 per PSU granted, respectively.

At December 31, 2019, there was $2.3 million of total unrecognized PSU expense. This compensation expense is expected to be recognized over the weighted-average remaining vesting period of 1.8 years for PSUs.

After giving effect to all outstanding awards (assuming maximum achievement of performance goals for performance-based awards), there were 2,122,970 additional shares available for the Company to grant under the Incentive Plan as of December 31, 2019.

**14. Leadership Changes and the New Service Model**

On February 9, 2018, the Company announced the retirement of the Company's President. The Company entered into a Separation Agreement with the President, and pursuant to the terms of this agreement, the Company incurred a total cost of $1.8 million which was recorded to "Selling, operating and administrative expenses" in the accompanying Consolidated Statements of Income during the year ended December 31, 2018, which will be paid over a 39-month period.

In addition, the Company announced a new service model in early 2019 designed to deliver more value to franchisees, as well as support franchisee growth and professional development (the "New Service Model"). In connection with the New Service Model, the Company incurred a total of approximately $2.1 million in expenses related to severance and outplacement services provided to certain former employees of the Company, of which $1.4 million in expense was recognized during the year ended December 31, 2018 and the remainder was recognized in 2019. These expenses are included in "Selling, operating and administrative expenses" in the accompanying Consolidated Statements of Income. All of the above costs were attributable to the RE/MAX Franchising reportable segment.

**15. Commitments and Contingencies**

***Contingencies***

In connection with the sale of the assets and liabilities related to the Company's previously owned brokerages, the Company entered into three Assignment and Assumption of Leases Agreements (the "Assignment Agreements") pursuant to which the Company assigned its obligations under and rights, title and interest in 21 leases to the respective purchasers. For certain leases, the Company remains secondarily liable for future lease payments through July 2021 under the respective lease agreements and accordingly, as of December 31, 2019, the Company has outstanding lease guarantees of $1.1 million. This amount represents the maximum potential amount of future payments under the respective lease guarantees.

In addition, the Company maintains a self-insurance program for health benefits. As of December 31, 2019, and 2018, the Company recorded a liability of $0.3 million and $0.3 million, respectively, related to this program.

***Litigation***

In March and April of 2019, three putative class action complaints were filed against National Association of Realtors ("NAR"), Realogy Holdings Corp., HomeServices of America, Inc, RE/MAX Holdings, and Keller Williams Realty, Inc. The first was filed on March 6, 2019, by plaintiff Christopher Moehrl in the Northern District of Illinois. The second was filed on April 15, 2019, by plaintiff Sawbill Strategies, Inc., also in the Northern District of Illinois. These two actions have now been consolidated. A third action was filed by plaintiffs Joshua Sitzer and four other individual plaintiffs in the Western District of Missouri. The complaints (collectively "Moehrl/Sitzer suits") make substantially similar allegations and seek substantially similar relief. The plaintiffs allege that a NAR rule requires brokers to make a blanket, non-negotiable offer of buyer broker compensation when listing a property, resulting in inflated costs to sellers in violation of federal antitrust law. They further allege that certain defendants use their agreements with franchisees to require adherence to the NAR rule in violation of federal antitrust law. Amended complaints add allegations regarding buyer steering and non-disclosure of buyer-broker compensation to the buyer. Additionally, plaintiffs in the action filed by Sitzer et al allege violations of the Missouri Merchandising Practices Act. By agreement, RE/MAX, LLC was substituted for RE/MAX Holdings as defendant in the actions. Among other requested relief, plaintiffs seek damages against the defendants and an injunction enjoining defendants from requiring sellers to pay the buyer broker. The Company intends to vigorously defend against all claims.

On October 7, 2013, RE/MAX Holdings acquired the net assets, excluding cash, of Tails for consideration paid of $20.2 million. Following earlier litigation that was dismissed, several shareholders of Tails filed a complaint entitled Robert B. Fisher, Carla L. Fisher, Bradley G. Rhodes and James D. Schwartz v. Gail Liniger, Dave Liniger, Bruce Benham, RE/MAX Holdings, Inc. and Tails Holdco, Inc. in Denver District Court ("Tails II"). On February 13, 2018, the parties signed a formal Settlement Agreement and Mutual General Release resulting in the Company recording a charge of $2.6 million in "Selling, operating and administrative expenses" in the accompanying Consolidated Statements of Income during the year ended December 31, 2017. In February 2018, the Company received $1.9 million from its insurance carriers as reimbursement of attorneys' fees and a portion of the settlement and paid $4.5 million to satisfy the terms of the Settlement Agreement. As a result of the settlement, the litigation was dismissed with prejudice on March 1, 2018.

**16. Defined-Contribution Savings Plan**

The Company sponsors an employee retirement plan (the "401(k) Plan") that provides certain eligible employees of the Company an opportunity to accumulate funds for retirement. The Company provides matching contributions on a discretionary basis. During the years ended December 31, 2019, 2018 and 2017, the Company recognized expense of $2.1 million, $1.8 million and $1.5 million, respectively, for matching contributions to the 401(k) Plan.

**17. Related-Party Transactions**

The majority stockholders of RIHI, specifically the Company's current Chairman and Co-Founder and the Company's Vice Chair and Co-Founder have made and continue to make a golf course they own available to the Company for business purposes. The Company used the golf course and related facilities for business purposes at minimal charge during the years ended December 31, 2019, 2018 and 2017. Additionally, the Company recorded expense of $0.5 million for the value of the benefits provided to Company personnel and others for the complimentary use of the golf course during each year ended December 31, 2019, 2018 and 2017, with an offsetting increase in additional paid in capital.

The Company also provided support services to the Marketing Funds prior to their acquisition on January 1, 2019. See Note 2 *Summary of Significant Accounting Policies* and Note 6 *Acquisitions* for additional information.

**18. Segment Information**

The Company operates under the following four operating segments: RE/MAX Franchising, Motto Franchising, Marketing Funds and booj. Due to quantitative insignificance, the booj operating segment does not meet the criteria of a reportable segment and is included in "Other". Motto Franchising does not meet the quantitative significance test; however, management has chosen to report results for the segment as it believes it will be a key driver of future success for Holdings. Management evaluates the operating results of its segments based upon revenue and adjusted earnings before interest, the provision for income taxes, depreciation and amortization and other non-cash and non-recurring cash charges or other items ("Adjusted EBITDA"). The Company's presentation of Adjusted EBITDA may not be comparable to similar measures used by other companies. Except for the adjustments identified below in arriving at Adjusted EBITDA, the accounting policies of the reportable segments are the same as those described in Note 2, *Summary of Significant Accounting Policies*.

The following table presents revenue from external customers by segment (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018* | 2017* |
| Continuing franchise fees | $ 95,853 | $ 98,828 | $ 93,232 |
| Annual dues | 35,409 | 35,894 | 33,767 |
| Broker fees | 45,990 | 46,871 | 43,801 |
| Franchise sales and other revenue | 22,383 | 22,911 | 22,357 |
| Total RE/MAX Franchising | 199,635 | 204,504 | 193,157 |
| Continuing franchise fees | 4,075 | 2,276 | 462 |
| Franchise sales and other revenue | 468 | 260 | 95 |
| Total Motto Franchising | 4,543 | 2,536 | 557 |
| Marketing Funds fees | 72,299 | — | — |
| Other | 5,816 | 5,586 | — |
| Total revenue | $ 282,293 | $ 212,626 | $ 193,714 |

*Amounts in the years ended December 31, 2018 and 2017 have been recast to show Motto separately.

The following table presents a reconciliation of Adjusted EBITDA by segment to income before provision for income taxes (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018* | 2017* |
| Adjusted EBITDA: RE/MAX Franchising | $ 106,810 | $ 108,669 | $ 105,184 |
| Adjusted EBITDA: Motto Franchising | (2,709) | (3,436) | (3,039) |
| Adjusted EBITDA: Other | (586) | (917) | — |
| Adjusted EBITDA: Consolidated | 103,515 | 104,316 | 102,145 |
| Gain (loss) on sale or disposition of assets and sublease, net [(a)] | (342) | 139 | (4,260) |
| Equity-based compensation expense | (10,934) | (9,176) | (2,900) |
| Acquisition-related expense [(b)] | (1,127) | (1,634) | (5,889) |
| Gain on reduction in TRA liability [(c)] | — | 6,145 | 32,736 |
| Special Committee investigation and remediation expense [(d)] | — | (2,862) | (2,634) |
| Fair value adjustments to contingent consideration [(e)] | (241) | 1,289 | (180) |
| Interest income | 1,446 | 676 | 352 |
| Interest expense | (12,229) | (12,051) | (9,996) |
| Depreciation and amortization | (22,323) | (20,678) | (20,512) |
| Income before provision for income taxes | $ 57,765 | $ 66,164 | $ 88,862 |

*Amounts in the years ended December 31, 2018 and 2017 have been recast to show Motto separately.

(a) Represents gain (loss) on the sale or disposition of assets as well as the gains (losses) on the sublease of a portion of our corporate headquarters office building.
(b) Acquisition-related expense includes legal, accounting, advisory and consulting fees incurred in connection with the acquisition and integration of acquired companies.
(c) Gain on reduction in tax receivable agreement liability is a result of the Tax Cuts and Jobs Act enacted in December 2017 and further clarified in 2018. See Note 12, *Income Taxes* for additional information.
(d) Special Committee investigation and remediation expense relates to costs incurred in relation to the previously disclosed investigation by the special committee of independent directors of actions of certain members of our senior management and the implementation of the remediation plan.
(e) Fair value adjustments to contingent consideration include amounts recognized for changes in the estimated fair value of the contingent consideration liability. See Note 11, *Fair Value Measurements* for additional information.

The following table presents total assets of the Company's segments (in thousands):

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018* |
| RE/MAX Franchising | $ 479,370 | $ 406,643 |
| Marketing Funds | 41,090 | — |
| Motto Franchising | 20,161 | 21,346 |
| Other | 1,731 | 384 |
| Total assets | $ 542,352 | $ 428,373 |

*Amounts as of December 31, 2018 have been recast to show Motto separately.

The following table presents long-lived assets, net of accumulated depreciation disaggregated by geographical area (in thousands):

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| U.S. | $ 5,406 | $ 4,342 |
| Global | 38 | 48 |
| Total long-lived assets | $ 5,444 | $ 4,390 |

**19. Quarterly Financial Information (unaudited)**

Summarized quarterly results were as follows (in thousands, except shares and per share amounts):

| | For the Quarter Ended | | | |
|---|---|---|---|---|
| | March 31, 2019 | June 30, 2019 | September 30, 2019 | December 31, 2019 |
| Total revenue | $ 71,178 | $ 71,381 | $ 71,541 | $ 68,193 |
| Total operating expenses | 58,233 | 49,311 | 48,097 | 58,213 |
| Operating income | 12,945 | 22,070 | 23,444 | 9,980 |
| Total other expenses, net | (2,780) | (2,751) | (2,727) | (2,416) |
| Income before provision for income taxes | 10,165 | 19,319 | 20,717 | 7,564 |
| Provision for income taxes | (1,908) | (3,186) | (3,453) | (2,362) |
| Net income | 8,257 | 16,133 | 17,264 | 5,202 |
| Less: net income attributable to non-controlling interest | 3,848 | 7,563 | 8,091 | 2,314 |
| Net income attributable to Holdings | $ 4,409 | $ 8,570 | $ 9,173 | $ 2,888 |
| Net income attributable to Holdings per share of Class A common stock | | | | |
| Basic | $ 0.25 | $ 0.48 | $ 0.51 | $ 0.16 |
| Diluted | $ 0.25 | $ 0.48 | $ 0.51 | $ 0.16 |
| Weighted average shares of Class A common stock outstanding | | | | |
| Basic | 17,775,381 | 17,808,321 | 17,826,332 | 17,837,386 |
| Diluted | 17,817,620 | 17,833,958 | 17,840,158 | 17,978,431 |

| | For the Quarter Ended | | | |
|---|---|---|---|---|
| | March 31, 2018 | June 30, 2018 | September 30, 2018 | December 31, 2018 |
| Total revenue | $ 52,642 | $ 54,277 | $ 54,866 | $ 50,841 |
| Total operating expenses | 38,925 | 33,363 | 33,059 | 29,428 |
| Operating income | 13,717 | 20,914 | 21,807 | 21,413 |
| Total other expenses, net | (2,688) | (3,176) | (2,846) | (2,977) |
| Income before provision for income taxes | 11,029 | 17,738 | 18,961 | 18,436 |
| Provision for income taxes | (1,997) | (3,283) | (3,555) | (7,507) |
| Net income | 9,032 | 14,455 | 15,406 | 10,929 |
| Less: net income attributable to non-controlling interest | 4,089 | 6,848 | 7,307 | 4,695 |
| Net income attributable to Holdings | $ 4,943 | $ 7,607 | $ 8,099 | $ 6,234 |
| Net income attributable to Holdings per share of Class A common stock | | | | |
| Basic | $ 0.28 | $ 0.43 | $ 0.46 | $ 0.35 |
| Diluted | $ 0.28 | $ 0.43 | $ 0.46 | $ 0.35 |
| Weighted average shares of Class A common stock outstanding | | | | |
| Basic | 17,709,095 | 17,746,042 | 17,746,184 | 17,748,745 |
| Diluted | 17,762,133 | 17,769,641 | 17,771,212 | 17,771,180 |

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

***Evaluation of Disclosure Controls and Procedures***

We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act), that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, our Principal Executive Officer and Principal Financial Officer have concluded that as of December 31, 2019 our disclosure controls and procedures were effective.

***Management's Report on Internal Control over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the company, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, using the criteria in the *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, our management concluded that the Company's internal control over financial reporting was effective as of December 31, 2019.

KPMG LLP, an independent registered public accounting firm, has independently assessed the effectiveness of our internal control over financial reporting as of December 31, 2019 and its report is included herein.

***Changes in Internal Controls over Financial Reporting***

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during our fourth fiscal quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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# PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We have adopted a Code of Conduct and a Supplemental Code of Ethics for the Chief Executive Officer and Senior Financial Officers. Both of these codes apply to our chief executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions. Both of these codes are available on our website at www.remax.com.

The remaining information required by this Item 10 will be included in our definitive proxy statement for its annual meeting of stockholders (the "Proxy Statement") and is incorporated herein by reference.

## ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 will be included in the Proxy Statement and is incorporated herein by reference.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table provides information as of December 31, 2019 with respect to shares of our Class A common stock issuable under our equity compensation plan:

| | Equity Compensation Plan Information | | |
|---|---|---|---|
| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) |
| Equity compensation plans approved by security holders | 595,416 (1) | $ — (2) | 2,122,970 |
| Equity compensation plans not approved by security holders | — | — | — |
| Total | 595,416 (1) | $ — (2) | 2,122,970 |

(1) Represents 595,416 shares issuable upon vesting of unvested restricted stock units.
(2) The weighted average exercise price does not take into account shares issuable upon vesting or delivery of restricted stock units because these have no exercise price.

The remaining information required by this Item 12 will be included in the Proxy Statement and is incorporated herein by reference.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item 13 will be included in the Proxy Statement and is incorporated herein by reference.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 will be included in the Proxy Statement and is incorporated herein by reference.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Consolidated Financial Statements

   The following financial statements are included in Part II, Item 8 of this Annual Report on Form 10-K:

   - Consolidated Balance Sheets as of December 31, 2019 and December 31, 2018
   - Consolidated Statements of Income for the fiscal years ended December 31, 2019, December 31, 2018 and December 31, 2017
   - Consolidated Statements of Comprehensive Income for the fiscal years ended December 31, 2019, December 31, 2018 and December 31, 2017
   - Consolidated Statements of Stockholders' Equity for the fiscal years ended December 31, 2019, December 31, 2018 and December 31, 2017
   - Consolidated Statements of Cash Flows for the fiscal years ended December 31, 2019, December 31, 2018 and December 31, 2017
   - Notes to Consolidated Financial Statements
   - Report of Independent Registered Public Accounting Firm

2. Financial Statement Schedules

   Separate financial statement schedules have been omitted because such information is inapplicable or is included in the financial statements or notes described above.

3. Exhibits

   The exhibits listed in the Index to Exhibits, which appears immediately following the signature page and is incorporated herein by reference, are filed or incorporated by reference as part of this Annual Report on Form 10-K.

### ITEM 16. FORM 10-K SUMMARY

None.

**INDEX TO EXHIBITS**

| Exhibit No. | Exhibit Description | Form | File Number | Date of First Filing | Exhibit Number | Filed Herewith |
|---|---|---|---|---|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation | 10-Q | 001-36101 | 11/14/2013 | 3.1 | |
| 3.2 | Bylaws of RE/MAX Holdings, Inc. | 8-K | 001-36101 | 2/22/2018 | 3.2 | |
| 4.1 | Form of RE/MAX Holdings, Inc.'s Class A common stock certificate. | S-1 | 333-190699 | 9/27/2013 | 4.1 | |
| 4.2 | Description of the Registrant's Securities Registered under Section 12 of the Securities Exchange Act of 1934, as amended. | | | | | X |
| 10.1 | 2013 Omnibus Incentive Plan and related documents.† | S-8 | 333-191519 | 10/1/2013 | 4.2 | |
| 10.2 | Lease, dated April 16, 2010, by and between Hub Properties Trust and RE/MAX International, LLC. | S-1 | 333-190699 | 8/19/2013 | 10.5 | |
| 10.3 | Registration Rights Agreement, dated as of October 1, 2013, by and among RE/MAX Holdings, Inc. and RIHI, Inc. | 10-Q | 001-36101 | 11/14/2013 | 10.8 | |
| 10.4 | Management Services Agreement, dated as of October 1, 2013, by and among RMCO, LLC, RE/MAX, LLC and RE/MAX Holdings, Inc. | 10-Q | 001-36101 | 11/14/2013 | 10.9 | |
| 10.5 | RMCO, LLC Fourth Amended and Restated Limited Liability Company Agreement.** | | | | | X |
| 10.6 | Tax Receivable Agreement, dated as of October 7, 2013, by and between RIHI, Inc. and RE/MAX Holdings, Inc. | 10-Q | 001-36101 | 11/14/2013 | 10.11 | |
| 10.7 | Tax Receivable Agreement, dated as of October 7, 2013, by and between Weston Presidio V, L.P. and RE/MAX Holdings, Inc. | 10-Q | 001-36101 | 11/14/2013 | 10.12 | |

| Exhibit No. | Exhibit Description | Form | File Number | Date of First Filing | Exhibit Number | Filed Herewith |
|---|---|---|---|---|---|---|
| 10.8 | Form of Indemnification Agreement by and between RE/MAX Holdings, Inc. and each of its directors and executive officers.† | S-1 | 333-190699 | 9/27/2013 | 10.3 | |
| 10.9 | Form of Time-Based Restricted Stock Unit Award.† | 10-K | 333-190699 | 2/24/2017 | 10.11 | |
| 10.10 | Form of Performance-Based Restricted Stock Unit Award.† | 10-K | 001-36101 | 2/22/2019 | 10.12 | |
| 10.11 | Form of Restricted Stock Award (Directors and Senior Officers).† | S-1 | 333-190699 | 9/27/2013 | 10.15 | |
| 10.12 | Form of Restricted Stock Award (General).† | S-1 | 333-190699 | 9/27/2013 | 10.16 | |
| 10.13 | Form of Stock Option Award (Directors and Senior Officers).† | S-1 | 333-190699 | 9/27/2013 | 10.17 | |
| 10.14 | Form of Stock Option Award (General).† | S-1 | 333-190699 | 9/27/2013 | 10.18 | |
| 10.15 | Joinder, dated May 29, 2015, among RE/MAX Holdings, Inc., Weston Presidio V., L.P. and Oberndorf Investments LLC | 10-Q | 001-36101 | 8/7/2015 | 10.3 | |
| 10.16 | Joinder, dated October 4, 2018, among RE/MAX Holdings, Inc., Oberndorf Investments LLC and Parallaxes Capital Opportunities fund I LP | 10-K | 001-36101 | 2/22/2019 | 10.18 | |
| 10.17 | Joinder, dated December 19, 2018, among RE/MAX Holdings, Inc., Parallaxes Capital Opportunities Fund I LP and Parallaxes Rain Co-Investment, LLC | 10-K | 001-36101 | 2/22/2019 | 10.19 | |

| Exhibit No. | Exhibit Description | Form | File Number | Date of First Filing | Exhibit Number | Filed Herewith |
|---|---|---|---|---|---|---|
| 10.18 | Amended and Restated Credit Agreement, dated as of December 15, 2016, among RMCO, LLC, RE/MAX, LLC, the several lenders from time to time parties thereto, and JPMorgan Chase Bank, N.A., as administrative agent.* | 8-K | 001-36101 | 12/21/2016 | 10.1 | |
| 10.19 | Consent and Waiver, dated November 14, 2017 with respect to the Amended and Restated Credit Agreement, dated as of December 15, 2016 among RE/MAX, LLC; RMCO, LLC; the several banks and other financial institutions or entities from time to time party thereto; and JPMorgan Chase Bank, N.A., as administrative agent. | 8-K | 001-36101 | 11/15/17 | 10.1 | |
| 10.20 | Second Consent and Waiver, dated December 19, 2017 with respect to the Amended and Restated Credit Agreement, dated as of December 15, 2016 among RE/MAX, LLC; RMCO, LLC; the several banks and other financial institutions or entities from time to time party thereto; and JPMorgan Chase Bank, N.A., as administrative agent. | 8-K | 001-36101 | 12/26/17 | 10.1 | |
| 10.21 | Equity Purchase Agreement, dated January 1, 2019, by and between RADF, LLC and David Liniger.* | 10-K | 001-36101 | 2/22/2019 | 10.23 | |
| 10.22 | Asset Purchase Agreement, dated January 1, 2019, by and between RE/MAX Texas Ad Fund, Inc. | 10-K | 001-36101 | 2/22/2019 | 10.24 | |
| 10.23 | Share Purchase Agreement, dated January 1, 2019, by and between RE/MAX of Western Canada (1998), LLC and David Liniger | 10-K | 001-36101 | 2/22/2019 | 10.25 | |

| Exhibit No. | Exhibit Description | Form | File Number | Date of First Filing | Exhibit Number | Filed Herewith |
|---|---|---|---|---|---|---|
| 10.24 | Share Purchase Agreement, dated January 1, 2019, by and between Motto Franchising, LLC and David Liniger | 10-K | 001-36101 | 2/22/2019 | 10.26 | |
| 10.25 | Severance Pay Benefit Plan | 8-K | 001-36101 | 4/11/2019 | 10.1 | |
| 21.1 | List of Subsidiaries | | | | | X |
| 23.1 | Consent of Independent Registered Public Accounting Firm. | | | | | X |
| 24.1 | Power of Attorney (included on signature page) | | | | | X |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. | | | | | X |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. | | | | | X |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | | | | | X |
| 101 | The following materials from the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Stockholders’ Equity and (vi) related notes | | | | | X |

| Exhibit No. | Exhibit Description | Form | File Number | Date of First Filing | Exhibit Number | Filed Herewith |
|---|---|---|---|---|---|---|
| 104 | Cover Page Interactive Data File – The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. | | | | | X |

† Indicates a management contract or compensatory plan or arrangement.
* Exhibits and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant hereby undertakes to furnish supplemental copies of any omitted exhibits and schedules upon request by the SEC.
**Exhibit refiled to correct certain section references.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RE/MAX Holdings, Inc.
(Registrant)

Date: February 21, 2020

By: /s/ Adam M. Contos
**Adam M. Contos**
**Director and Chief Executive Officer**
**(Principal Executive Officer)**

Date: February 21, 2020

By: /s/ Karri R. Callahan
**Karri R. Callahan**
**Chief Financial Officer**
**(Principal Financial Officer)**

Date: February 21, 2020

By: /s/ Brett A. Ritchie
**Brett A. Ritchie**
**Chief Accounting Officer**
**(Principal Accounting Officer)**

## POWER OF ATTORNEY

Know all persons by these presents, that each person whose signature appears below constitutes and appoints Adam M. Contos and Karri R. Callahan, and each of them, as such person's true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for such person and in such person's name, place and stead, in any and all capacities, to sign any and all amendments to this annual report on Form 10-K, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their or such person's substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ Adam M. Contos<br>**Adam M. Contos** | Director and Chief Executive Officer<br>(Principal Executive Officer) | February 21, 2020 |
| /s/ Karri R. Callahan<br>**Karri R. Callahan** | Chief Financial Officer<br>(Principal Financial Officer) | February 21, 2020 |

| | | |
|---|---|---|
| /s/ Brett A. Ritchie<br>**Brett A. Ritchie** | Chief Accounting Officer<br>(Principal Accounting Officer) | February 21, 2020 |
| /s/ David L. Liniger<br>**David L. Liniger** | Chairman and Co-Founder | February 21, 2020 |
| /s/ Gail A. Liniger<br>**Gail A. Liniger** | Vice Chair and Co-Founder | February 21, 2020 |
| /s/ Kathleen J. Cunningham<br>**Kathleen J. Cunningham** | Director | February 21, 2020 |
| /s/ Roger J. Dow<br>**Roger J. Dow** | Director | February 21, 2020 |
| /s/ Ronald E. Harrison<br>**Ronald E. Harrison** | Director | February 21, 2020 |
| /s/ Daniel J. Predovich<br>**Daniel J. Predovich** | Director | February 21, 2020 |
| /s/ Christine M. Riordan<br>**Christine M. Riordan** | Director | February 21, 2020 |
| /s/ Joseph A. DeSplinter<br>**Joseph A. DeSplinter** | Director | February 21, 2020 |
| /s/ Teresa S. Van De Bogart<br>**Teresa S. Van De Bogart** | Director | February 21, 2020 |

# DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED UNDER SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

Our Class A common stock is registered under Section 12 of the Securities Exchange Act of 1934, as amended.

## Description of Capital Stock

Our authorized capital stock consists of 180,000,000 shares of Class A common stock, par value $0.0001 per share, 1,000 shares of Class B common stock, par value $0.0001 per share, and 10,000,000 shares of preferred stock, par value $0.0001 per share. The following description of our Class A common stock is a summary and is qualified in its entirety by reference to our certificate of incorporation and bylaws, and by applicable law. Unless our board of directors determines otherwise, we will issue all shares of our Class A common stock in uncertificated form.

### *Class A common stock*

Holders of shares of our Class A common stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders.

Holders of shares of our Class A common stock are entitled to receive dividends when and if declared by our board of directors out of funds legally available therefor, subject to any statutory or contractual restrictions on the payment of dividends and to any restrictions on the payment of dividends imposed by the terms of any outstanding preferred stock.

Upon our dissolution or liquidation or the sale of all or substantially all of our assets, and after payment in full of all amounts required to be paid to creditors and to the holders of preferred stock having liquidation preferences, if any, the holders of shares of our Class A common stock will be entitled to receive pro rata our remaining assets available for distribution.

Holders of shares of our Class A common stock do not have preemptive, subscription, redemption or conversion rights.

## Options and Other Equity Awards

Our certificate of incorporation authorizes us to issue shares of Class A common stock and options, rights, warrants and appreciation rights relating to Class A common stock for the consideration and on the terms and conditions established by our board of directors in its sole discretion, whether in connection with acquisitions or otherwise.

## Antitakeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws

Our certificate of incorporation and bylaws also contain provisions that may delay, defer or discourage another party from acquiring control of us. We expect that these provisions, which are summarized below, will discourage coercive takeover practices or inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors, which we believe may result in an improvement of the terms of any such acquisition in favor of our stockholders. However, they also give our board of directors the power to discourage acquisitions that some stockholders may favor.

### *Undesignated Preferred Stock*

The authorization of undesignated preferred stock in our certificate of incorporation will make it possible for our board of directors to issue preferred stock with super voting, special approval, dividend or other rights or preferences on a discriminatory basis that could impede the success of any attempt to acquire us. These and other provisions may have the effect of deferring, delaying or discouraging hostile takeovers, or changes in control or management of our company.

***Classified Board of Directors***

Our certificate of incorporation provides that our board of directors will be divided into three classes, with each class serving three-year staggered terms. These provisions may have the effect of deferring, delaying or discouraging hostile takeovers, or changes in control or management of our company.

***Requirements for Advance Notification of Stockholder Meetings, Nominations and Proposals***

Our certificate of incorporation provides that special meetings of the stockholders may be called only by a resolution adopted by the affirmative vote of the majority of the directors then in office. Our bylaws prohibit the conduct of any business at a special meeting other than as specified in the notice for such meeting. In addition, any stockholder who wishes to bring business before an annual meeting or nominate directors must comply with the requirements set forth in our bylaws. These provisions may have the effect of deferring, delaying or discouraging hostile takeovers or changes in control or management of our company.

***No Stockholder Action by Written Consent***

Pursuant to Section 228 of the Delaware General Corporation Law, or the DGCL, any action required to be taken at any annual or special meeting of the stockholders may be taken without a meeting, without prior notice and without a vote if a consent or consents in writing, setting forth the action so taken, is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares of our stock entitled to vote thereon were present and voted, unless our company's certificate of incorporation provides otherwise. Our certificate of incorporation provides that any action required or permitted to be taken by our stockholders may be effected at a duly called annual or special meeting of our stockholders and may not be effected by consent in writing by such stockholders.

***No Cumulative Voting***

The DGCL provides that stockholders are not entitled to the right to cumulate votes in the election of directors unless our amended and restated certificate of incorporation provides otherwise. Our certificate of incorporation does not provide for cumulative voting.

***Business Combinations with Interested Stockholders***

We have elected in our certificate of incorporation not to be subject to Section 203 of the DGCL, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination, such as a merger, with a person or group owning 15% or more of the corporation's voting stock for a period of three years following the date the person became an interested stockholder, unless (with certain exceptions) the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Accordingly, we are not subject to any anti-takeover effects of Section 203. However, our certificate of incorporation contains provisions that have the same effect as Section 203, except that they provide that RIHI and any person to whom RIHI sells its common stock will not be subject to the restrictions set forth in these provisions.

**Transfer Agent and Registrar**

The transfer agent and registrar for our Class A common stock is Broadridge Financial Solutions, Inc.

**Exchange Listing**

Our Class A common stock is listed on the NYSE under the symbol "RMAX".

**Exhibit 10.5**

**RMCO, LLC**

FOURTH AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT

Dated as of October 1, 2013

THE COMPANY INTERESTS REPRESENTED BY THIS FOURTH AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY OTHER APPLICABLE SECURITIES LAWS. SUCH COMPANY INTERESTS MAY NOT BE SOLD, ASSIGNED, PLEDGED OR OTHERWISE DISPOSED OF AT ANY TIME WITHOUT EFFECTIVE REGISTRATION UNDER SUCH ACT AND LAWS OR EXEMPTION THEREFROM, AND COMPLIANCE WITH THE OTHER SUBSTANTIAL RESTRICTIONS ON TRANSFERABILITY SET FORTH HEREIN.

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**RMCO, LLC**

**FOURTH AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT**

This FOURTH AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT (this "Agreement"), dated as of October 1, 2013, is entered into by and among RMCO, LLC, a Delaware limited liability company (the "Company"), and its Members (as defined herein).

WHEREAS, RE/MAX International Holdings, Inc. ("RIHI"), as sole Member, entered into that certain Limited Liability Company Agreement of the Company, dated as of April 15, 2010;

WHEREAS, RIHI and Weston Presidio V, L.P. (collectively, the "Original Members") entered into that certain Amended and Restated Limited Liability Company Agreement of the Company, dated as of April 16, 2010;

WHEREAS, the Original Members entered into that certain Second Amended and Restated Limited Liability Company Agreement of the Company, dated as of November 15, 2012;

WHEREAS, the Original Members entered into that certain Third Amended and Restated Limited Liability Company Agreement of the Company, dated as of February 1, 2013 (the "Third LLC Agreement");

WHEREAS, the Company and the Original Members desire to have RE/MAX Holdings, Inc., a Delaware corporation ("Holdings"), effect an initial public offering (the "IPO") of shares of its Class A Common Stock, par value $0.0001 (the "Class A Common Stock"), and in connection therewith, to amend and restate the Third LLC Agreement to reflect (i) a recapitalization of the Company (the "Recapitalization"), (ii) the addition of Holdings as a Member in the Company and its designation as sole Manager (as defined herein) of the Company, and (iii) the rights and obligations of the Members which are enumerated and agreed upon in the terms of this Agreement effective as of the Effective Time (as defined herein), pursuant to which the Third LLC Agreement and the Letter Agreement (as defined herein) shall be superseded entirely by this Agreement;

WHEREAS, in connection with the Recapitalization, (i) WP's prior Class A Preferred Units (as defined in the Third LLC Agreement) will be converted into Preferred Units (as defined herein) and Common Units (as defined herein) and (ii) RIHI's prior Class B Common Units (as defined in the Third LLC Agreement) will be converted into Common Units;

WHEREAS, exclusive of the Over-Allotment Option (as defined below), Holdings will sell shares of its Class A Common Stock to public investors in the IPO and will use approximately $27.3 million of the net proceeds received from the IPO (the "Net IPO Proceeds") to purchase the HBN/Tails Assets (as defined herein);

WHEREAS, following the Recapitalization, the IPO, and Holdings' purchase of the HBN/Tails Assets, Holdings will subsequently contribute the HBN/Tails Assets (the "HBN/Tails Contribution") to the Company in exchange for Common Units worth approximately $27.3 million pursuant to that certain Contribution Agreement (as defined herein);

WHEREAS, following the HBN/Tails Contribution, Holdings will use the Net IPO Proceeds remaining after its purchase of the HBN/Tails Assets (the "Remaining Net IPO Proceeds") to purchase newly issued Common Units from the Company pursuant to that certain Common Unit Purchase Agreement (as defined herein);

WHEREAS, following the Company's receipt of the Remaining Net IPO Proceeds from Holdings in exchange for the Company's delivery of newly issued Common Units to Holdings, the Company will pay to WP $49,850,000 of the Remaining Net IPO Proceeds in order to completely redeem the Preferred Units held by WP (the "WP Preferred Unit Redemption") and to satisfy the liquidation preference associated with the Preferred Units;

WHEREAS, following the WP Preferred Unit Redemption, the Company will pay $ $76,931,250.00 to WP from the rest of the Remaining Net IPO Proceeds in order to redeem all Common Units held by WP (the "WP Common Unit Redemption") and will thereafter pay $ $40,063,743.50 to RIHI in order to redeem Common Units held by RIHI (the "RIHI Initial Common Unit Redemption");

WHEREAS, as a result of the Recapitalization and the related transactions described above, WP will be fully redeemed and will no longer be a Member;

WHEREAS, Holdings may issue additional Class A Common Stock in connection with the IPO as a result of the exercise by the underwriters of their over-allotment option (the "Over-Allotment Option") and, if the Over-Allotment Option is in fact exercised in whole or in part, any additional net proceeds (the "Net Over-Allotment Proceeds") also shall be used by Holdings to purchase newly issued Common Units pursuant to the Common Unit Purchase Agreement;

WHEREAS, following the Company's receipt of any Net Over-Allotment Proceeds from Holdings in exchange for the Company's delivery of newly issued Common Units to Holdings, the Company will, in turn, use such Net Over-Allotment Proceeds to redeem additional Common Units held by RIHI (the "RIHI Over-Allotment Option Common Unit Redemption");

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Members, intending to be legally bound, hereby agree as follows:

## ARTICLE I

DEFINITIONS

The following definitions shall be applied to the terms used in this Agreement for all purposes, unless otherwise clearly indicated to the contrary.

"Additional Member" has the meaning set forth in Section 12.2.

"Adjusted Capital Account Deficit" means with respect to any Capital Account as of the end of any Taxable Year, the amount by which the balance in such Capital Account is less than zero. For this purpose, such Person's Capital Account balance shall be:

(i) reduced for any items described in Treasury Regulation Section 1.704- 1(b)(2)(ii)(d)(4), (5), and (6), and

(ii) increased for any amount such Person is obligated to contribute or is treated as being obligated to contribute to the Company pursuant to Treasury Regulation Section 1.704- 1(b)(2)(ii)(c) (relating to partner liabilities to a partnership) or 1.704-2(g)(1) and 1.704-2(i) (relating to minimum gain).

"Admission Date" has the meaning set forth in Section 10.6.

"Affiliate" (and, with a correlative meaning, "*Affiliated*") means, with respect to a specified Person, a Person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Person specified. As used in this definition, "*control*" (including with correlative meanings, "*controlled by*" and "*under common control with*") means possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of voting securities or by contract or other agreement).

"Agreement" has the meaning set forth in the Preamble.

"Appraiser" has the meaning set forth in Section 15.2.

"Assignee" means a Person to whom a Company Interest has been transferred but who has not become a Member pursuant to Article XII.

"Assumed Tax Liability" means, with respect to a Member, an amount equal to the Distribution Tax Rate multiplied by the aggregate amount of all items of income, gain, deduction, loss and credit allocated to a Member pursuant to Section 5.5; provided such Assumed Tax Liability shall be computed, in the case of Holdings, without regard to any reduction in taxable income attributable to any "Basis Adjustments" (as such term is defined in the Tax Receivable Agreements).

"Base Rate" means, on any date, a variable rate per annum equal to the rate of interest most recently published by The Wall Street Journal as the "prime rate" at large U.S. money center banks.

"Book Value" means, with respect to any Company property, the Company's adjusted basis for U.S. federal income tax purposes, adjusted from time to time to reflect the adjustments required or permitted by Treasury Regulation Section 1.704-1(b)(2)(iv)(d)-(g).

"Brokerage" means RE/MAX Brokerage, LLC, a Delaware limited liability company and a Subsidiary of the Company.

"Business Day" means any day other than a Saturday or a Sunday or a day on which banks located in Denver, Colorado generally are authorized or required by law to close.

"Capital Account" means the capital account maintained for a Member pursuant to Section 5.1.

"Capital Contribution" means any cash, cash equivalents, promissory obligations or the Fair Market Value of other property which a Member contributed to the Company.

"Cash Settlement" means immediately available funds in U.S. dollars in an amount equal to the Redeemed Units Equivalent.

"Certificate" means the Company's Certificate of Formation as filed with the Secretary of State of Delaware.

"Change of Control Transaction" means a sale of all or substantially all of the Company's assets determined on a consolidated basis or a sale of (a) a majority of the Company's outstanding Units or (b) a majority of the outstanding voting securities of any Subsidiary of the Company; in either case, whether by merger, recapitalization, consolidation, reorganization, combination or otherwise), provided, however, that neither (x) a transaction solely for the purpose of changing the jurisdiction of domicile of the Company, nor (y) a transaction solely for the purpose of changing the form of entity of the Company, shall constitute a Change of Control Transaction.

"Class A Preferred Unit" has the meaning set forth in Article 1 of the Third LLC Agreement.

"Class A Common Stock" has the meaning set forth in the Recitals.

"Class A Common Unit" has the meaning set forth in Article 1 of the Third LLC Agreement.

"Class B Common Stock" means Class B Common Stock, par value $0.0001 per share, of Holdings.

"Code" means the United States Internal Revenue Code of 1986, as amended.

"Common Unit" means a Unit representing a fractional part of the Company Interests of the Members and having the rights and obligations specified with respect to the Common Units in this Agreement.

"Common Unitholder" means a holder of Common Units.

"Common Unit Purchase" has the meaning set forth in Section 3.3(c).

"Common Unit Purchase Agreement" means that certain Common Unit Purchase Agreement between Holdings and the Company and dated as of the date hereof.

"Common Unit Redemption Price" means the arithmetic average of the volume weighted average prices for a share of Class A Common Stock on the principal U.S. securities exchange or automated or electronic quotation system on which Class A Common Stock trades, as reported by Bloomberg, L.P., or its successor, for each of the five (5) consecutive full Trading Days ending on and including the last full Trading Day immediately prior to the Redemption Date, subject to appropriate and equitable adjustment for any stock splits, reverse splits, stock dividends or similar events affecting the Class A Common Stock. If the Class A Common Stock no longer trades on a securities exchange or automated or electronic quotation system, then a majority of the Independent Directors shall determine the Common Unit Redemption Price in good faith.

"Company" has the meaning set forth in the Preamble.

"Company Interest" means the interest of a Member in Profits, Losses and Distributions.

"Contribution Agreement" means that certain Contribution Agreement between Holdings and the Company and dated as of the date hereof.

"Contribution Notice" has the meaning set forth in Section 11.1(b).

"Credit Agreement" means that certain Credit Agreement, dated as of July 31, 2013, by and among the Company, RE/MAX LLC, the several lenders from time to time parties thereto, and JPMorgan Chase Bank, N.A., as administrative agent for the lenders, including all exhibits, schedules and attachments thereto, as such Credit Agreement is in effect as of July 31, 2013, as the same may be amended, refinanced, restated, supplemented or otherwise modified from time to time.

"Delaware Act" means the Delaware Limited Liability Company Act, 6 Del.L. § 18-101, et seq., as it may be amended from time to time, and any successor to the Delaware Act.

"Distributable Cash" shall mean, as of any relevant date on which a determination is being made by the Manager regarding a potential distribution pursuant to Section 4.1(a), the amount of cash that could be distributed by the Company pursuant to the Credit Agreement (and without otherwise violating any applicable provisions of the Credit Agreement).

"Distribution" (and, with a correlative meaning, "*Distribute*") means each distribution made by the Company to a Member with respect to such Member's Units, whether in cash, property or securities of the Company and whether by liquidating distribution or otherwise; provided, however, that none of the following shall be a Distribution: (i) any recapitalization that does not result in the distribution of cash or property to Members or any exchange of securities of the Company, and any subdivision (by Unit split or otherwise) or any combination (by reverse Unit split or otherwise) of any outstanding Units, (ii) any payments made by the Company to Holdings pursuant to the Management Services Agreement (which shall be treated as payments made by the Company to Holdings under Section 707(a) of the Code), or (iii) any other payment made by the Company to a Member that is not properly treated as a "distribution" for purposes of Sections 731, 732, or 733 or other applicable provisions of the Code.

"Distribution Tax Rate" shall mean a rate equal to the highest effective marginal combined federal, state and local income tax rate for a Fiscal Year prescribed for a Colorado resident, as determined in the reasonable discretion of the Manager.

"Effective Time" has the meaning set forth in Section 16.15.

"Equity Compensation Notice" has the meaning set forth in Section 3.4(c)(i).

"Equity Securities" means (i) Units or other equity interests in the Company or any Subsidiary of the Company (including other classes or groups thereof having such relative rights, powers and duties as may from time to time be established by the Manager pursuant to the provisions of this Agreement, including rights, powers and/or duties senior to existing classes and groups of Units and other equity interests in the Company or any Subsidiary of the Company), (ii) obligations, evidences of indebtedness or other securities or interests convertible or exchangeable into Units or other equity interests in the Company or any Subsidiary of the Company, and (iii) warrants, options or other rights to purchase or otherwise acquire Units or other equity interests in the Company or any Subsidiary of the Company.

"Event of Withdrawal" means the expulsion, bankruptcy or dissolution of a Member or the occurrence of any other event that terminates the continued membership of a Member in the Company. "Event of Withdrawal" shall not include an event that (i) terminates the existence of a Member for income tax purposes (including, without limitation, (a) a change in entity classification of a Member under Treasury Regulations Section 301.7701-3, (b) termination of a partnership pursuant to Code Section 708(b)(1)(B), (c) a sale of assets by, or liquidation of, a Member pursuant to an election under Code Section 338, or (d) merger, severance, or allocation within a trust or among sub-trusts of a trust that is a Member) but that (ii) does not terminate the existence of such Member under applicable state law (or, in the case of a trust that is a Member, does not terminate the trusteeship of the fiduciaries under such trust with respect to all the Company Interests of such trust that is a Member).

"Fair Market Value" means, with respect to any asset, its fair market value determined according to Article XV.

"Fiscal Period" means any interim accounting period within a Taxable Year established by the Manager and which is permitted or required by Section 706 of the Code.

"Fiscal Year" means the Company's annual accounting period established pursuant to Section 8.2.

"Governmental Entity" means the United States of America or any other nation, any state or other political subdivision thereof, or any entity exercising executive, legislative, judicial, regulatory or administrative functions of government.

"HBN/Tails Assets" means the assets purchased by Holdings from HBN, Inc. and Tails, Inc.

"HBN/Tails Contribution" has the meaning set forth in the Recitals.

“Holdings” has the meaning set forth in the Recitals.

“Holdings Board” means the Board of Directors of Holdings.

“Indemnified Person” has the meaning set forth in Section 7.4(a).

“Independent Directors” means the independent members of the Holdings Board.

“Investment Company Act” means the Investment Company Act of 1940, as amended from time to time.

“IPO” has the meaning set forth in the Recitals.

“IPO Closing Date” means the closing date of the IPO, which for the avoidance of doubt means the date on which all IPO proceeds required to be delivered pursuant to the Underwriting Agreement have been delivered to Holdings in respect of its sale of Class A Common Stock excluding any proceeds from the Over-Allotment Option which are expected to be delivered at a subsequent date effecting exercise of such option.

“Law” means all laws, statutes, ordinances, rules and regulations of the United States, any foreign country and each state, commonwealth, city, county, municipality, regulatory body, agency or other political subdivision thereof.

“Letter Agreement” means that certain letter agreement, dated as of April 16, 2010, among David Liniger, Gail Liniger, RIHI and WP with respect to, amongst other things, certain estate planning arrangements arising after the death or disability of David Liniger.

“Losses” means items of Company loss determined according to Section 5.1(b).

“Manager” has the meaning set forth in Section 6.1.

“Management Services Agreement” means that certain Management Services Agreement between the Company and Holdings and dated as of the date hereof.

“Member” means (i) each of the members named on Schedule I attached hereto and (ii) any Person admitted to the Company as a Substituted Member or Additional Member in accordance with Article XII, but only so long as such Person is shown on the Company’s books and records as the owner of one or more Units.

“Minimum Gain” means “partnership minimum gain” determined pursuant to Treasury Regulation Section 1.704-2(d).

“Net IPO Proceeds” has the meaning set forth in the Recitals.

“Net Loss” means, with respect to a Fiscal Year, the excess if any, of Losses for such Fiscal Year over Profits for such Fiscal Year (excluding Profits and Losses specially allocated pursuant to Section 5.3 and Section 5.4).

“Net Over-Allotment Proceeds” has the meaning set forth in the Recitals.

"Net Profit" means, with respect to a Fiscal Year, the excess if any, of Profits for such Fiscal Year over Losses for such Fiscal Year (excluding Profits and Losses specially allocated pursuant to Section 5.3 and Section 5.4).

"Officer" has the meaning set forth in Section 6.1(b).

"Omnibus Incentive Plan" means the RE/MAX Holdings, Inc. 2013 Omnibus Incentive Plan, as the same may be amended, supplemented or otherwise modified from time to time.

"Options" means options, issued under the Omnibus Incentive Plan, to acquire Class A Common Stock or other equity equivalents of Holdings.

"Original Members" has the meaning set forth in the Recitals.

"Other Agreements" has the meaning set forth in Section 10.4.

"Over-Allotment Option" has the meaning set forth in the Recitals.

"Percentage Interest" means, with respect to a Member at a particular time, such Member's percentage interest in the Company determined by dividing such Member's Units by the total Units of all Members at such time.

"Permitted Transfer" has the meaning set forth in Section 10.2.

"Person" means an individual or any corporation, partnership, limited liability company, trust, unincorporated organization, association, joint venture or any other organization or entity, whether or not a legal entity.

"Preferred Unit" means a Unit representing a fractional part of the Company Interests of the Members and having the rights and obligations specified with respect to Preferred Units in this Agreement.

"Preferred Unit Redemption Amount" has the meaning set forth in Section 3.3(a).

"Preferred Unitholder" means a holder of Preferred Units.

"Profits" means items of Company income and gain determined according to Section 5.1(b).

"*Pro rata*," "*pro rata portion*," "according to their interests," "ratably," "proportionately," "proportional," "in proportion to," "based on the number of Units held," "based upon the percentage of Units held," "based upon the number of Units outstanding," and other terms with similar meanings, when used in the context of a number of Units of the Company relative to other Units, means (i) as between the Preferred Units and the Common Units, *pro rata* based upon the number of such Units held by the Members holding such Units, and (ii) as amongst an individual class of Units, pro rata based upon the number of such Units within such class of Units.

"Recapitalization" has the meaning set forth in the Recitals.

"Redeemed Units" has the meaning set forth in Section 11.1(a).

"Redeemed Units Equivalent" means the product of (i) the Share Settlement, times (ii) the Common Unit Redemption Price.

"Redeeming Member" has the meaning set forth in Section 11.1(a).

"Redemption" has the meaning set forth in Section 11.1(a).

"Redemption Date" has the meaning set forth in Section 11.1(a).

"Redemption Notice" has the meaning set forth in Section 11.1(a).

"Redemption Right" has the meaning set forth in Section 11.1(a).

"RE/MAX LLC" means RE/MAX, LLC, a Delaware limited liability company and a Subsidiary of the Company.

"Registration Rights Agreement" means that certain Registration Rights Agreement, dated as of the date hereof, by and between Holdings and RIHI.

"Remaining Net IPO Proceeds" has the meaning set forth in the Recitals.

"Retraction Notice" has the meaning set forth in Section 11.1(b).

"RIHI" means RIHI, Inc., a Delaware corporation.

"RIHI Over-Allotment Option Common Unit Redemption" has the meaning set forth in the Recitals.

"RIHI Initial Common Unit Redemption" has the meaning set forth in the Recitals.

"Schedule of Members" has the meaning set forth in Section 3.1(b).

"Securities Act" means the Securities Act of 1933, as amended, and applicable rules and regulations thereunder, and any successor to such statute, rules or regulations. Any reference herein to a specific section, rule or regulation of the Securities Act shall be deemed to include any corresponding provisions of future law.

"Securities and Exchange Commission" means the United States Securities and Exchange Commission, including any governmental body or agency succeeding to the functions thereof.

"Share Settlement" means a number of shares of Class A Common Stock equal to the number of Redeemed Units.

"Subsidiary" means, with respect to any Person, any corporation, limited liability company, partnership, association or business entity of which (i) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof, or (ii) if a limited liability company, partnership, association or other business entity (other than a corporation), a majority of the voting interests thereof are at the time owned or controlled, directly or indirectly, by any Person or one or more Subsidiaries of that Person or a combination thereof; provided, however, that, notwithstanding the foregoing, each of Equity Group Insurance, LLC and Equity Home Mortgage, LLC shall be considered a Subsidiary of the Company and Brokerage. For purposes hereof, references to a "Subsidiary" of the Company shall be given effect only at such times that the Company has one or more Subsidiaries, and, unless otherwise indicated, the term "Subsidiary" refers to a Subsidiary of the Company.

"Substituted Member" means a Person that is admitted as a Member to the Company pursuant to Section 12.1.

"Tax Matters Partner" has the meaning given to such term in Section 6231 of the Code.

"Tax Receivable Agreements" means those certain Tax Receivable Agreements, dated as the date hereof, by and between Holdings, on the one hand, and RIHI or WP, as the case may be, on the other hand.

"Taxable Year" means the Company's accounting period for U.S. federal income tax purposes determined pursuant to Section 9.2.

"Third LLC Agreement" has the meaning set forth in the Recitals.

"Trading Day" means a day on which the New York Stock Exchange or such other principal United States securities exchange on which the Class A Common Stock is listed or admitted to trading is open for the transaction of business (unless such trading shall have been suspended for the entire day).

"Transfer" (and, with a correlative meaning, "*Transferring*") means any sale, transfer, assignment, pledge, encumbrance or other disposition of (whether directly or indirectly, whether with or without consideration and whether voluntarily or involuntarily or by operation of law) (i) any interest (legal or beneficial) in any Unit or (ii) any equity or other interest (legal or beneficial) in any Member.

"Treasury Regulations" means the income tax regulations promulgated under the Code and any corresponding provisions of succeeding regulations.

"Underwriting Agreement" means the Underwriting Agreement, dated as of October 1, 2013, by and among Holdings, the Company, Morgan Stanley & Co. LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities LLC.

"Unit" means a Company Interest of a Member or a permitted Assignee in the Company representing a fractional part of the Company Interests of all Members and Assignees, whether a Preferred Unit or a Common Unit; provided, however, that any class or group of Units issued shall have the relative rights, powers and duties set forth in this Agreement, and the Company Interest represented by such class or group of Units shall be determined in accordance with such relative rights, powers and duties.

"Unitholder" means a Common Unitholder or a Preferred Unitholder.

"Unvested Holdings Shares" means shares of Class A Common Stock issued pursuant to the Omnibus Incentive Plan that are not Vested Holdings Shares.

"Vested Holdings Shares" has the meaning set forth in Section 3.4(c)(ii).

"WP" means Weston Presidio V, L.P., and its Affiliates.

"WP Common Unit Redemption" has the meaning set forth in the Recitals.

"WP Preferred Unit Redemption" has the meaning set forth in the Recitals.

## ARTICLE II

## ORGANIZATIONAL MATTERS

2.1 **Formation of Company**. The Company was formed on April 7, 2010 pursuant to the provisions of the Delaware Act.

2.2 **Fourth Amended and Restated Limited Liability Company Agreement**. The Members hereby execute this Agreement for the purpose of establishing the affairs of the Company and the conduct of its business in accordance with the provisions of the Delaware Act. The Members hereby agree that during the term of the Company set forth in Section 2.6 the rights and obligations of the Members with respect to the Company will be determined in accordance with the terms and conditions of this Agreement and the Delaware Act. On any matter upon which this Agreement is silent, the Delaware Act shall control. No provision of this Agreement shall be in violation of the Delaware Act and to the extent any provision of this Agreement is in violation of the Delaware Act, such provision shall be void and of no effect to the extent of such violation without affecting the validity of the other provisions of this Agreement; provided, however, that where the Delaware Act provides that a provision of the Delaware Act shall apply "unless otherwise provided in a limited liability company agreement" or words of similar effect, the provisions of this Agreement shall in each instance control; provided further, that notwithstanding the foregoing, Section 18-210 of the Delaware Act shall not apply or be incorporated into this Agreement.

2.3 **Name**. The name of the Company shall be "RMCO, LLC." The Manager in its sole discretion may change the name of the Company at any time and from time to time. Notification of any such change shall be given to all of the Members. The Company's business may be conducted under its name and/or any other name or names deemed advisable by the Manager.

2.4 **Purpose**. The primary business and purpose of the Company shall be to engage in such activities as are permitted under the Delaware Act and determined from time to time by the Manager in accordance with the terms and conditions of this Agreement.

2.5 **Principal Office; Registered Office**. The principal office of the Company shall be at 5075 S. Syracuse Street, Denver, Colorado 80237, or such other place as the Manager may from time to time designate. The address of the registered office of the Company in the State of Delaware shall be c/o The Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware, and the registered agent for service of process on the Company in the State of Delaware at such registered office shall be The Corporation Trust Company.

2.6 **Term**. The term of the Company commenced upon the filing of the Certificate in accordance with the Delaware Act and shall continue in existence until termination and dissolution thereof in accordance with the provisions of Article XIV.

2.7 **No State-Law Partnership**. The Members intend that the Company not be a partnership (including, without limitation, a limited partnership) or joint venture, and that no Member be a partner or joint venturer of any other Member by virtue of this Agreement, for any purposes other than as set forth in the last sentence of this Section 2.7, and neither this Agreement nor any other document entered into by the Company or any Member relating to the subject matter hereof shall be construed to suggest otherwise. The Members intend that the Company shall be treated as a partnership for U.S. federal and, if applicable, state or local income tax purposes, and that each Member and the Company shall file all tax returns and shall otherwise take all tax and financial reporting positions in a manner consistent with such treatment.

## ARTICLE III

UNITS; INITIAL CAPITALIZATION; MEMBERS

3.1 **Members.**

(a) Each of the Original Members previously was admitted as a Member to the Company pursuant to the Third LLC Agreement. At the Effective Time and concurrently with the Common Unit Purchase, Holdings shall be admitted to the Company as a Member.

(b) The Company shall maintain a schedule setting forth: (i) the name and address of each Member; (ii) the aggregate number of outstanding Units and the number and class of Units held by each Member; (iii) the aggregate amount of cash Capital Contributions that have been made by the Members with respect to their Units; and (iv) the Fair Market Value of any property other than cash contributed by the Members with respect to their Units (including, if applicable, a description and the amount of any liability assumed by the Company or to which contributed property is subject) (such schedule, the "Schedule of Members"). The applicable Schedule of Members in effect as of the Effective Time is set forth as "Schedule I" to this Agreement. The Schedule of Members shall be the definitive record of ownership of each Unit of the Company and all relevant information with respect to each Member. The Company shall be entitled to recognize the exclusive right of a Person registered on its records as the owner of Units for all purposes and shall not be bound to recognize any equitable or other claim to or interest in Units on the part of any other Person, whether or not it shall have express or other notice thereof, except as otherwise provided by the Delaware Act.

(c) No Member shall be required or, except as approved by the Manager pursuant to Section 6.1 and in accordance with the other provisions of this Agreement, permitted to loan any money or property to the Company or borrow any money or property from the Company.

3.2 **Units**. Interests in the Company shall be represented by Units, or such other securities of the Company, in each case as the Manager may establish in its discretion in accordance with the terms and subject to the restrictions hereof. Immediately after the Effective Time, and prior to the WP Preferred Unit Redemption, the Units will be comprised of two classes: (i) "Preferred Units" (with 2,429,930 Preferred Units being authorized for issuance by the Company); and (ii) "Common Units" (with 180,000,000 Common Units being authorized for issuance by the Company).

3.3 **Recapitalization and Split; Holdings Capital Contribution; Holdings Purchase of Common Units; Redemptions**.

(a) Recapitalization and Split. In connection with the Recapitalization, immediately upon the Effective Time, the aggregate number of 150,000 Class A Preferred Units (as defined in the Third LLC Agreement) that were issued and outstanding and held by WP prior to the execution and effectiveness of this Agreement are hereby converted into 2,429,930 Preferred Units and 3,750,000 Common Units. The Preferred Units received by WP have an aggregate liquidation preference of $49,850,000 and reflect the preferred Company Interest previously held by WP and reflected in Sections 4.1(a)(i), (ii), and (iii) and other applicable provisions of the Third LLC Agreement. At the same time, and also in connection with the Recapitalization, immediately upon the Effective Time, the aggregate number of 847,500 Class B Common Units (as defined in the Third LLC Agreement) that were issued and outstanding and held by RIHI prior to the execution and effectiveness of this Agreement are converted hereby into 21,187,500 Common Units. The number of Common Units received by each of WP and RIHI reflect a 25:1 (twenty-five to one) split of the residual common Company Interest previously held by each of WP and RIHI and reflected in Section 4.1(a)(iv) and other applicable provisions of the Third LLC Agreement. Following the Recapitalization and in connection therewith, immediately upon the Effective Time, the Company will be deemed to have distributed one share of Class B Common Stock to RIHI. Such Class B Common Stock will be issued by Holdings to the Company in exchange for both the Common Units to be purchased by Holdings in connection with the Common Unit Purchase and Holdings' rights as Manager transferred to it by the Company as provided for in this Agreement.

(b) Holdings Contribution. Following the Recapitalization and Holdings' purchase of the HBN/Tails Assets, immediately upon the Effective Time, Holdings will contribute the HBN/Tails Assets to the Company in exchange for 1,330,977 Common Units pursuant to the Contribution Agreement. The HBN/Tails Contribution and subsequent receipt of Common Units by Holdings shall be reflected on Schedule I.

(c) Holdings Common Unit Purchase. Following the HBN/Tails Contribution, immediately after the Effective Time, Holdings will contribute the Remaining Net IPO Proceeds to the Company in exchange for 8,669,023 Common Units pursuant to the Common Unit Purchase Agreement (the "Common Unit Purchase"). The Common Unit Purchase shall be reflected on Schedule I.

(d) WP Preferred Unit Redemption. Following the Common Unit Purchase, immediately after the Effective Time, the Preferred Units that were issued to WP pursuant to Section 3.3(a) of this Agreement shall be redeemed by the Company with a portion of the Remaining Net IPO Proceeds received from Holdings for the aggregate amount of $49,850,000 (the "Preferred Unit Redemption Amount"). All of the issued and outstanding Preferred Units automatically shall terminate and cease to be outstanding on payment of the Preferred Unit Redemption Amount to which each Preferred Unit is entitled under Section 3.3(a) and the Company shall cease to have authorized Preferred Units. The WP Preferred Unit Redemption shall be reflected on Schedule I.

(e) Common Unit Redemptions. Following the WP Preferred Unit Redemption, immediately after the Effective Time, the Company will use the rest of the Remaining Net IPO Proceeds to redeem 3,750,000 Common Units held by WP and thereafter the Company will use the Remaining Net IPO Proceeds to redeem 1,952,900 Common Units held by RIHI. The WP Common Unit Redemption and the RIHI Initial Common Unit Redemption shall be reflected on Schedule I.

(f) Over-Allotment Option Common Unit Redemptions. If the Over-Allotment Option is exercised in whole or in part, immediately upon the closing of the Over-Allotment Option, the Net Over-Allotment Proceeds from such exercise shall be paid by Holdings to the Company in order to purchase newly issued Common Units pursuant to the Common Unit Purchase Agreement. Following the Company's receipt of any such Net Over-Allotment Proceeds from Holdings in exchange for the Company's delivery of newly issued Common Units to Holdings, the Company shall, in turn, pay such Net Over-Allotment Proceeds to RIHI to redeem additional Common Units held by RIHI. Any additional Class A Common Stock sold as a result of the exercise of the Over-Allotment Option shall be sold at the same price as the Class A Common Stock sold in connection with the IPO and the price per Common Unit paid to redeem additional Common Units held by RIHI shall be the same priced paid with respect to the WP Common Unit Redemption and the RIHI Initial Common Unit Redemption. The RIHI Over-Allotment Option Common Unit Redemption, to the extent it occurs, shall be reflected on Schedule I, which shall be amended as necessary or appropriate following the IPO Closing Date.

**3.4 Authorization and Issuance of Additional Units.**

(a) The Company shall undertake all actions, including, without limitation, a reclassification, distribution, division or recapitalization, with respect to the Common Units, to maintain at all times a one-to-one ratio between the number of Common Units owned by Holdings and the number of outstanding shares of Class A Common Stock, disregarding, for purposes of maintaining the one-to-one ratio, Unvested Holdings Shares, treasury stock, preferred stock or other securities of Holdings that are not convertible into or exercisable or exchangeable for Class A Common Stock. In the event Holdings issues, transfers from treasury stock or repurchases Class A Common Stock in a transaction not contemplated in this Agreement, the Manager shall have the authority to take all actions such that, after giving effect to all such issuances, transfers or repurchases, the number of outstanding Common Units owned by Holdings will equal on a one-for-one basis the number of outstanding shares of Class A Common Stock. In the event Holdings issues, transfers from treasury stock or repurchases Holdings preferred stock in a transaction not contemplated in this Agreement, the Manager shall have the authority to take all actions such that, after giving effect to all such issuances, transfers or repurchases, Holdings holds mirror equity interests in the Company which (in the good faith determination by the Manager) are in the aggregate substantially equivalent to the outstanding Holdings preferred stock. The Company shall not undertake any subdivision (by any Unit split, Unit distribution, reclassification, recapitalization or similar event) or combination (by reverse Unit split, reclassification, recapitalization or similar event) of the Units that is not accompanied by an identical subdivision or combination of Class A Common Stock to maintain at all times a one-to-one ratio between the number of Common Units owned by Holdings and the number of outstanding shares of Class A Common Stock, unless such action is necessary to maintain at all times a one-to-one ratio between the number of Common Units owned by Holdings and the number of outstanding shares of Class A Common Stock as contemplated by the first sentence of this Section 3.3(f).

(b) The Company shall only be permitted to issue additional Units or other Equity Securities in the Company to the Persons and on the terms and conditions provided for in Section 3.2 and this Section 3.4. Subject to the foregoing, the Manager may cause the Company to issue additional Common Units authorized under this Agreement at such times and upon such terms as the Manager shall determine and the Manager shall amend this Agreement as necessary in connection with the issuance of additional Common Units and admission of additional Members under this Section 3.4.

(c) Equity Compensation Issued by Holdings.

(i) In connection with the exercise of Options, Holdings shall have the right to acquire additional Common Units from the Company. Holdings shall exercise its rights under this Section 3.4(c)(i) by giving written notice (the "Equity Compensation Notice") to the Company and all Members following exercise of the Options. The Equity Compensation Notice shall specify the net number of shares of Class A Common Stock issued by Holdings pursuant to exercise of the Options. The Company shall issue the Common Units to which Holdings is entitled under this Section 3.4(c)(i) within three (3) Business Days after delivery of the Equity Compensation Notice (to be effective immediately prior to the close of business on such date). The number of additional Common Units that Holdings shall be entitled to receive under this Section 3.4(c)(i) shall be equal to the net number of shares of Class A Common Stock issued by Holdings pursuant to the exercise of the Options. The net number of shares of Class A Common Stock issued by Holdings pursuant to exercise of the Options shall be equal to (i) the number of shares of Class A Common Stock with respect to which the Options were exercised, less (ii) any shares of Class A Common Stock transferred to or withheld by Holdings in satisfaction of the exercise price or taxes payable as a result of the exercise of the Options. In consideration of the Common Units issued by the Company to Holdings under this Section 3.4(c)(i), Holdings shall contribute to the Company the cash consideration, if any, received by Holdings in exchange for the net shares of Class A Common Stock issued pursuant to exercise of the Options. Holdings shall contribute any cash consideration to which the Company is entitled under this Section 3.4(c)(i) on the same date (and to be effective as of the same time) that the Company issues the Common Units to Holdings.

(ii) In connection with the grant of Class A Common Stock pursuant to the Omnibus Incentive Plan (including, without limitation, the issuance of restricted and non-restricted Class A Common Stock, the payment of bonuses in Class A Common Stock, the issuance of Class A Common Stock in settlement of restricted stock units, stock appreciation rights or otherwise), other than through the exercise of Options as contemplated in Section 3.4(c)(i), Holdings shall deliver an Equity Compensation Notice to the Company and all Members following the date on which shares of such Class A Common Stock are vested for U.S. federal income tax purposes ("Vested Holdings Shares"). The Equity Compensation Notice shall specify the number of Vested Holdings Shares, which shall be net of any shares of Class A Common Stock transferred to or withheld by Holdings in satisfaction of taxes payable as a result of the vesting or issuance of such shares. Within three (3) Business Days after delivery of the Equity Compensation Notice (to be effective immediately prior to the close of business on such date) (i) the Company shall (x) issue to Holdings a number of Common Units equal to the number of Vested Holdings Shares, and (y) make a special distribution to Holdings (to the extent such distribution is not restricted under the Credit Agreement) in respect of such Common Units in an amount equal to any dividends or dividend equivalents paid or payable by Holdings in respect of such Vested Holdings Shares (provided that (i) the related dividend record date preceded the date such Vested Holdings Shares became Vested Holdings Shares and (ii) Holdings has not been, and will not be, reimbursed for such dividend or dividend equivalent payments pursuant to the Management Services Agreement or otherwise), and (ii) Holdings shall contribute to the Company any cash consideration received by Holdings in respect of such Vested Holdings Shares.

3.5 **Repurchase or Redemption of Class A Shares.** If, at any time, any shares of Class A Common Stock are repurchased or redeemed (whether by exercise of a put or call, automatically or by means of another arrangement) by Holdings for cash, then the Manager shall cause the Company, immediately prior to such repurchase or redemption of Class A Common Stock, to redeem a corresponding number of Common Units held by Holdings, at an aggregate redemption price equal to the aggregate purchase or redemption price of the shares of Class A Common Stock being repurchased or redeemed by Holding (plus any expenses related thereto) and upon such other terms as are the same for the shares of Class A Common Stock being repurchased or redeemed by Holdings.

3.6 **Certificates Representing Units; Lost, Stolen or Destroyed Certificates; Registration and Transfer of Units.**

(a) Units shall not be certificated unless otherwise determined by the Manager. If the Manager determines that one or more Units shall be certificated, each such certificate shall be signed by or in the name of the Company, by the Chief Executive Officer and any other officer designated by the Manager, representing the number of Units held by such holder. Such certificate shall be in such form (and shall contain such legends) as the Manager may determine. Any or all of such signatures on any certificate representing one or more Units may be a facsimile, engraved or printed, to the extent permitted by applicable Law.

(b) If Units are certificated, the Manager may direct that a new certificate representing one or more Units be issued in place of any certificate theretofore issued by the Company alleged to have been lost, stolen or destroyed, upon delivery to the Manager of an affidavit of the owner or owners of such certificate, setting forth such allegation. The Manager may require the owner of such lost, stolen or destroyed certificate, or such owner's legal representative, to give the Company a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of any such new certificate.

(c) Upon surrender to the Company or the transfer agent of the Company, if any, of a certificate for one or more Units, duly endorsed or accompanied by appropriate evidence of succession, assignment or authority to transfer, in compliance with the provisions hereof, the Company shall issue a new certificate representing one or more Units to the Person entitled thereto, cancel the old certificate and record the transaction upon its books. Subject to the provisions of this Agreement, the Manager may prescribe such additional rules and regulations as it may deem appropriate relating to the issue, Transfer and registration of Units.

3.7 **Negative Capital Accounts**. No Member shall be required to pay to any other Member or the Company any deficit or negative balance which may exist from time to time in such Member's Capital Account (including upon and after dissolution of the Company).

3.8 **No Withdrawal**. No Person shall be entitled to withdraw any part of such Person's Capital Contribution or Capital Account or to receive any Distribution from the Company, except as expressly provided herein.

3.9 **Loans From Members**. Loans by Members to the Company shall not be considered Capital Contributions. Subject to the provisions of Section 3.1(c), the amount of any such advances shall be a debt of the Company to such Member and shall be payable or collectible in accordance with the terms and conditions upon which such advances are made.

## ARTICLE IV

## DISTRIBUTIONS

4.1 **Distributions.**

(a) Distributable Cash; Other Distributions. To the extent permitted by applicable Law and hereunder, Distributions to Members may be declared by the Manager out of Distributable Cash or other funds or property legally available therefor in such amounts and on such terms (including the payment dates of such Distributions) as the Manager shall determine using such record date as the Manager may designate; such Distributions shall be made to the Members as of the close of business on such record date on a *pro rata* basis in accordance with each Member's Percentage Interest as of the close of business on such record date; provided, however, that the Manager shall have the obligation to make Distributions as set forth in Sections 4.1(b) and 14.2; and provided further that, notwithstanding any other provision herein to the contrary, no Distributions shall be made to any Member to the extent such Distribution would render the Company insolvent. For purposes of the foregoing sentence, insolvency means the inability of the Company to meet its payment obligations when due. Promptly following the designation of a record date and the declaration of a Distribution pursuant to this Section 4.1(a), the Manager shall give notice to each Member of the record date, the amount and the terms of the Distribution and the payment date thereof. In furtherance of the foregoing, it is intended that the Manager shall, to the extent permitted by applicable Law and hereunder, have the right in its sole discretion to make Distributions to the Members pursuant to this Section 4.1(a) in such amounts as shall enable Holdings to pay dividends or to meet its obligations, including its obligations pursuant to the Tax Receivable Agreements (to the extent such obligations are not otherwise able to be satisfied as a result of Tax Distributions required to be made pursuant to Section 4.1(b)).

(b) Tax Distributions.

(i) On or about each date (a "Tax Distribution Date") that is five (5) Business Days prior to (i) each date on which estimated U.S. federal income tax payments are required to be made by calendar year individual taxpayers (or, if earlier, the date on which estimated U.S. federal income tax payments are required for Holdings) and (ii) each due date for the U.S. federal income tax return of an individual calendar year taxpayer (without regard to extensions) (or, if earlier, the due date for the U.S. federal income tax return of Holdings, as determined without regard to extensions), the Company shall be required to make a Distribution to each Member of cash in an amount equal to such Member's Assumed Tax Liability, if any, for such taxable period (the "Tax Distributions"). The calculation of Assumed Tax Liability shall take into account the carryforward of prior losses and the character of tax items allocated to a Member (*e.g.*, capital or ordinary) and shall treat each Distribution made pursuant to this Section 4.1(b) as a payment of taxes or estimated taxes.

(ii) To the extent a Member otherwise would be entitled to receive less than its Percentage Interest of the aggregate Tax Distributions to be paid pursuant to this Section 4.1(b) on any given date, the Tax Distributions to such Member shall be increased to ensure that all Distributions made pursuant to this Section 4.1(b) are made *pro rata* in accordance with Percentage Interests. If, on a Tax Distribution Date, there are insufficient funds on hand to distribute to the Members the full amount of the Tax Distributions to which such Members are otherwise entitled, Distributions pursuant to this Section 4.1(b) shall be made to the Members to the extent of available funds in accordance with their Percentage Interests and the Company shall make future Tax Distributions as soon as funds become available sufficient to pay the remaining portion of the Tax Distributions to which such Members are otherwise entitled.

(iii) In the event of any audit by, or similar event with, a taxing authority that affects the calculation of any Member's Assumed Tax Liability for any taxable year, or in the event the Company files an amended return, each Member's Assumed Tax Liability with respect to such year shall be recalculated by giving effect to such event (for the avoidance of doubt, taking into account interest or penalties). Any shortfall in the amount of Tax Distributions the Members and former Members received for the relevant taxable years based on such recalculated Assumed Tax Liability promptly shall be distributed to such Members and the successors of such former Members, except, for the avoidance of doubt, to the extent

Distributions were made to such Members and former Members pursuant to Section 4.1(a) and this Section 4.1(b) in the relevant taxable years sufficient to cover such shortfall.

(iv) Notwithstanding the foregoing, Distributions pursuant to this Section 4.1(b), if any, shall be made to a Member only to the extent all previous Distributions to such Member pursuant to Section 4.1(a) during the Fiscal Year are less than the Distributions such Member otherwise would have been entitled to receive during such Fiscal Year pursuant to this Section 4.1(b).

4.2 **Restricted Distributions**. Notwithstanding any provision to the contrary contained in this Agreement, the Company shall not make any Distribution to any Member on account of any Company Interest if such Distribution would violate any applicable Law or the terms of the Credit Agreement.

## ARTICLE V

## CAPITAL ACCOUNTS; ALLOCATIONS; TAX MATTERS

5.1 **Capital Accounts**.

(a) The Company shall maintain a separate Capital Account for each Member according to the rules of Treasury Regulation Section 1.704-1(b)(2)(iv). For this purpose, the Company may (in the discretion of the Manager), upon the occurrence of the events specified in Treasury Regulation Section 1.704-1(b)(2)(iv)(f), increase or decrease the Capital Accounts in accordance with the rules of such Treasury Regulation and Treasury Regulation Section 1.704-1(b)(2)(iv)(g) to reflect a revaluation of Company property.

(b) For purposes of computing the amount of any item of Company income, gain, loss or deduction to be allocated pursuant to this Article V and to be reflected in the Capital Accounts of the Members, the determination, recognition and classification of any such item shall be the same as its determination, recognition and classification for U.S. federal income tax purposes (including any method of depreciation, cost recovery or amortization used for this purpose); provided, however, that:

(i) The computation of all items of income, gain, loss and deduction shall include those items described in Code Section 705(a)(l)(B) or Code Section 705(a)(2)(B) and Treasury Regulation Section 1.704-1(b)(2)(iv)(i), without regard to the fact that such items are not includable in gross income or are not deductible for U.S. federal income tax purposes.

(ii) If the Book Value of any Company property is adjusted pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(f), the amount of such adjustment shall be taken into account as gain or loss from the disposition of such property.

(iii) Items of income, gain, loss or deduction attributable to the disposition of Company property having a Book Value that differs from its adjusted basis for tax purposes shall be computed by reference to the Book Value of such property.

(iv) Items of depreciation, amortization and other cost recovery deductions with respect to Company property having a Book Value that differs from its adjusted basis for tax purposes shall be computed by reference to the property's Book Value in accordance with Treasury Regulation Section 1.704-1(b)(2)(iv)(g).

(v) To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Code Sections 732(d), 734(b) or 743(b) is required, pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis).

5.2 **Allocations**. Except as otherwise provided in Section 5.3 and Section 5.4, Net Profits and Net Losses for any Fiscal Year or Fiscal Period shall be allocated among the Capital Accounts of the Members *pro rata* in accordance with their respective Percentage Interests.

5.3 **Regulatory Allocations**.

(a) Losses attributable to partner nonrecourse debt (as defined in Treasury Regulation Section 1.704-2(b)(4)) shall be allocated in the manner required by Treasury Regulation Section 1.704-2(i). If there is a net decrease during a Taxable Year in partner nonrecourse debt minimum gain (as defined in Treasury Regulation Section 1.704-2(i)(3)), Profits for such Taxable Year (and, if necessary, for subsequent Taxable Years) shall be allocated to the Members in the amounts and of such character as determined according to Treasury Regulation Section 1.704-2(i)(4).

(b) Nonrecourse deductions (as determined according to Treasury Regulation Section 1.704-2(b)(1)) for any Taxable Year shall be allocated *pro rata* among the Members in accordance with their Percentage Interests. Except as otherwise provided in Section 4.3(a), if there is a net decrease in the Minimum Gain during any Taxable Year, each Member shall be allocated Profits for such Taxable Year (and, if necessary, for subsequent Taxable Years) in the amounts and of such character as determined according to Treasury Regulation Section 1.704-2(f). This Section 5.3(b) is intended to be a minimum gain chargeback provision that complies with the requirements of Treasury Regulation Section 1.704-2(f), and shall be interpreted in a manner consistent therewith.

(c) If any Member that unexpectedly receives an adjustment, allocation or Distribution described in Treasury Regulation Section 1.704-1(b)(2)(ii)(d)(4), (5) and (6) has an Adjusted Capital Account Deficit as of the end of any Taxable Year, computed after the application of Sections 5.3(a) and 5.3(b) but before the application of any other provision of this Article V, then Profits for such Taxable Year shall be allocated to such Member in proportion to, and to the extent of, such Adjusted Capital Account Deficit. This Section 5.3(c) is intended to be a qualified income offset provision as described in Treasury Regulation Section 1.704-1(b)(2)(ii)(d) and shall be interpreted in a manner consistent therewith.

(d) Profits and Losses described in Section 5.1(b)(v) shall be allocated in a manner consistent with the manner that the adjustments to the Capital Accounts are required to be made pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(j), (k) and (m).

(e) The allocations set forth in Section 5.3(a) through and including Section 5.3(d) (the "Regulatory Allocations") are intended to comply with certain requirements of Sections 1.704-1(b) and 1.704-2 of the Treasury Regulations. The Regulatory Allocations may not be consistent with the manner in which the Members intend to allocate Profit and Loss of the Company or make Distributions. Accordingly, notwithstanding the other provisions of this Article V, but subject to the Regulatory Allocations, income, gain, deduction, and loss shall be reallocated among the Members so as to eliminate the effect of the Regulatory Allocations and thereby cause the respective Capital Accounts of the Members to be in the amounts (or as close thereto as possible) they would have been if Profit and Loss (and such other items of income, gain, deduction and loss) had been allocated without reference to the Regulatory Allocations. In general, the Members anticipate that this will be accomplished by specially allocating other Profit and Loss (and such other items of income, gain, deduction and loss) among the Members so that the net amount of the Regulatory Allocations and such special allocations to each such Member is zero. In addition, if in any Fiscal Year or Fiscal Period there is a decrease in partnership minimum gain, or in partner nonrecourse debt minimum gain, and application of the minimum gain chargeback requirements set forth in Section 5.3(a) or Section 5.3(b) would cause a distortion in the economic arrangement among the Members, the Members may, if they do not expect that the Company will have sufficient other income to correct such distortion, request the Internal Revenue Service to waive either or both of such minimum gain chargeback requirements. If such request is granted, this Agreement shall be applied in such instance as if it did not contain such minimum gain chargeback requirement.

5.4 **Final Allocations**. Notwithstanding any contrary provision in this Agreement except Section 5.3, the Manager shall make appropriate adjustments to allocations of Profits and Losses to (or, if necessary, allocate items of gross income, gain, loss or deduction of the Company among) the Members upon the liquidation of the Company (within the meaning of Section 1.704 1(b)(2)(ii)(g) of the Treasury Regulations), the transfer of substantially all the Units (whether by sale or exchange or merger) or sale of all or substantially all the assets of the Company, such that, to the maximum extent possible, the Capital Accounts of the Members are proportionate to their Percentage Interests. In each case, such adjustments or allocations shall occur, to the maximum extent possible, in the Fiscal Year of the event requiring such adjustments or allocations.

5.5 **Tax Allocations**.

(a) The income, gains, losses, deductions and credits of the Company will be allocated, for federal, state and local income tax purposes, among the Members in accordance with the allocation of such income, gains, losses, deductions and credits among the Members for computing their Capital Accounts; provided that if any such allocation is not permitted by the Code or other applicable law, the Company's subsequent income, gains, losses, deductions and credits will be allocated among the Members so as to reflect as nearly as possible the allocation set forth herein in computing their Capital Accounts.

(b) Items of Company taxable income, gain, loss and deduction with respect to any property contributed to the capital of the Company shall be allocated among the Members in accordance with Code Section 704(c) so as to take account of any variation between the adjusted basis of such property to the Company for federal income tax purposes and its Book Value using the traditional method, as described in Treasury Regulations Section 1.704-3(b).

(c) If the Book Value of any Company asset is adjusted pursuant to Section 5.1(b), subsequent allocations of items of taxable income, gain, loss and deduction with respect to such asset shall take account of any variation between the adjusted basis of such asset for federal income tax purposes and its Book Value in the same manner as under Code Section 704(c) using the traditional method, as described in Treasury Regulations Section 1.704-3(b).

(d) Allocations of tax credits, tax credit recapture, and any items related thereto shall be allocated to the Members *pro rata* as determined by the Manager taking into account the principles of Treasury Regulation Section 1.704-1(b)(4)(ii).

(e) For purposes of determining a Member's pro rata share of the Company's "excess nonrecourse liabilities" within the meaning of Treasury Regulation Section 1.752-3(a)(3), each Member's interest in income and gain shall be in proportion to the Units held by such Member.

(f) Allocations pursuant to this Section 5.5 are solely for purposes of federal, state and local taxes and shall not affect, or in any way be taken into account in computing, any Member's Capital Account or share of Profits, Losses, Distributions or other Company items pursuant to any provision of this Agreement.

5.6 **Indemnification and Reimbursement for Payments on Behalf of a Member**. If the Company is obligated to pay any amount to a Governmental Entity (or otherwise makes a payment to a Governmental Entity) that is specifically attributable to a Member or a Member's status as such (including federal withholding taxes, state personal property taxes, and state unincorporated business taxes, but excluding payments such as professional association fees and the like made voluntarily by the Company on behalf of any Member based upon such Member's status as an employee of the Company), then such Person shall indemnify the Company in full for the entire amount paid (including interest, penalties and related expenses). The Manager may offset Distributions to which a Person is otherwise entitled under this Agreement against such Person's obligation to indemnify the Company under this Section 5.6. A Member's obligation to make contributions to the Company under this Section 5.6 shall survive the termination, dissolution, liquidation and winding up of the Company, and for purposes of this Section 5.6, the Company shall be treated as continuing in existence. The Company may pursue and enforce all rights and remedies it may have against each Member under this Section 5.6, including instituting a lawsuit to collect such contribution with interest calculated at a rate equal to the Base Rate plus three percentage points per annum (but not in excess of the highest rate per annum permitted by law).

## ARTICLE VI

MANAGEMENT

6.1 **Authority of Manager**.

(a) Except for situations in which the approval of any Member(s) is specifically required by this Agreement, (i) all management powers over the business and affairs of the Company shall be exclusively vested in one manager (the "Manager") that shall be Holdings and (ii) the Manager shall conduct, direct and exercise full control over all activities of the Company. The Manager shall be the "manager" of the Company for the purposes of the Delaware Act. Except as otherwise expressly provided for herein and subject to the other provisions of this Agreement, the Members hereby consent to the exercise by the Manager of all such powers and rights conferred on the Members by the Delaware Act with respect to the management and control of the Company. Holdings may not be removed as a Manager except as provided in Section 6.4. Any Manager that is properly removed pursuant to Section 6.4 shall be replaced in the manner provided in Section 6.5. The Original Members terminate as of the Effective Time the "Board" previously established in order to conduct the business of the Company pursuant to the Third LLC Agreement (as such term was previously defined in the Third LLC Agreement).

(b) The day-to-day business and operations of the Company shall be overseen and implemented by officers of the Company (each, an "Officer" and collectively, the "Officers"), subject to the limitations imposed by the Manager. An Officer may, but need not, be a Member. Each Officer shall be appointed by the Manager and shall hold office until his or her successor shall be duly designated and shall qualify or until his or her death or until he shall resign or shall have been removed in the manner hereinafter provided. Any one Person may hold more than one office. Subject to the other provisions in this Agreement (including in Section 6.8 below), the salaries or other compensation, if any, of the Officers of the Company shall be fixed from time to time by the Manager. The authority and responsibility of the Officers shall include, but not be limited to, such duties as the Manager may, from time to time, delegate to them and the carrying out of the Company's business and affairs on a day-today basis. The existing Officers of the Company as of the Effective Time shall remain in their respective positions and shall be deemed to have been appointed by the Manager.

(c) The Manager shall have the power and authority to effectuate the sale, lease, transfer, exchange or other disposition of any, all or substantially all of the assets of the Company (including the exercise or grant of any conversion, option, privilege or subscription right or any other right available in connection with any assets at any time held by the Company) or the merger, consolidation, reorganization or other combination of the Company with or into another entity.

6.2 **Actions of the Manager**. The Manager may act through any Person or Persons to whom authority and duties have been delegated pursuant to Section 6.8.

6.3 **Resignation**. The Manager may resign at any time by giving written notice to the Members. Unless otherwise specified in the notice, the resignation shall take effect upon receipt thereof by the Members, and the acceptance of the resignation shall not be necessary to make it effective.

6.4 **Removal**. The Manager may only be removed by Holdings.

6.5 **Vacancies**. Vacancies in the position of Manager occurring for any reason shall be filled by Holdings.

6.6 **Transactions Between Company and Manager**. The Manager may cause the Company to contract and deal with the Manager, or any Affiliate of the Manager, provided such contracts and dealings are on terms comparable to and competitive with those available to the Company from others dealing at arm's length or are approved by the Members. The Members hereby approve the Management Services Agreement, the Common Unit Purchase Agreement and the Contribution Agreement.

6.7 **Expenses**. The Company will reimburse Holdings for the fees of the Holdings Board. The Members hereby approve the Management Services Agreement.

6.8 **Delegation of Authority**. The Manager (a) may, from time to time, delegate to one or more Persons such authority and duties as the Manager may deem advisable, and (b) may assign titles (including, without limitation, chief executive officer, president, principal, vice president, secretary, assistant secretary, treasurer, or assistant treasurer) and delegate certain authority and duties to such Persons as the same may be amended, restated or otherwise modified from time to time. Any number of titles may be held by the same individual. The salaries or other compensation, if any, of such agents of the Company shall be fixed from time to time by the Manager, subject to the other provisions in this Agreement.

6.9 **Limitation of Liability of Manager**.

(a) Except as otherwise provided herein or in an agreement entered into by such Person and the Company, neither the Manager nor any of the Manager's Affiliates shall be liable to the Company or to any Member that is not the Manager for any act or omission performed or omitted by the Manager in its capacity as the sole managing member of the Company pursuant to authority granted to the Manager by this Agreement; provided, however, that, except as otherwise provided herein, such limitation of liability shall not apply to the extent the act or omission was attributable to the Manager's gross negligence, willful misconduct or knowing violation of law or for any present or future breaches of any representations, warranties or covenants by the Manager or its Affiliates contained herein or in the other agreements with the Company. The Manager may exercise any of the powers granted to it by this Agreement and perform any of the duties imposed upon it hereunder either directly or by or through its agents, and shall not be responsible for any misconduct or negligence on the part of any such agent (so long as such agent was selected in good faith and with reasonable care). The Manager shall be entitled to rely upon the advice of legal counsel, independent public accountants and other experts, including financial advisors, and any act of or failure to act by the Manager in good faith reliance on such advice shall in no event subject the Manager to liability to the Company or any Member that is not the Manager.

(b) Whenever this Agreement or any other agreement contemplated herein provides that the Manager shall act in a manner which is, or provide terms which are, “fair and reasonable” to the Company or any Member that is not the Manager, the Manager shall determine such appropriate action or provide such terms considering, in each case, the relative interests of each party to such agreement, transaction or situation and the benefits and burdens relating to such interests, any customary or accepted industry practices, and any applicable United States generally accepted accounting practices or principles.

(c) Whenever in this Agreement or any other agreement contemplated herein, the Manager is permitted or required to take any action or to make a decision in its “sole discretion” or “discretion,” with “complete discretion” or under a grant of similar authority or latitude, the Manager shall be entitled to consider such interests and factors as it desires, including its own interests, and shall, to the fullest extent permitted by applicable law, have no duty or obligation to give any consideration to any interest of or factors affecting the Company or other Members.

(d) Whenever in this Agreement the Manager is permitted or required to take any action or to make a decision in its “good faith” or under another express standard, the Manager shall act under such express standard and, to the extent permitted by applicable law, shall not be subject to any other or different standards imposed by this Agreement or any other agreement contemplated herein, and, notwithstanding anything contained herein to the contrary, so long as the Manager acts in good faith, the resolution, action or terms so made, taken or provided by the Manager shall not constitute a breach of this Agreement or any other agreement contemplated herein or impose liability upon the Manager or any of the Manager’s Affiliates.

6.10 **Investment Company Act.** The Manager shall use its best efforts to ensure that the Company shall not be subject to registration as an investment company pursuant to the Investment Company Act.

## ARTICLE VII

## RIGHTS AND OBLIGATIONS OF MEMBERS

7.1 **Limitation of Liability of Members**.

(a) Except as provided in this Agreement or in the Delaware Act, the debts, obligations and liabilities of the Company, whether arising in contract, tort or otherwise, shall be solely the debts, obligations and liabilities of the Company and no Member (including without limitation, the Manager) shall be obligated personally for any such debts, obligation or liability solely by reason of being a Member or acting as the Manager of the Company. Except as otherwise provided in this Agreement, a Member’s liability (in its capacity as such) for Company liabilities and Losses shall be limited to the Company’s assets. Notwithstanding anything contained herein to the contrary, the failure of the Company to observe any formalities or requirements relating to the exercise of its powers or management of its business and affairs under this Agreement or the Delaware Act shall not be grounds for imposing personal liability on the Members for liabilities of the Company.

(b) In accordance with the Delaware Act and the laws of the State of Delaware, a Member may, under certain circumstances, be required to return amounts previously distributed to such Member. It is the intent of the Members that no Distribution to any Member pursuant to Article IV shall be deemed a return of money or other property paid or distributed in violation of the Delaware Act. The payment of any such money or Distribution of any such property to a Member shall be deemed to be a compromise within the meaning of Section 18-502(b) of the Act, and, to the fullest extent permitted by law, any Member receiving any such money or property shall not be required to return any such money or property to the Company or any other Person. However, if any court of competent jurisdiction holds that, notwithstanding the provisions of this Agreement, any Member is obligated to make any such payment, such obligation shall be the obligation of such Member and not of any other Member.

7.2 **Lack of Authority**. No Member, other than the Manager, in its capacity as such, has the authority or power to act for or on behalf of the Company, to do any act that would be binding on the Company or to make any expenditure on behalf of the Company. The Members hereby consent to the exercise by the Manager of the powers conferred on them by law and this Agreement.

7.3 **No Right of Partition**. No Member, other than the Manager, shall have the right to seek or obtain partition by court decree or operation of law of any Company property, or the right to own or use particular or individual assets of the Company.

7.4 **Indemnification**.

(a) Subject to Section 5.6, the Company hereby agrees to indemnify and hold harmless any Person (each an "Indemnified Person") to the fullest extent permitted under the Delaware Act, as the same now exists or may hereafter be amended, substituted or replaced (but, in the case of any such amendment, substitution or replacement only to the extent that such amendment, substitution or replacement permits the Company to provide broader indemnification rights than the Company is providing immediately prior to such amendment), against all expenses, liabilities and losses (including attorneys' fees, judgments, fines, excise taxes or penalties) reasonably incurred or suffered by such Person (or one or more of such Person's Affiliates) by reason of the fact that such Person is or was a Member or is or was serving as the Manager, Officer, principal, employee or other agent of the Company or is or was serving at the request of the Company as a manager, officer, director, principal, member, employee or agent of another corporation, partnership, joint venture, limited liability company, trust or other enterprise; provided, however, that no Indemnified Person shall be indemnified for any expenses, liabilities and losses suffered that are attributable to such Indemnified Person's or its Affiliates' gross negligence, willful misconduct or knowing violation of law or for any present or future breaches of any representations, warranties or covenants by such Indemnified Person or its Affiliates contained herein or in the other agreements with the Company. Expenses, including attorneys' fees, incurred by any such Indemnified Person in defending a proceeding shall be paid by the Company in advance of the final disposition of such proceeding, including any appeal therefrom, upon receipt of an undertaking by or on behalf of such Indemnified Person to repay such amount if it shall ultimately be determined that such Indemnified Person is not entitled to be indemnified by the Company.

(b) The right to indemnification and the advancement of expenses conferred in this Section 7.4 shall not be exclusive of any other right which any Person may have or hereafter acquire under any statute, agreement, by-law, action by the Manager or otherwise.

(c) The Company shall maintain directors' and officers' liability insurance, or substantially equivalent insurance, at its expense, to protect any Indemnified Person (and the investment funds, if any, they represent) against any expense, liability or loss described in Section 7.4(a) whether or not the Company would have the power to indemnify such Indemnified Person against such expense, liability or loss under the provisions of this Section 7.4. The Company shall use its commercially reasonable efforts to purchase and maintain property, casualty and liability insurance in types and at levels customary for companies of similar size engaged in similar lines of business, as determined in good faith by the Manager, and the Company shall use its commercially reasonable efforts to purchase directors' and officers' liability insurance (including employment practices coverage) with a carrier and in an amount determined necessary or desirable as determined in good faith by the Manager.

(d) Notwithstanding anything contained herein to the contrary (including in this Section 7.4), any indemnity by the Company relating to the matters covered in this Section 7.4 shall be provided out of and to the extent of Company assets only and no Member (unless such Member otherwise agrees in writing or is found in a final decision by a court of competent jurisdiction to have personal liability on account thereof) shall have personal liability on account thereof or shall be required to make additional Capital Contributions to help satisfy such indemnity of the Company.

(e) If this Section 7.4 or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Company shall nevertheless indemnify and hold harmless each Indemnified Person pursuant to this Section 7.4 to the fullest extent permitted by any applicable portion of this Section 7.4 that shall not have been invalidated and to the fullest extent permitted by applicable law.

7.5 **Members Right to Act**. For matters that require the approval of the Members, the Members shall act through meetings and written consents as described in paragraphs (a) and (b) below:

(a) Except as otherwise expressly provided by this Agreement, acts by the Members holding a majority of the Units, voting together as a single class, shall be the acts of the Members. Any Member entitled to vote at a meeting of Members or to express consent or dissent to Company action in writing without a meeting may authorize another person or persons to act for it by proxy. An electronic mail, telegram, telex, cablegram or similar transmission by the Member, or a photographic, photostatic, facsimile or similar reproduction of a writing executed by the Member shall (if stated thereon) be treated as a proxy executed in writing for purposes of this Section 7.5(a). No proxy shall be voted or acted upon after eleven months from the date thereof, unless the proxy provides for a longer period. A proxy shall be revocable unless the proxy form conspicuously states that the proxy is irrevocable and that the proxy is coupled with an interest. Should a proxy designate two or more Persons to act as proxies, unless that instrument shall provide to the contrary, a majority of such Persons present at any meeting at which their powers thereunder are to be exercised shall have and may exercise all the powers of voting or giving consents thereby conferred, or, if only one be present, then such powers may be exercised by that one; or, if an even number attend and a majority do not agree on any particular issue, the Company shall not be required to recognize such proxy with respect to such issue if such proxy does not specify how the votes that are the subject of such proxy are to be voted with respect to such issue.

(b) The actions by the Members permitted hereunder may be taken at a meeting called by the Manager or by the Members holding a majority of the Units entitled to vote on such matter on at least 48 hours' prior written notice to the other Members entitled to vote, which notice shall state the purpose or purposes for which such meeting is being called. The actions taken by the Members entitled to vote or consent at any meeting (as opposed to by written consent), however called and noticed, shall be as valid as though taken at a meeting duly held after regular call and notice if (but not until), either before, at or after the meeting, the Members entitled to vote or consent as to whom it was improperly held signs a written waiver of notice or a consent to the holding of such meeting or an approval of the minutes thereof. The actions by the Members entitled to vote or consent may be taken by vote of the Members entitled to vote or consent at a meeting or by written consent, so long as such consent is signed by Members having not less than the minimum number of Units that would be necessary to authorize or take such action at a meeting at which all Members entitled to vote thereon were present and voted. Prompt notice of the action so taken, which shall state the purpose or purposes for which such consent is required and may be delivered via email, without a meeting shall be given to those Members entitled to vote or consent who have not consented in writing; provided, however, that the failure to give any such notice shall not affect the validity of the action taken by such written consent.. Any action taken pursuant to such written consent of the Members shall have the same force and effect as if taken by the Members at a meeting thereof.

7.6 **Inspection Rights**. The Company shall permit each Member and each of its designated representatives to (i) visit and inspect any of the properties of the Company and its Subsidiaries, all at reasonable times and upon reasonable notice, (ii) examine the corporate and financial records of the Company or any of its Subsidiaries and make copies thereof or extracts therefrom, (iii) consult with the managers, officers, employees and independent accountants of the Company or any of its Subsidiaries concerning the affairs, finances and accounts of the Company or any of its Subsidiaries. The presentation of an executed copy of this Agreement by any Member to the Company's independent accountants shall constitute the Company's permission to its independent accountants to participate in discussions with such Persons and their respective designated representatives.

## ARTICLE VIII

BOOKS, RECORDS, ACCOUNTING AND REPORTS, AFFIRMATIVE COVENANTS

8.1 **Records and Accounting**. The Company shall keep, or cause to be kept, appropriate books and records with respect to the Company's business, including all books and records necessary to provide any information, lists and copies of documents required to be provided pursuant to Section 8.3 or pursuant to applicable laws. All matters concerning (a) the determination of the relative amount of allocations and Distributions among the Members pursuant to Articles III and IV and (b) accounting procedures and determinations, and other determinations not specifically and expressly provided for by the terms of this Agreement, shall be determined by the Manager, whose determination shall be final and conclusive as to all of the Members absent manifest clerical error.

8.2 **Fiscal Year**. The Fiscal Year of the Company shall end on December 31 of each year or such other date as may be established by the Manager.

8.3 **Reports**. The Company shall deliver or cause to be delivered, within 90 days after the end of each Fiscal Year, to each Person who was a Member at any time during such Fiscal Year, all information reasonably necessary for the preparation of such Person's United States federal and applicable state income tax returns.

## ARTICLE IX

## TAX MATTERS

9.1 **Preparation of Tax Returns**. The Company shall arrange for the preparation and timely filing of all tax returns required to be filed by the Company. On or before March 15, June 15, September 15, and December 15 of each Fiscal Year, the Company shall send to each Person who was a Member at any time during the prior quarter, an estimate of such Member's state tax apportionment information and allocations to the Members of taxable income, gains, losses deductions and credits for the prior quarter, which estimate shall have been reviewed by the Company's outside tax accountants. In addition, no later than the later of (i) March 15 following the end of the prior Fiscal Year, and (ii) five (5) Business Days after the issuance of the final audit report for a Fiscal Year by the Company's auditors, the Company shall send to each Person who was a Member at any time during such Fiscal Year, a statement showing such Member's final state tax apportionment information and allocations to the Members of taxable income, gains, losses deductions and credits for such Fiscal Year and a completed IRS Schedule K-1. Each Member shall notify the other Members upon receipt of any notice of tax examination of the Company by federal, state or local authorities. In its capacity as Tax Matters Partner, Holdings shall have the authority to prepare the tax returns of the Company using such permissible methods and elections as it determines in its reasonable discretion, including without limitation the use of any permissible method under Section 706 of the Code for purposes of determining the varying Company Interests of its Members.

9.2 **Tax Elections**. The Taxable Year shall be the Fiscal Year set forth in Section 8.2. The Company shall make an election pursuant to Section 754 of the Code, shall not thereafter revoke such election and shall make a new election pursuant to Section 754 to the extent necessary following any "termination" of the Company under Section 708 of the Code. Each Member will upon request supply any information reasonably necessary to give proper effect to any such elections.

9.3 **Tax Controversies**. Holdings is hereby designated the Tax Matters Partner and is authorized and required to represent the Company (at the Company's expense) in connection with all examinations of the Company's affairs by tax authorities, including resulting administrative and judicial proceedings, and to expend Company funds for professional services reasonably incurred in connection therewith. Each Member agrees to cooperate with the

Company and to do or refrain from doing any or all things reasonably requested by the Company with respect to the conduct of such proceedings. The Tax Matters Partners shall keep all Members fully informed of the progress of any examinations, audits or other proceedings, and all Members shall have the right to participate at their expense in any such examinations, audits or other proceedings. Notwithstanding the foregoing, the Tax Matters Partners shall not settle or otherwise compromise any issue in any such examination, audit or other proceeding without first obtaining approval of the Manager. Nothing herein shall diminish, limit or restrict the rights of any Member under Subchapter C, Chapter 63, Subtitle F of the Code (Code Sections 6221 *et seq*.).

## ARTICLE X

### RESTRICTIONS ON TRANSFER OF UNITS; PREEMPTIVE RIGHTS

10.1 **Transfers by Members**. No holder of Units may Transfer any interest in any Units, except Transfers (a) pursuant to and in accordance with Section 10.2 or (b) approved in writing by the Manager. Notwithstanding the foregoing, "Transfer" shall not include an event that terminates the existence of a Member for income tax purposes (including, without limitation, a change in entity classification of a Member under Treasury Regulations Section 301.7701-3, termination of a partnership pursuant to Code Section 708(b)(1)(B), a sale of assets by, or liquidation of, a Member pursuant to an election under Code Section 338, or merger, severance, or allocation within a trust or among sub-trusts of a trust that is a Member), but that does not terminate the existence of such Member under applicable state law (or, in the case of a trust that is a Member, does not terminate the trusteeship of the fiduciaries under such trust with respect to all the Company Interests of such trust that is a Member).

10.2 **Permitted Transfers**. The restrictions contained in Section 10.1 shall not apply to any Transfer (each, a "Permitted Transfer") pursuant to (i) a Change of Control Transaction, (ii) a Transfer by any Member to such Member's spouse, any lineal ascendants or descendents or trusts or other entities in which such Member or Member's spouse, lineal ascendants or descendents hold (and continue to hold while such trusts or other entities hold Units) 50% or more of such entity's beneficial interests, (iii) pursuant to the laws of descent and distribution and (iv) if such Transfer is made by an Original Member, a Transfer to a partner, shareholder or member of such Original Member; provided, however, that (A) the restrictions contained in this Agreement will continue to apply to Units after any Permitted Transfer of such Units pursuant to the foregoing clauses (ii), (iii) and (iv), and (B) the transferees of the Units so Transferred shall agree in writing to be bound by the provisions of this Agreement and, the transferor will deliver a written notice to the Company and the Members, which notice will disclose in reasonable detail the identity of the proposed transferee. In the case of a Permitted Transfer by RIHI to a transferee in accordance with this Section 10.2, RIHI shall be required to also transfer the fraction of its remaining Class B Common Stock ownership corresponding to the proportion of RIHI's Units that were transferred in the transaction to such transferee, it being understood that in the event such transfer is to any transferee other than David L. Liniger, the voting rights of the Class B Common Stock transferred to such transferee shall be reduced to one vote for each Unit held by such transferee.

10.3 **Restricted Units Legend**. The Units have not been registered under the Securities Act and, therefore, in addition to the other restrictions on Transfer contained in this Agreement, cannot be sold unless subsequently registered under the Securities Act or an exemption from such registration is then available. To the extent such Units have been certificated, each certificate evidencing Units and each certificate issued in exchange for or upon the Transfer of any Units (if such securities remain Units as defined herein after such Transfer) shall be stamped or otherwise imprinted with a legend in substantially the following form:

> "THE SECURITIES REPRESENTED BY THIS CERTIFICATE WERE ORIGINALLY ISSUED ON OCTOBER 1, 2013, AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR AN EXEMPTION FROM REGISTRATION THEREUNDER. THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE ALSO SUBJECT TO ADDITIONAL RESTRICTIONS ON TRANSFER SPECIFIED IN THE FOURTH AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT OF RMCO, LLC, AS MAY BE AMENDED AND MODIFIED FROM TIME TO TIME, AND RMCO, LLC RESERVES THE RIGHT TO REFUSE THE TRANSFER OF SUCH SECURITIES UNTIL SUCH CONDITIONS HAVE BEEN FULFILLED WITH RESPECT TO ANY TRANSFER. A COPY OF SUCH CONDITIONS SHALL BE FURNISHED BY RMCO, LLC TO THE HOLDER HEREOF UPON WRITTEN REQUEST AND WITHOUT CHARGE."

The Company shall imprint such legend on certificates (if any) evidencing Units. The legend set forth above shall be removed from the certificates (if any) evidencing any units which cease to be Units in accordance with the definition thereof.

10.4 **Transfer**. Prior to Transferring any Units (other than pursuant to a Change of Control Transaction), the Transferring Holder of Units shall cause the prospective Transferee to be bound by this Agreement and any other agreements executed by the holders of Units and relating to such Units in the aggregate (collectively, the "Other Agreements"), and shall cause the prospective Transferee to execute and deliver to the Company and the other holders of Units counterparts of this Agreement and any applicable Other Agreements. Any Transfer or attempted Transfer of any Units in violation of any provision of this Agreement (including any prohibited indirect Transfers) (a) shall be void, and (b) the Company shall not record such Transfer on its books or treat any purported Transferee of such Units as the owner of such securities for any purpose.

10.5 **Assignee's Rights**.

(a) The Transfer of a Company Interest in accordance with this Agreement shall be effective as of the date of its assignment (assuming compliance with all of the conditions to such Transfer set forth herein), and such Transfer shall be shown on the books and records of the Company. Profits, Losses and other Company items shall be allocated between the transferor and the Assignee according to Code Section 706, using any permissible method as determined in the reasonable discretion of the Manager. Distributions made before the effective date of such Transfer shall be paid to the transferor, and Distributions made after such date shall be paid to the Assignee.

(b) Unless and until an Assignee becomes a Member pursuant to Article XII, the Assignee shall not be entitled to any of the rights granted to a Member hereunder or under applicable law, other than the rights granted specifically to Assignees pursuant to this Agreement; provided, however, that, without relieving the transferring Member from any such limitations or obligations as more fully described in Section 10.6, such Assignee shall be bound by any limitations and obligations of a Member contained herein that a Member would be bound on account of the Assignee's Company Interest (including the obligation to make Capital Contributions on account of such Company Interest).

10.6 **Assignor's Rights and Obligations**. Any Member who shall Transfer any Company Interest in a manner in accordance with this Agreement shall cease to be a Member with respect to such Units or other interest and shall no longer have any rights or privileges, or, except as set forth in this Section 10.6, duties, liabilities or obligations, of a Member with respect to such Units or other interest (it being understood, however, that the applicable provisions of Sections 6.9 and 7.4 shall continue to inure to such Person's benefit), except that unless and until the Assignee (if not already a Member) is admitted as a Substituted Member in accordance with the provisions of Article XII (the "Admission Date"), (i) such assigning Member shall retain all of the duties, liabilities and obligations of a Member with respect to such Units or other interest, and (ii) the Manager may, in its sole discretion, reinstate all or any portion of the rights and privileges of such Member with respect to such Units or other interest for any period of time prior to the Admission Date. Nothing contained herein shall relieve any Member who Transfers any Units or other interest in the Company from any liability of such Member to the Company with respect to such Company Interest that may exist on the Admission Date or that is otherwise specified in the Delaware Act and incorporated into this Agreement or for any liability to the Company or any other Person for any materially false statement made by such Member (in its capacity as such) or for any present or future breaches of any representations, warranties or covenants by such Member (in its capacity as such) contained herein or in the other agreements with the Company.

10.7 **Overriding Provisions**

(a) Any Transfer in violation of this Article X shall be null and void *ab initio*, and the provisions of Sections 10.5 and 10.6 shall not apply to any such Transfers. For the avoidance of doubt, any Person to whom a Transfer is made or attempted in violation of this Article X shall not become a Member, shall not be entitled to vote on any matters coming before the Members and shall not have any other rights in or with respect to any rights of a Member of the Company. The approval of any Transfer in any one or more instances shall not limit or waive the requirement for such approval in any other or future instance. The Manager shall promptly amend the Schedule of Members to reflect any Permitted Transfer pursuant to this Article X.

(b) Notwithstanding anything contained herein to the contrary (including, for the avoidance of doubt, the provisions of Section 10.1 and Article XI and Article XII), in no event shall any Member Transfer any Units to the extent such Transfer would:

(i) result in the violation of the Securities Act, or any other applicable federal, state or foreign laws;

(ii) cause an assignment under the Investment Company Act;

(iii) be a violation of or a default (or an event that, with notice or the lapse of time or both, would constitute a default) under, or result in an acceleration of any indebtedness under, any note, mortgage, loan agreement or similar instrument or document to which the Company or the Manager is a party;

(iv) cause the Company to lose its status as a partnership for federal income tax purposes and, without limiting the generality of the foregoing, such Transfer was effected on or through an "established securities market" or a "secondary market or the substantial equivalent thereof," as such terms are used in Section 1.7704-1 of the Treasury Regulations;

(v) be a Transfer to a Person who is not legally competent or who has not achieved his or her majority under applicable Law (excluding trusts for the benefit of minors);

(vi) cause the Company to be treated as a "publicly traded partnership" or to be taxed as a corporation pursuant to Section 7704 of the Code or successor provision of the Code; or

(vii) result in the Company having more than one hundred (100) partners, within the meaning of Treasury Regulations Section 1.7704-1(h)(1) (determined pursuant to the rules of Treasury Regulations Section 1.7704-1(h)(3)).

## ARTICLE XI

### REDEMPTION AND EXCHANGE RIGHTS

11.1 **Redemption Right of a Member**.

(a) Each Member (other than Holdings) shall be entitled to cause the Company to redeem (a "Redemption") its Common Units (the "Redemption Right") at any time following the expiration of the lock-up period under the lock-up agreement, dated as of July 12, 2013, executed by RIHI. A Member desiring to exercise its Redemption Right (the "Redeeming Member") shall exercise such right by giving written notice (the "Redemption Notice") to the Company with a copy to Holdings. The Redemption Notice shall specify the number of Common Units (the "Redeemed Units") that the Redeeming Member intends to have the Company redeem and a date, not less than seven (7) Business Days nor more than ten (10) Business Days after delivery of the Redemption Notice, on which exercise of the Redemption Right shall be completed (the "Redemption Date"). Unless the Redeeming Member timely has delivered a Retraction Notice as provided in Section 11.1(b) or has revoked or delayed a Redemption as provided in Section 11.1(c), on the Redemption Date (to be effective immediately prior to the close of business on the Redemption Date) (i) the Redeeming Member shall transfer and surrender the Redeemed Units to the Company, free and clear of all liens and encumbrances, and (ii) the Company shall (x) cancel the Redeemed Units, (y) transfer to the Redeeming Member the consideration to which the Redeeming Member is entitled under Section 11.1(b), and (z), if the Units are certificated, issue to the Redeeming Member a certificate for a number of Common Units equal to the difference (if any) between the number of Common Units evidenced by the certificate surrendered by the Redeeming Member pursuant to clause (i) of this Section 11.1(a) and the Redeemed Units.

(b) In exercising its Redemption Right, a Redeeming Member shall be entitled to receive the Share Settlement or the Cash Settlement; provided that Holdings shall have the option as provided in Section 11.2 and subject to Section 11.1(d) to select whether the redemption payment is made by means of a Share Settlement or a Cash Settlement. Within three (3) Business Days of delivery of the Redemption Notice, Holdings shall give written notice (the "Contribution Notice") to the Company (with a copy to the Redeeming Member) of its intended settlement method; provided that if Holdings does not timely deliver a Contribution Notice, Holdings shall be deemed to have elected the Share Settlement method. If Holdings elects the Cash Settlement method, the Redeeming Member may retract its Redemption Notice by giving written notice (the "Retraction Notice") to the Company (with a copy to Holdings) within two (2) Business Days of delivery of the Contribution Notice. The timely delivery of a Retraction Notice shall terminate all of the Redeeming Member's, Company's and Holdings' rights and obligations under this Section 11.1 arising from the Redemption Notice.

(c) In the event Holdings elects a Share Settlement in connection with a Redemption, a Redeeming Member shall be entitled to revoke its Redemption Notice or delay the consummation of a Redemption if any of the following conditions exists: (i) any registration statement pursuant to which the resale of the Class A Common Stock to be registered for such Redeeming Member at or immediately following the consummation of the Redemption shall have ceased to be effective pursuant to any action or inaction by the Securities and Exchange Commission or no such resale registration statement has yet become effective; (ii) Holdings shall have failed to cause any related prospectus to be supplemented by any required prospectus supplement necessary to effect such Redemption; (iii) Holdings shall have exercised its right to defer, delay or suspend the filing or effectiveness of a registration statement and such deferral, delay or suspension shall affect the ability of such Redeeming Member to have its Class A Common Stock registered at or immediately following the consummation of the Redemption; (iv) Holdings shall have disclosed to such Redeeming Member any material non-public information concerning Holdings, the receipt of which results in such Redeeming Member being prohibited or restricted from selling Class A Common Stock at or immediately following the Redemption without disclosure of such information (and Holdings does not permit disclosure); (v) any stop order relating to the registration statement pursuant to which the Class A Common Stock was to be registered by such Redeeming Member at or immediately following the Redemption shall have been issued by the Securities and Exchange Commission; (vi) there shall have occurred a material disruption in the securities markets generally or in the market or markets in which the Class A Common Stock is then traded; (vii) there shall be in effect an injunction, a restraining order or a decree of any nature of any governmental entity that restrains or prohibits the Redemption; or (viii) Holdings shall have failed to comply in all material respects with its obligations under the Registration Rights Agreement, and such failure shall have affected the ability of such Redeeming Member to consummate the resale of Class A Common Stock to be received upon such redemption pursuant to an effective registration statement; provided further, that in no event shall the Redeeming Member seeking to Revoke its Redemption Notice or delay the consummation of such Redemption and relying on any of the matters contemplated in clauses (i) through (viii) above have controlled or intentionally influenced any facts, circumstances, or Persons in connection therewith (except in the good faith performance of his or her duties as an officer or director of Holdings) in order to provide such Redeeming Member with a basis for such delay or revocation. If a Redeeming Member delays the consummation of a Redemption pursuant to this Section 11.1(c), the Redemption Date shall occur on the fifth Business Day following the date on which the conditions giving rise to such delay cease to exist.

(d) The number of shares of Class A Common Stock and the Redeemed Units Equivalent that a Redeeming Member is entitled to receive under Section 11.1(b) (whether through a Share Settlement or Cash Settlement) shall not be adjusted on account of any Distributions previously made with respect to the Redeemed Units or dividends previously paid with respect to Class A Common Stock; provided, however, that if a Redeeming Member causes the Company to redeem Redeemed Units and the Redemption Date occurs subsequent to the record date for any Distribution with respect to the Redeemed Units but prior to payment of such Distribution, the Redeeming Member shall be entitled to receive such Distribution with respect to the Redeemed Units on the date that it is made notwithstanding that the Redeeming Member transferred and surrendered the Redeemed Units to the Company prior to such date.

(e) In the event of a reclassification or other similar transaction as a result of which the shares of Class A Common Stock are converted into another security, then in exercising it Redemption Right a Redeeming Member shall be entitled to receive the amount of such security that the Redeeming Member would have received if such Redemption Right had been exercised and the Redemption Date had occurred immediately prior to the record date of such reclassification or other similar transaction.

11.2 **Election and Contribution of Holdings**. In connection with the exercise of a Redeeming Member's Redemption Rights under Section 11.1(a), Holdings shall contribute to the Company the consideration the Redeeming Member is entitled to receive under Section 11.1(b). Holdings, at its option, shall determine whether to contribute, pursuant to Section 11.1(b), the Share Settlement or the Cash Settlement. Unless the Redeeming Member has timely delivered a Retraction Notice as provided in Section 11.1(b), or has revoked or delayed a Redemption as provided in Section 11.1(c), on the Redemption Date (to be effective immediately prior to the close of business on the Redemption Date) (i) Holdings shall make its Capital Contribution to the Company (in the form of the Share Settlement or the Cash Settlement) required under this Section 11.2, and (ii) the Company shall issue to Holdings a number of Common Units equal to the number of Redeemed Units surrendered by the Redeeming Member. Notwithstanding any other provisions of this Agreement to the contrary, in the event that Holdings elects a Cash Settlement, Holdings shall only be obligated to pay in respect of such Cash Settlement to the Redeeming Member the net proceeds (after deduction of any underwriters' discounts or commissions and brokers' fees or commissions) from the sale by Holdings of a number of shares of Class A Common Stock equal to the number of Redeemed Units to be redeemed with such Cash Settlement. The timely delivery of a Retraction Notice shall terminate all of the Company's and Holdings' rights and obligations under this Section 11.2 arising from the Redemption Notice.

11.3 **Exchange Right of Holdings**.

(a) Notwithstanding anything to the contrary in this Article XI, Holdings may, in its sole and absolute discretion, elect to effect on the Redemption Date the exchange of Redeemed Units for the Share Settlement or Cash Settlement, as the case may be, through a direct exchange of such Redeemed Units and such consideration between the Redeeming Member and Holdings (a "Direct Exchange"). Upon such Direct Exchange pursuant to this Section 11.3, Holdings shall acquire the Redeemed Units and shall be treated for all purposes of this Agreement as the owner of such Units.

(b) Holdings may, at any time prior to a Redemption Date, deliver written notice (an "Exchange Election Notice") to the Company and the Redeeming Member setting forth its election to exercise its right to consummate a Direct Exchange; provided that such election does not prejudice the ability of the parties to consummate a Redemption or Direct Exchange on the Redemption Date. An Exchange Election Notice may be revoked by Holdings at any time; provided that any such revocation does not prejudice the ability of the parties to consummate a Redemption or Direct Exchange on the Redemption Date. The right to consummate a Direct Exchange in all events shall be exercisable for all the Redeemed Units that would have otherwise been subject to a Redemption. Except as otherwise provided by this Section 11.3, a Direct Exchange shall be consummated pursuant to the same timeframe and in the same manner as the relevant Redemption would have been consummated if Holdings had not delivered an Exchange Election Notice.

11.4 **Reservation of Class A Shares; Listing; Certificate of Holdings**. At all times Holdings shall reserve and keep available out of its authorized but unissued Class A Common Stock, solely for the purpose of issuance upon a Redemption or Direct Exchange, such number of shares of Class A Common Stock as shall be issuable upon any such Redemption or Direct Exchange pursuant to Share Settlements; provided that nothing contained herein shall be construed to preclude Holdings from satisfying its obligations in respect of any such Redemption or Direct Exchange by delivery of purchased Class A Common Stock (which may or may not be held in the treasury of Holdings) or the delivery of cash pursuant to a Cash Settlement. Holdings shall deliver Class A Common Stock that has been registered under the Securities Act with respect to any Redemption or Direct Exchange to the extent a registration statement is effective and available for such shares. Holdings shall use its commercially reasonable efforts to list the Class A Common Stock required to be delivered upon any such Redemption or Direct Exchange prior to such delivery upon each national securities exchange upon which the outstanding shares of Class A Common Stock are listed at the time of such Redemption or Direct Exchange (it being understood that any such shares may be subject to transfer restrictions under applicable securities laws). Holdings covenants that all Class A Common Stock issued upon a Redemption or Direct Exchange will, upon issuance, be validly issued, fully paid and non-assessable. The provisions of this Article XI shall be interpreted and applied in a manner consistent with the corresponding provisions of Holdings' certificate of incorporation.

11.5 **Effect of Exercise of Redemption or Exchange Right**. This Agreement shall continue notwithstanding the consummation of a Redemption or Direct Exchange and all governance or other rights set forth herein shall be exercised by the remaining Members and the Redeeming Member (to the extent of such Redeeming Member's remaining interest in the Company). No Redemption or Direct Exchange shall relieve such Redeeming Member of any prior breach of this Agreement.

11.6 **Tax Treatment**. Unless otherwise required by applicable law, the parties hereto acknowledge and agree a Redemption or a Direct Exchange, as the case may be, shall be treated as a direct exchange between Holdings and the Redeeming Member for U.S. federal and applicable state and local income tax purposes.

## ARTICLE XII

## ADMISSION OF MEMBERS

12.1 **Substituted Members**. Subject to the provisions of Article X hereof, in connection with the Permitted Transfer of a Company Interest hereunder, the transferee shall become a substituted Member ("Substituted Member") on the effective date of such Transfer, which effective date shall not be earlier than the date of compliance with the conditions to such Transfer, and such admission shall be shown on the books and records of the Company.

12.2 **Additional Members**. Subject to the provisions of Article X hereof, a Person may be admitted to the Company as an additional Member ("Additional Member") only upon furnishing to the Manager (a) counterparts of this Agreement and any applicable Other Agreements and (b) such other documents or instruments as may be reasonably necessary or appropriate to effect such Person's admission as a Member (including entering into such documents as the Manager may deem appropriate in its sole discretion). Such admission shall become effective on the date on which the Manager determines in its sole discretion that such conditions have been satisfied and when any such admission is shown on the books and records of the Company.

## ARTICLE XIII

## WITHDRAWAL AND RESIGNATION OF MEMBERS

13.1 **Withdrawal and Resignation of Members**. No Member shall have the power or right to withdraw or otherwise resign as a Member from the Company prior to the dissolution and winding up of the Company pursuant to this Article XIII. Any Member, however, that attempts to withdraw or otherwise resign as a Member from the Company without the prior written consent of the Manager upon or following the dissolution and winding up of the Company pursuant to this Article XIII, but prior to such Member receiving the full amount of Distributions from the Company to which such Member is entitled pursuant to this Article XIII, shall be liable to the Company for all damages (including all lost profits and special, indirect and consequential damages) directly or indirectly caused by the withdrawal or resignation of such Member. Upon a Transfer of all of a Member's Units in a Transfer permitted by this Agreement, subject to the provisions of Section 10.6, such Member shall cease to be a Member.

## ARTICLE XIV

DISSOLUTION AND LIQUIDATION

14.1 **Dissolution**. The Company shall not be dissolved by the admission of Additional Members or Substituted Members or the attempted withdrawal or resignation of a Member. The Company shall dissolve, and its affairs shall be wound up, upon:

(a) the unanimous decision of the Members that then hold Common Units to dissolve the Company;

(b) a Change of Control Transaction; or

(c) the entry of a decree of judicial dissolution of the Company under Section 35-5 of the Delaware Act or an administrative dissolution under Section 18-802 of the Delaware Act. Except as otherwise set forth in this Article XIV, the Company is intended to have perpetual existence. An Event of Withdrawal shall not cause a dissolution of the Company and the Company shall continue in existence subject to the terms and conditions of this Agreement.

14.2 **Liquidation and Termination**. On dissolution of the Company, the Manager shall act as liquidator or may appoint one or more Persons as liquidator. The liquidators shall proceed diligently to wind up the affairs of the Company and make final distributions as provided herein and in the Delaware Act. The costs of liquidation shall be borne as a Company expense. Until final distribution, the liquidators shall continue to operate the Company properties with all of the power and authority of the Manager. The steps to be accomplished by the liquidators are as follows:

(a) as promptly as possible after dissolution and again after final liquidation, the liquidators shall cause a proper accounting to be made by a recognized firm of certified public accountants of the Company's assets, liabilities and operations through the last day of the calendar month in which the dissolution occurs or the final liquidation is completed, as applicable;

(b) the liquidators shall cause the notice described in the Delaware Act to be mailed to each known creditor of and claimant against the Company in the manner described thereunder;

(c) the liquidators shall pay, satisfy or discharge from Company funds, or otherwise make adequate provision for payment and discharge thereof (including, without limitation, the establishment of a cash fund for contingent liabilities in such amount and for such term as the liquidators may reasonably determine): first, all expenses incurred in liquidation; and second, all of the debts, liabilities and obligations of the Company; and

(d) all remaining assets of the Company shall be distributed to the Members in accordance with Article IV by the end of the Taxable Year during which the liquidation of the Company occurs (or, if later, by 90 days after the date of the liquidation).

The distribution of cash and/or property to the Members in accordance with the provisions of this Section 14.2 and Section 14.3 below constitutes a complete return to the Members of their Capital Contributions, a complete distribution to the Members of their interest in the Company and all the Company's property and constitutes a compromise to which all Members have consented within the meaning of the Delaware Act. To the extent that a Member returns funds to the Company, it has no claim against any other Member for those funds.

14.3 **Deferment; Distribution in Kind**. Notwithstanding the provisions of Section 14.2, but subject to the order of priorities set forth therein, if upon dissolution of the Company the liquidators determine that an immediate sale of part or all of the Company's assets would be impractical or would cause undue loss (or would otherwise not be beneficial) to the Members, the liquidators may, in their sole discretion, defer for a reasonable time the liquidation of any assets except those necessary to satisfy Company liabilities (other than loans to the Company by Members) and reserves. Subject to the order of priorities set forth in Section 14.2, the liquidators may, in their sole discretion, distribute to the Members, in lieu of cash, either (a) all or any portion of such remaining Company assets in-kind in accordance with the provisions of Section 14.2(d), (b) as tenants in common and in accordance with the provisions of Section 14.2(d), undivided interests in all or any portion of such Company assets or (c) a combination of the foregoing. Any such Distributions in kind shall be subject to (a) such conditions relating to the disposition and management of such assets as the liquidators deem reasonable and equitable and (b) the terms and conditions of any agreements governing such assets (or the operation thereof or the holders thereof) at such time. Any Company assets distributed in kind will first be written up or down to their Fair Market Value, thus creating Profit or Loss (if any), which shall be allocated in accordance with Article V. The liquidators shall determine the Fair Market Value of any property distributed in accordance with the valuation procedures set forth in Article XV.

14.4 **Cancellation of Certificate**. On completion of the distribution of Company assets as provided herein, the Company is terminated (and the Company shall not be terminated prior to such time), and the Manager (or such other Person or Persons as the Delaware Act may require or permit) shall file a certificate of cancellation with the Secretary of State of Delaware, cancel any other filings made pursuant to this Agreement that are or should be canceled and take such other actions as may be necessary to terminate the Company. The Company shall be deemed to continue in existence for all purposes of this Agreement until it is terminated pursuant to this Section 14.4.

14.5 **Reasonable Time for Winding Up**. A reasonable time shall be allowed for the orderly winding up of the business and affairs of the Company and the liquidation of its assets pursuant to Sections 14.2 and 14.3 in order to minimize any losses otherwise attendant upon such winding up.

14.6 **Return of Capital**. The liquidators shall not be personally liable for the return of Capital Contributions or any portion thereof to the Members (it being understood that any such return shall be made solely from Company assets).

## ARTICLE XV

VALUATION

15.1 **Determination**. "Fair Market Value" of a specific Company asset will mean the amount which the Company would receive in an all-cash sale of such asset in an arms-length transaction with a willing unaffiliated third party, with neither party having any compulsion to buy or sell, consummated on the day immediately preceding the date on which the event occurred which necessitated the determination of the Fair Market Value (and after giving effect to any transfer taxes payable in connection with such sale), as such amount is determined by the Manager (or, if pursuant to Section 14.2, the liquidators) in its good faith judgment using all factors, information and data it deems to be pertinent.

15.2 **Dispute Resolution**. If any Member or Members dispute the accuracy of any determination of Fair Market Value in accordance with Section 15.1, and the Manager and such Member(s) are unable to agree on the determination of the Fair Market Value of any asset of the Company, the Manager and such Member(s) shall each select a nationally recognized investment banking firm experienced in valuing securities of closely-held companies such as the Company in the Company's industry (the "Appraisers"), who shall each determine the Fair Market Value of the asset or the Company (as applicable) in accordance with the provisions of Section 15.1. The Appraisers shall be instructed to give written notice of their determination of the Fair Market Value of the asset or the Company (as applicable) within 30 days of their appointment as Appraisers. If Fair Market Value as determined by an Appraiser is higher than Fair Market Value as determined by the other Appraiser by 10% or more, and the Manager and such Member(s) do not otherwise agree on a Fair Market Value, the original Appraisers shall designate a third Appraiser meeting the same criteria used to select the original two. If Fair Market Value as determined by an Appraiser is within 10% of the Fair Market Value as determined by the other Appraiser (but not identical), and the Manager and such Member(s) do not otherwise agree on a Fair Market Value, the Manager shall select the Fair Market Value of one of the Appraisers. The fees and expenses of the Appraiser shall be borne by the Company.

## ARTICLE XVI

GENERAL PROVISIONS

16.1 **Power of Attorney**.

(a) Each Member who is an individual hereby constitutes and appoints the Manager (or the liquidator, if applicable) with full power of substitution, as his true and lawful agent and attorney-in-fact, with full power and authority in his or its name, place and stead, to:

(i) execute, swear to, acknowledge, deliver, file and record in the appropriate public offices (A) this Agreement, all certificates and other instruments and all amendments thereof which the Manager deems appropriate or necessary to form, qualify, or continue the qualification of, the Company as a limited liability company in the State of Delaware and in all other jurisdictions in which the Company may conduct business or own property; (B) all instruments which the Manager deems appropriate or necessary to reflect any amendment, change, modification or restatement of this Agreement in accordance with its terms; (C) all conveyances and other instruments or documents which the Manager deems appropriate or necessary to reflect the dissolution and liquidation of the Company pursuant to the terms of this Agreement, including a certificate of cancellation; and (D) all instruments relating to the admission, withdrawal or substitution of any Member pursuant to Article XII or XIII; and

(ii) sign, execute, swear to and acknowledge all ballots, consents, approvals, waivers, certificates and other instruments appropriate or necessary, in the reasonable judgment of the Manager, to evidence, confirm or ratify any vote, consent, approval, agreement or other action which is made or given by the Members hereunder or is consistent with the terms of this Agreement and/or appropriate or necessary (and not inconsistent with the terms of this Agreement), in the reasonable judgment of the Manager, to effectuate the terms of this Agreement.

(b) The foregoing power of attorney is irrevocable and coupled with an interest, and shall survive the death, disability, incapacity, dissolution, bankruptcy, insolvency or termination of any Member who is an individual and the transfer of all or any portion of his or its Company Interest and shall extend to such Member's heirs, successors, assigns and personal representatives.

16.2 **Confidentiality**. The Manager and each of the Members agree to hold the Company's Confidential Information in confidence and may not use such information except in furtherance of the business of the Company or as otherwise authorized separately in writing by the Manager. "Confidential Information" as used herein includes, but is not limited to, ideas, financial product structuring, business strategies, innovations and materials, all aspects of the Company's business plan, proposed operation and products, corporate structure, financial and organizational information, analyses, proposed partners, software code and system and product designs, employees and their identities, equity ownership, the methods and means by which the Company plans to conduct its business, all trade secrets, trademarks, tradenames and all intellectual property associated with the Company's business. With respect to the Manager and each Member, Confidential Information does not include information or material that: (a) is rightfully in the possession of the Manager or each Member at the time of disclosure by the Company; (b) before or after it has been disclosed to the Manager or each Member by the Company, becomes part of public knowledge, not as a result of any action or inaction of the Manager or such Member, respectively, in violation of this Agreement; (c) is approved for release by written authorization of the CEO of the Company or Holdings; (d) is disclosed to the Manager or such Member or their representatives by a third party not, to the knowledge of the Manager or such Member, respectively, in violation of any obligation of confidentiality owed to the Company with respect to such information; or (e) is or becomes independently developed by the Manager or such Member or their respective representatives without use or reference to the Confidential Information.

16.3 **Amendments**. This Agreement may be amended or modified upon the consent of Members holding a majority of the Common Units. Notwithstanding the foregoing, no amendment or modification to any of the terms and conditions of this Agreement which terms and conditions expressly require the approval or action of certain Persons may be made without obtaining the consent of the requisite number or specified percentage of such Persons who are entitled to approve or take action on such matter.

16.4 **Title to Company Assets**. Company assets shall be deemed to be owned by the Company as an entity, and no Member, individually or collectively, shall have any ownership interest in such Company assets or any portion thereof. The Company shall hold title to all of its property in the name of the Company and not in the name of any Member. All Company assets shall be recorded as the property of the Company on its books and records, irrespective of the name in which legal title to such Company assets is held. The Company's credit and assets shall be used solely for the benefit of the Company, and no asset of the Company shall be transferred or encumbered for, or in payment of, any individual obligation of any Member.

16.5 **Addresses and Notices**. Any notice provided for in this Agreement will be in writing and will be either personally delivered, or received by certified mail, return receipt requested, or sent by reputable overnight courier service (charges prepaid) to the Company at the address set forth below and to any other recipient and to any Member at such address as indicated by the Company's records, or at such address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party. Notices will be deemed to have been given hereunder when delivered personally or sent by telecopier (provided confirmation of transmission is received), three days after deposit in the U.S. mail and one day after deposit with a reputable overnight courier service. The Company's address is:

To the Company:

RMCO, LLC
c/o RE/MAX International Holdings, Inc.
5075 S. Syracuse Street
Denver, Colorado 80237
Attn: David Metzger, Chief Financial Officer and Geoffrey Lewis, General Counsel
Facsimile: (303) 796-3599

with a copy (which copy shall not constitute notice) to:

Morrison & Foerster LLP
425 Market Street
San Francisco, California 94105
Attn: Gavin B. Grover
Facsimile: (415) 268-7113

16.6 **Binding Effect**. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their heirs, executors, administrators, successors, legal representatives and permitted assigns.

16.7 **Creditors**. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditors of the Company or any of its Affiliates, and no creditor who makes a loan to the Company or any of its Affiliates may have or acquire (except pursuant to the terms of a separate agreement executed by the Company in favor of such creditor) at any time as a result of making the loan any direct or indirect interest in Company Profits, Losses, Distributions, capital or property other than as a secured creditor.

16.8 **Waiver**. No failure by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute a waiver of any such breach or any other covenant, duty, agreement or condition.

16.9 **Counterparts**. This Agreement may be executed in separate counterparts, each of which will be an original and all of which together shall constitute one and the same agreement binding on all the parties hereto.

16.10 **Applicable Law**. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without giving effect to any choice of law or conflict of law rules or provisions (whether of the State of Delaware or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Delaware. Any dispute relating hereto shall be heard in the state or federal courts of the State of Delaware, and the parties agree to jurisdiction and venue therein.

16.11 **Severability**. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or the effectiveness or validity of any provision in any other jurisdiction, and this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

16.12 **Further Action**. The parties shall execute and deliver all documents, provide all information and take or refrain from taking such actions as may be necessary or appropriate to achieve the purposes of this Agreement.

16.13 **Delivery by Electronic Transmission**. This Agreement and any signed agreement or instrument entered into in connection with this Agreement or contemplated hereby, and any amendments hereto or thereto, to the extent signed and delivered by means of an electronic transmission, including by a facsimile machine or via email, shall be treated in all manner and respects as an original agreement or instrument and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. At the request of any party hereto or to any such agreement or instrument, each other party hereto or thereto shall re-execute original forms thereof and deliver them to all other parties. No party hereto or to any such agreement or instrument shall raise the use of electronic transmission by a facsimile machine or via email to deliver a signature or the fact that any signature or agreement or instrument was transmitted or communicated through such electronic transmission as a defense to the formation of a contract and each such party forever waives any such defense.

16.14 **Right of Offset**. Whenever the Company is to pay any sum (other than pursuant to Article IV) to any Member, any amounts that such Member owes to the Company which are not the subject of a good faith dispute may be deducted from that sum before payment.

16.15 **Effectiveness; Fourth LLC Agreement**. This Agreement shall be effective immediately prior to the time at which the IPO closes on the IPO Closing Date (the "Effective Time"). The Third LLC Agreement shall govern the rights and obligations of the parties to the Fourth LLC Agreement and the Unitholders for the time prior to the Effective Time.

16.16 **Entire Agreement**. This Agreement, those documents expressly referred to herein (including the Registration Rights Agreement and Tax Receivable Agreements), any indemnity agreements entered into in connection with the Third LLC Agreement with any member of the board of managers at that time and other documents of even date herewith embody the complete agreement and understanding among the parties and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way. For the avoidance of doubt, the Third LLC Agreement and the Letter Agreement are superseded by this Agreement as of the Effective Time and shall be of no further force and effect thereafter.

16.17 **Remedies**. Each Member shall have all rights and remedies set forth in this Agreement and all rights and remedies which such Person has been granted at any time under any other agreement or contract and all of the rights which such Person has under any law. Any Person having any rights under any provision of this Agreement or any other agreements contemplated hereby shall be entitled to enforce such rights specifically (without posting a bond or other security), to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights granted by law.

16.18 **Descriptive Headings; Interpretation**. The descriptive headings of this Agreement are inserted for convenience only and do not constitute a substantive part of this Agreement. Whenever required by the context, any pronoun used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa. The use of the word "including" in this Agreement shall be by way of example rather than by limitation. Reference to any agreement, document or instrument means such agreement, document or instrument as amended or otherwise modified from time to time in accordance with the terms thereof, and if applicable hereof. Without limiting the generality of the immediately preceding sentence, no amendment or other modification to any agreement, document or instrument that requires the consent of any Person pursuant to the terms of this Agreement or any other agreement will be given effect hereunder unless such Person has consented in writing to such amendment or modification. Wherever required by the context, references to a Fiscal Year shall refer to a portion thereof. The use of the words "or," "either" and "any" shall not be exclusive. The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement. Wherever a conflict exists between this Agreement and any other agreement, this Agreement shall control but solely to the extent of such conflict.

**IN WITNESS WHEREOF**, the undersigned have executed or caused to be executed on their behalf this Agreement as of the date first written above.

**COMPANY:**

RMCO, LLC

By: /s/ Geoffrey D. Lewis
Name: Geoffrey D. Lewis
Title: Executive Vice President and Chief Legal and Compliance Officer

[Signature Page to LLC Agreement]

**MEMBERS:**

WESTON PRESIDIO V, L.P.

By: Weston Presidio Management V, LLC

By: /s/ Therese Mrozek
Name: Therese Mrozek
Title: Chief Operating Officer

[Signature Page to LLC Agreement]

RIHI, INC.

By: /s/ Geoffrey D. Lewis
Name: Geoffrey D. Lewis
Title: Secretary

RE/MAX HOLDINGS, INC.

By: /s/ Geoffrey D. Lewis
Name: Geoffrey D. Lewis
Title: Executive Vice President and Chief Legal and Compliance Officer

SCHEDULE I*

Schedule of Members

| Member | Common Units | Percentage Interest |
|---|---|---|
| RIHI, Inc. | 19,234,600 ** | 65.55 % |
| RE/MAX Holdings, Inc. | 10,107,971 *** | 34.45 % |
| **Total** | 29,342,571 | 100.00 % |

* This Schedule of Members reflects the Recapitalization and the WP Preferred Unit Redemption and WP Common Unit Redemption and shall be updated from time to time to reflect any adjustment with respect to any subdivision (by Unit split or otherwise) or any combination (by reverse Unit split or otherwise) of any outstanding Common Units, or to reflect any additional issuances of Common Units pursuant to this Agreement.

** Reflects the Recapitalization and the RIHI Initial Common Unit Redemption and RIHI Over-Allotment Option Common Unit Redemption (if applicable)

*** Reflects the HBN/Tails Contribution and the contribution of the Remaining Net IPO Proceeds and Net Over-Allotment Proceeds (if any)

**Exhibit 21.1**

| Legal Name | Jurisdiction |
|---|---|
| BMFC, LLC | Delaware |
| Booj, LLC | Delaware |
| First Leads, LLC | Delaware |
| Maximized Promotions, Inc. | British Columbia, Canada |
| Motto Franchising, LLC | Delaware |
| Motto Marketing Fund, LLC | Delaware |
| RE/MAX, LLC | Delaware |
| RE/MAX Ancillary Services, LLC | Delaware |
| RE/MAX Brokerage, LLC | Delaware |
| RE/MAX Caribbean Islands, LLC | Delaware |
| RE/MAX Foreign Holdings, LLC | Delaware |
| RE/MAX Marketing Fund, LLC | Delaware |
| RE/MAX of Western Canada (1998), LLC | Delaware |
| RMCO, LLC | Delaware |
| Sacagawea, LLC | Delaware |
| Seventy3, LLC | Delaware |
| Statewide RES, Inc. | Texas |
| STC Northwest, LLC | Delaware |
| Syracuse Development Company, LLC | Delaware |

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors
RE/MAX Holdings, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333-191519) on Form S-8 and (No. 333-207629 and No. 3330234187) on Form S-3 of RE/MAX Holdings, Inc. of our reports dated February 21, 2020, with respect to the consolidated balance sheets of RE/MAX Holdings, Inc. and subsidiaries as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes, and the effectiveness of internal control over financial reporting as of December 31, 2019, which reports appear in the December 31, 2019 annual report on Form 10-K of RE/MAX Holdings, Inc.

Our report refers to a change in the method of accounting for leases.

/s/ KPMG LLP

Denver, Colorado
February 21, 2020

**Exhibit 31.1**

**Certification**

I, Adam M. Contos certify that:

1. I have reviewed this annual report on Form 10-K of RE/MAX Holdings, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this annual report based on such evaluation; and
    d. Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2020

/s/ Adam M. Contos
Adam M. Contos
*Chief Executive Officer*
*(Principal Executive Officer)*

**Exhibit 31.2**

**Certification**

I, Karri R. Callahan certify that:

1. I have reviewed this annual report on Form 10-K of RE/MAX Holdings, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this annual report based on such evaluation; and
    d. Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2020

/s/ Karri R. Callahan
Karri R. Callahan
*Chief Financial Officer*
*(Principal Financial Officer)*

**Exhibit 32.1**

**Certification**
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
**(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of RE/MAX Holdings, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 10-K for the year ended December 31, 2019 (the "Form 10-K") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company as of December 31, 2019 and December 31, 2018, and for the years ended December 31, 2019, 2018 and 2017.

| | |
|---|---|
| Date: February 21, 2020 | /s/ Adam M. Contos |
| | Adam M. Contos<br>*Chief Executive Officer*<br>*(Principal Executive Officer)* |
| Date: February 21, 2020 | /s/ Karri R. Callahan |
| | Karri R. Callahan<br>*Chief Financial Officer*<br>*(Principal Financial Officer)* |

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Form 10-K or as a separate disclosure document.