APPFOLIO INC
Form 10-Q
April 30, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark one)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018.
o 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 001-37468
AppFolio, Inc.
(Exact name of registrant as specified in its charter)

Delaware	26-0359894
(State of incorporation or organization)	(I.R.S. Employer Identification No.)
50 Castilian Drive Santa Barbara, California	93117
(Address of principal executive offices)	(Zip Code)

(805) 364-6093
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

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 x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

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. (Check one):

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

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. x

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

As of April 23, 2018, the number of shares of the registrant's Class A common stock outstanding was 15,229,692 and the number of shares of the registrant's Class B common stock outstanding was 18,940,964.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2018, or Quarterly Report, includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which statements are subject to considerable risks and uncertainties. Forward-looking statements include all statements that are not statements of historical facts contained in this Quarterly Report and can be identified by words such as "anticipates," "believes," "seeks," "estimates," "expects," "intends," "may," "plans," "potential," "predicts, "projects," "should "would" or similar expressions and the negatives of those expressions. In particular, forward looking statements contained in this Quarterly Report relate to, among other things, our future or assumed financial condition, results of operations, business forecasts and plans, seasonality and other trends affecting our business, capital needs and financing plans, including our potential repurchase of shares, research and product development plans, services provided, the expansion of these services, growth in the size of our business and number of customers, strategic plans and objectives, acquisitions and investments, and the application of accounting guidance. We caution you that the foregoing list may not include all of the forward-looking statements made in this Quarterly Report.

Forward-looking statements represent our management's current beliefs and assumptions based on information currently available. Forward-looking statements involve numerous known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss these risks and uncertainties in greater detail in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Quarterly Report and in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, or Annual Report, as well as in our other filings with the Securities and Exchange Commission, or SEC. You should read this Quarterly Report, and the other documents that we have filed with the SEC, with the understanding that our actual future results may be materially different from the results expressed or implied by these forward-looking statements.

Moreover, we operate in an evolving environment. New risks and uncertainties emerge from time to time and it is not possible for our management to predict all risks and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual future results to be materially different from those expressed or implied by any forward-looking statements.

Except as required by applicable law or the rules of the NASDAQ Global Market, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

We qualify all of our forward-looking statements by these cautionary statements.

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PART I. FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements

APPFOLIO, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands, except par values)

	March 31, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$8,549	$ 16,109
Investment securities—current	37,290	29,800
Accounts receivable, net	4,535	3,387
Prepaid expenses and other current assets	5,253	4,546
Total current assets	55,627	53,842
Investment securities—noncurrent	21,971	22,401
Property and equipment, net	6,463	6,696
Capitalized software, net	18,064	17,609
Goodwill	6,737	6,737
Intangible assets, net	1,397	1,725
Other assets	3,806	1,238
Total assets	$114,065	$ 110,248
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$1,099	$ 610
Accrued employee expenses	7,486	10,710
Accrued expenses	4,905	4,289
Deferred revenue	5,746	7,080
Other current liabilities	1,129	1,223
Total current liabilities	20,365	23,912
Other liabilities	1,161	1,257
Total liabilities	21,526	25,169
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, $0.0001 par value, 25,000 authorized and no shares issued and outstanding as of March 31, 2018 and December 31, 2017	—	—
Class A common stock, $0.0001 par value, 250,000 shares authorized as of March 31, 2018 and December 31, 2017; 15,092 and 14,879 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively;	1	1
Class B common stock, $0.0001 par value, 50,000 shares authorized as of March 31, 2018 and December 31, 2017; 19,055 and 19,102 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively;	3	3
Additional paid-in capital	152,855	152,531
Accumulated other comprehensive loss	(357)	(209)
Accumulated deficit	(59,963)	(67,247)
Total stockholders' equity	92,539	85,079
Total liabilities and stockholders' equity	$114,065	$ 110,248

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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APPFOLIO, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2018	2017
Revenue	$42,340	$32,126
Costs and operating expenses:		
Cost of revenue (exclusive of depreciation and amortization)	16,613	12,993
Sales and marketing	7,405	7,107
Research and product development	5,333	3,629
General and administrative	5,316	4,804
Depreciation and amortization	3,500	2,996
Total costs and operating expenses	38,167	31,529
Income from operations	4,173	597
Other expense, net	(3)	(28)
Interest income, net	176	102
Income before provision for income taxes	4,346	671
Provision for income taxes	26	11
Net income	$4,320	$660
Net income per common share:		
Basic	$0.13	$0.02
Diluted	$0.12	$0.02
Weighted average common shares outstanding:		
Basic	34,070	33,706
Diluted	35,300	34,765

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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APPFOLIO, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(in thousands)

	Three Months Ended March 31,	
	2018	2017
Net income	$4,320	$660
Other comprehensive (loss) income:		
Changes in unrealized (losses) gains on investment securities	(148)	22
Comprehensive income	$4,172	$682

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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APPFOLIO, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(in thousands)

	Common Stock Class A Shares	Common Stock Class A Amount	Common Stock Class B Shares	Common Stock Class B Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance at December 31, 2017	14,879	$ 1	19,102	$ 3	$ 152,531	$ (209)	$ (67,247)	$ 85,079
Exercise of stock options	98	—	—		470	—	—	470
Stock-based compensation	—	—	—	—	1,495	—	—	1,495
Vesting of restricted stock units, net of shares withheld for taxes	68	—	—	—	(1,650)	—	—	(1,650)
Vesting of early exercised shares	—	—	—	—	9	—	—	9
Conversion of Class B stock to Class A stock	47	—	(47)	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	(148)	—	(148)
Cumulative-effect adjustment resulting from adoption of ASU 2014-09 (Note 2)	—	—	—	—	—	—	2,964	2,964
Net income	—	—	—	—	—	—	4,320	4,320
Balance at March 31, 2018	15,092	$ 1	19,055	$ 3	$ 152,855	$ (357)	$ (59,963)	$ 92,539

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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APPFOLIO, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	Three Months Ended March 31, 2018	2017
Cash from operating activities		
Net income	$4,320	$660
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,500	2,996
Purchased investment premium, net of amortization	62	(14)
Amortization of deferred financing costs	16	16
Loss on disposal of property and equipment	1	28
Stock-based compensation	1,318	1,097
Changes in operating assets and liabilities:		
Accounts receivable	(1,148)	(1,303)
Prepaid expenses and other current assets	441	402
Other assets	(766)	5
Accounts payable	415	(19)
Accrued employee expenses	(3,842)	(1,662)
Accrued expenses	611	473
Deferred revenue	(1,334)	1,059
Other liabilities	(252)	69
Net cash provided by operating activities	3,342	3,807
Cash from investing activities		
Purchases of property and equipment	(263)	(392)
Additions to capitalized software	(2,936)	(2,991)
Purchases of investment securities	(15,573)	(6,537)
Sales of investment securities	5	—
Maturities of investment securities	8,296	4,445
Net cash used in investing activities	(10,471)	(5,475)
Cash from financing activities		
Proceeds from stock option exercises	470	145
Tax withholding for net share settlement	(901)	(1,207)
Proceeds from issuance of debt	32	29
Principal payments on debt	(32)	(29)
Net cash used in financing activities	(431)	(1,062)
Net decrease in cash, cash equivalents and restricted cash	(7,560)	(2,730)
Cash, cash equivalents and restricted cash		
Beginning of period	16,537	11,126
End of period	$8,977	$8,396

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APPFOLIO, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Noncash investing and financing activities		
Purchases of property and equipment included in accounts payable and accrued expenses	$114	$ 58
Additions of capitalized software included in accrued employee expenses	243	196
Stock-based compensation capitalized for software development	235	138
Tax withholding for net share settlement included in accrued employee expenses	749	—

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Condensed Consolidated Balance Sheets to the total of the same such amounts shown above (in thousands):

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Cash and cash equivalents	$8,549	$7,969
Restricted cash included in other assets	428	427
Total cash, cash equivalents and restricted cash	$8,977	$8,396

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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APPFOLIO, INC.
NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
1. Nature of Business
AppFolio, Inc. (“we”, "us" or "our") provides industry-specific, cloud-based software solutions to the real estate market, which comprises a significant majority of our revenue, as well as to the legal market, and we intend to enter new vertical markets over time. We serve small and medium-sized businesses (“SMBs”) in the property management industry and solo practitioners and small law firms in the legal industry. We refer to solo practitioners and small law firms as SMBs in connection with our legal vertical in these financial statements. Our solutions are designed to be a system of record to automate essential business processes, a system of engagement to enhance business interactions between our customers and their clients and vendors, and, increasingly, a system of intelligence to anticipate, influence, and optimize customer experiences using data to take action in real time.
2. Summary of Significant Accounting Policies
Basis of Presentation and Significant Accounting Policies
The accompanying unaudited Condensed Consolidated Financial Statements were prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. Certain information and disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. Accordingly, these Condensed Consolidated Financial Statements should be read in conjunction with our audited consolidated financial statements and the related notes included in our Annual Report filed with the Securities and Exchange Commission ("SEC") on February 26, 2018. The year-end condensed balance sheet was derived from our audited consolidated financial statements. Our unaudited interim Condensed Consolidated Financial Statements include, in the opinion of management, all adjustments, consisting of normal and recurring items, necessary for the fair statement of the Condensed Consolidated Financial Statements. The operating results for the three months ended March 31, 2018 are not necessarily indicative of the results expected for the full year ending December 31, 2018.
Changes in Accounting Policies
On January 1, 2018, we adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, as amended ("ASU 2014-09"), and have revised certain related accounting policies in connection with revenue recognition and deferred costs, as follows:
Revenue Recognition
We generate revenue from our customers primarily for subscriptions to access our core solutions and Value+ services for our cloud-based property management and legal software solutions. Revenue is recognized upon transfer of control of promised products or services in an amount that reflects the consideration we expect to receive in exchange for those products or services. We enter into contracts that can include various combinations of products and services, which are generally capable of being distinct, distinct within the context of the contract, and accounted for as separate performance obligations. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities. We have applied the practical expedient to recognize revenue in proportion to the amount we have the right to invoice for certain core solutions and Value+ services revenue as that amount corresponds directly with our performance completed to date. Refer to Note 9, Revenue and Other Information for the disaggregated breakdown of revenues between core solutions, Value+ services and other revenues.
Core Solutions
We charge our customers on a subscription basis for our core solutions. Our subscription fees are designed to scale to the size of our customers' businesses. Subscription fees for our core solutions are charged on a per-unit per-month basis for our property management software solution and on a per-user per-month basis for our legal software solution. Our customers do not have rights to the underlying software code of our solutions, and accordingly, we recognize subscription revenue over time on a straight-line basis over the contract term beginning on the date that our service is made available to the customer. The term of our core solutions subscription agreements generally ranges from one month to one year. We typically invoice our customers for subscription services in monthly or annual installments, in advance of the subscription period.
Value+ Services

We charge our customers for Value+ services based on subscriptions or usage-based fees. Subscription Value+ services include website hosting and contact center services. Usage-based Value+ services include fees for services such as electronic payment processing, applicant screening, legal liability to landlord insurance, renters insurance, collections, and online vacancy advertising services. Usage-based fees are charged on a flat fee per transaction basis with no minimum usage commitments. We recognize revenue for usage-based services in the period the service is rendered. We generally invoice our customers for usage-based services on a monthly basis for services rendered in the preceding month with the exception of fees for electronic payment processing, which are generally paid by the clients of our customers at the time the electronic payment is processed.

We work with third party partners to provide certain of our Value+ services. For these Value+ services, we evaluate whether we are the principal, and report revenues on a gross basis, or an agent, and report revenues on a net basis. In this assessment we consider if we obtain control of the specified goods or services before they are transferred to the customer, as well as other indicators such as the party primarily responsible for fulfillment, and discretion in establishing price.

Other Revenues

Other revenues include one-time services related to implementation and data migration of our core solutions, website design services and online vacancy advertising services offered to legacy RentLinx customers. The fees for implementation and data migration services are billed upon signing our core subscription contract and are not recognized until the core solution is accessible and fully functional for our customer's use. Our website design services are billed when the website design is completed and delivered to the customer. The online vacancy advertising services revenue has a combination of monthly subscription revenue, verified leads and clicks for online rental vacancies, with subscription revenue being billed in advance and deferred over the subscription period and verified leads and clicks being billed when the services have been rendered and recognized upon completion of the services.

Contracts with Multiple Performance Obligations

Many of our contracts with customers contain multiple performance obligations. For these contracts, the performance obligations include access and use of the core solution, implementation services, and customer support. We account for individual performance obligations separately if they are distinct. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment.

The transaction price is allocated to each performance obligation on a relative standalone selling price basis. Judgment is required to determine the standalone selling price for each distinct performance obligation. We typically have more than one standalone selling price for individual products and services due to the stratification of those products and services by customers and circumstances. In these instances, we determine the standalone selling price based on our overall pricing objectives, taking into consideration customer demographics and other factors. Fees are fixed based on rates specified in the subscription agreements, which do not provide for any refunds or adjustments. In determining the transaction price, we have applied the practical expedient which allows us not to adjust the consideration for the effects of the time value of money as the time between when we transfer the promised good or service to a customer and when a customer pays is one year or less. We do not disclose the value of unsatisfied performance obligations for contracts with an original expected term of one year or less.

Deferred Revenues

We record deferred revenues when cash payments are received in advance of our performance. The decrease in the deferred revenue balance for the three months ended March 31, 2018 is primarily driven by $3.7 million of revenues recognized that were included in the deferred revenue balance at the beginning of the period, offset by cash payments received in advance of satisfying our performance obligations.

Deferred Costs

Deferred costs, which primarily consist of sales commissions, are considered incremental and recoverable costs of obtaining a contract with a customer. These costs are deferred and then amortized on a straight-line basis over a period of benefit that we have determined to be three years. We do not pay commissions for contract renewals. We determined the period of benefit by taking into consideration our customer contract term, the useful life of our internal-use software, average customer life, and other factors. Amortization expense for the deferred costs is included within cost of revenue and sales and marketing expense in the accompanying Condensed Consolidated Statements of Operations.

Deferred costs were $4.3 million as of March 31, 2018, of which $1.7 million is included in prepaid expenses and other current assets and $2.6 million is included in other assets in the accompanying Condensed Consolidated Balance Sheets. Amortization expense for the deferred costs was $0.3 million for the three months ended March 31, 2018. For the three months ended March 31, 2018, no impairments were identified in relation to the costs capitalized for the period presented.

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Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. On an ongoing basis, management evaluates its estimates based on historical data and experience, as well as various other factors that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources.

Net Income per Common Share

The net income per common share was the same for our Class A and Class B common shares because they are entitled to the same liquidation and dividend rights and are therefore combined in the table below. The following table presents a reconciliation of our weighted average number of Class A and Class B common shares used to compute net income per common share (in thousands):

	Three Months Ended March 31,	
	2018	2017
Weighted average common shares outstanding	34,085	33,747
Less: Weighted average unvested restricted shares subject to repurchase	15	41
Weighted average common shares outstanding; basic	34,070	33,706
Weighted average common shares outstanding; basic	34,070	33,706
Plus: Weighted average options, restricted stock units and restricted shares used to compute diluted net income per common share	1,230	1,059
Weighted average common shares outstanding; diluted	35,300	34,765

Approximately 607,000 and 784,000 shares of performance based options ("PSOs") and performance based restricted stock units ("PSUs") are not included in the computations of diluted and anti-dilutive shares for the three month periods ended March 31, 2018 and 2017, respectively, as they are considered contingently issuable upon the satisfaction of pre-defined performance measures and their respective performance measures have not been met.

The following table presents the number of anti-dilutive common shares excluded from the calculation of weighted average number of shares used to compute diluted net income per common share for the three months ended March 31, 2018 and 2017 (in thousands):

	Three Months Ended March 31,	
	2018	2017
Options to purchase common stock	—	4
Unvested restricted stock units	16	12
Contingent restricted stock units[1]	6	17
Total shares excluded from net income per common share	22	33

[1] The reported shares are based on fixed price restricted stock unit (“RSU”) commitments for which the number of shares has not been determined at the grant date. The number of shares have been determined by dividing the fixed price commitment to issue shares in the future by the closing price of our stock as of the applicable reporting period date.

Recently Adopted Accounting Pronouncements

Under the Jumpstart our Business Startups Act (the “JOBS Act”), we meet the definition of an emerging growth company. We have irrevocably elected to opt out of the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act.

In May 2014, the FASB issued ASU 2014-09, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers (the “New Revenue Standard”). The New Revenue

Standard also includes Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers, which discusses the deferral of incremental costs of obtaining a contract with a customer.
We adopted the New Revenue Standard as of January 1, 2018 using the modified retrospective transition method applied to those contracts which were not completed as of that date. We recognized the cumulative effect of initially applying the New Revenue Standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. We updated our accounting policies, processes, internal controls and information systems to conform to the New Revenue Standard's reporting and disclosure requirements.

The adoption of the New Revenue Standard did not have an impact on our revenues. The most significant impact relates to the deferral of incremental costs of obtaining contracts. Prior to the adoption of the New Revenue Standard, our commissions were expensed as incurred.

The cumulative effects of the changes made to our Condensed Consolidated Balance Sheet at January 1, 2018 for the adoption of the New Revenue Standard were as follows (in thousands):

	Balance at December 31, 2017	Adjustments	Balance at January 1, 2018
Assets			
Prepaid expenses and other current assets	$4,546	$ 1,148	$5,694
Other assets	1,238	1,816	3,054
Equity			
Accumulated deficit	$(67,247)	$ 2,964	$(64,283)

The following tables summarize the current period impacts of adopting the New Revenue Standard on our Condensed Consolidated Financial Statements (in thousands):

Condensed Consolidated Balance Sheet:

	March 31, 2018		
	As Reported	Balances Without Adoption of ASU 2014-09	Effect of Adoption
Assets			
Prepaid expenses and other current assets	$5,253	$3,556	$ 1,697
Other assets	3,806	1,209	2,597
Equity			
Accumulated deficit	$(59,963)	$(64,257)	$ 4,294

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Condensed Consolidated Statement of Operations:

	Three Months Ended March 31, 2018		
	As Reported	Balances Without Adoption of ASU 2014-09	Effect of Adoption
Costs and operating expenses:			
Cost of revenue (exclusive of depreciation and amortization)	$16,613	$ 16,673	$ (60)
Sales and marketing	7,405	8,675	(1,270)
Total costs and operating expenses	38,167	39,497	(1,330)
Income from operations	4,173	2,843	1,330
Income before provision for income taxes	4,346	3,016	1,330
Net income	$4,320	$ 2,990	$ 1,330
Net income per common share:			
Basic	$0.13	$ 0.09	$ 0.04
Diluted	$0.12	$ 0.08	$ 0.04

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"), which provides cash flow statement classification guidance for debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. We adopted ASU 2016-15 effective January 1, 2018. The adoption of this guidance did not have a material impact on our statement of cash flows.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16"), which changes the timing of when certain intercompany transactions are recognized within the provision for income taxes. We adopted ASU 2016-16 effective January 1, 2018. The adoption of this guidance did not have a material impact on our financial condition, results of operations, cash flows or disclosures.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"), which provides amendments to current guidance to address the classification and presentation of changes in restricted cash in the statement of cash flows. We adopted ASU 2016-18 effective January 1, 2018. The adoption of this guidance changed the presentation of restricted cash on our statements of cash flows.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"), which eliminates Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. ASU 2017-04 also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 is effective for public entities for fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on dates after January 1, 2017. We early adopted ASU 2017-04 effective January 1, 2018. The adoption of this guidance did not have a material impact on our financial condition, results of operations, cash flows or disclosures.

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In May 2017, the FASB issued ASU No. 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting ("ASU 2017-09"). ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if the award's fair value, vesting conditions and classification as an equity or liability instrument are the same immediately before and after the change. ASU 2017-09 will be applied prospectively to awards modified on or after the adoption date. We adopted ASU 2017-09 effective January 1, 2018. The adoption of this guidance did not have a material impact on our financial condition, results of operations, cash flows or disclosures.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). Under ASU 2016-02, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. For public companies, ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. We anticipate this standard will have a material impact on our consolidated financial statements. While we are continuing to assess all potential impacts of the standard, we currently believe the most significant impact relates to our accounting and reporting of our operating leases on our balance sheet.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which amends the current accounting guidance and requires the measurement of all expected losses based on historical experience, current conditions and reasonable and supportable forecasts. This guidance amends the accounting for credit losses for available-for-sale securities and purchased financial assets with credit deterioration. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Early adoption is permitted for any interim or annual period after December 15, 2018. We do not expect the adoption of this guidance to have a material impact on our financial condition, results of operations, cash flows or disclosures.

In March 2017, the FASB issued ASU No. 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities ("ASU 2017-08"). ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium. Specifically, ASU 2017-08 requires the premium to be amortized to the earliest call date. ASU 2017-08 does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public companies, ASU 2017-08 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The amendments should be applied on a modified retrospective basis, with a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We do not expect the adoption of this guidance to have a material impact on our financial condition, results of operations, cash flows or disclosures since our current accounting policy is in accordance with ASU 2017-08.

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3. Investment Securities and Fair Value Measurements

Investment Securities

Investment securities classified as available-for-sale consisted of the following at March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	$37,976	$ —	$ (299)	$ 37,677
Agency securities	11,034	1	(52)	10,983
Certificates of deposit	1,986	—	(2)	1,984
Treasury securities	8,622	—	(5)	8,617
Total available-for-sale investment securities	$59,618	$ 1	$ (358)	$ 59,261

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	$38,383	$ —	$ (166)	$ 38,217
Agency securities	11,045	—	(42)	11,003
Certificates of deposit	2,982	1	(2)	2,981
Total available-for-sale investment securities	$52,410	$ 1	$ (210)	$ 52,201

As of March 31, 2018, the unrealized losses on investment securities which have been in a net loss position for twelve months or greater were not material. These unrealized losses are considered temporary and there were no impairments considered to be "other-than-temporary" based on our evaluation of available evidence, which includes our intent to hold these investments to maturity or a recovery of the cost basis.

At March 31, 2018 and December 31, 2017, the contractual maturities of our investments did not exceed 36 months. The fair values of available-for-sale investments, by remaining contractual maturity, are as follows (in thousands):

	March 31, 2018		December 31, 2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$37,410	$ 37,290	$29,850	$ 29,800
Due after 1 year through 3 years	22,208	21,971	22,560	22,401
Total available-for-sale investment securities	$59,618	$ 59,261	$52,410	$ 52,201

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During the three months ended March 31, 2018 and 2017, we had sales and maturities (which includes calls) of investment securities, as follows (in thousands):

	Three Months Ended March 31, 2018			
	Gross Realized Gains	Gross Realized Losses	Gross Proceeds from Sales	Gross Proceeds from Maturities
Corporate bonds	$ —	$ —	$ —	$ 6,300
Agency securities	—	—	—	1,000
Certificates of deposit	—	—	—	996
Treasury securities	—	—	5	—
	$ —	$ —	$ 5	$ 8,296

	Three Months Ended March 31, 2017			
	Gross Realized Gains	Gross Realized Losses	Gross Proceeds from Sales	Gross Proceeds from Maturities
Corporate bonds	$ —	$ —	$ —	$ 3,200
Certificates of deposit	—	—	—	1,245
	$ —	$ —	$ —	$ 4,445

For the three months ended March 31, 2018 and 2017, we received interest income net of the amortization and accretion of the premium and discount of $0.2 million and $0.1 million, respectively.

Fair Value Measurements

Recurring Fair Value Measurements

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following tables summarize our financial assets measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017, by level within the fair value hierarchy (in thousands):

	March 31, 2018			
	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents:				
Money market funds	$ 107	$ —	$ —	$ 107
Available-for-sale investment securities:				
Corporate bonds	—	37,677	—	37,677
Agency securities	—	10,983	—	10,983
Certificates of deposit	1,984	—	—	1,984
Treasury securities	8,617	—	—	8,617
Total	$ 10,708	$ 48,660	$ —	$ 59,368

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	December 31, 2017			
	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents:				
Money market funds	$5,524	$—	$ —	$5,524
Available-for-sale investment securities:				
Corporate bonds	—	38,217	—	38,217
Agency securities	—	11,003	—	11,003
Certificates of deposit	2,981	—	—	2,981
Total	$8,505	$49,220	$ —	$57,725

The carrying amounts of cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities approximate fair value because of the short maturity of these items.

There were no changes to our valuation techniques used to measure asset and liability fair values on a recurring basis during the three months ended March 31, 2018. The valuation techniques for the items in the table above are as follows:

Cash Equivalents

As of March 31, 2018 and December 31, 2017, cash equivalents include cash invested in money market funds. Fair value is based on market prices for identical assets.

Available-for-Sale Investment Securities

The fair value of our corporate bonds and agency securities is based on pricing determined using inputs other than quoted prices that are observable either directly or indirectly such as yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, broker and dealer quotes, as well as other relevant economic measures. The fair value of our certificates of deposit and treasury securities is based on market prices for identical assets.

Non-Recurring Fair Value Measurements

Certain assets, including goodwill, intangible assets and our note receivable with SecureDocs, are also subject to measurement at fair value on a non-recurring basis using Level 3 measurement, but only when they are deemed to be impaired as a result of an impairment review. For the three months ended March 31, 2018 and 2017, no impairments were identified on those assets required to be measured at fair value on a non-recurring basis.

4. Internal-Use Software Development Costs

Internal-use software development costs were as follows (in thousands):

	March 31, 2018	December 31, 2017
Internal use software development costs, gross	$47,435	$ 44,626
Less: Accumulated amortization	(29,371)	(27,017)
Internal use software development costs, net	$18,064	$ 17,609

Capitalized software development costs were $3.0 million and $2.9 million for the three months ended March 31, 2018 and 2017, respectively. Amortization expense with respect to software development costs totaled $2.6 million and $2.0 million for the three months ended March 31, 2018 and 2017, respectively.

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Future amortization expense with respect to capitalized software development costs as of March 31, 2018, is estimated as follows (in thousands):

Years Ending December 31,	
2018	$7,492
2019	7,075
2020	3,233
2021	264
Total amortization expense	$18,064

5. Intangible Assets

Intangible assets consisted of the following as of March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Customer relationships	$790	$ (566)	$ 224
Technology	4,811	(4,072)	739
Trademarks	930	(570)	360
Partner relationships	680	(680)	—
Non-compete agreements	40	(40)	—
Domain names	273	(273)	—
Patents	285	(211)	74
	$7,809	$ (6,412)	$ 1,397

	December 31, 2017		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Customer relationships	$790	$ (538)	$ 252
Technology	4,811	(3,871)	940
Trademarks	930	(539)	391
Partner relationships	680	(623)	57
Non-compete agreements	40	(37)	3
Domain names	273	(273)	—
Patents	285	(203)	82
	$7,809	$ (6,084)	$ 1,725

Amortization expense for the three months ended March 31, 2018 and 2017 was $0.3 million for each period.

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As of March 31, 2018, estimated future amortization of intangible assets was as follows (in thousands):

Years Ending December 31,	
2018	$601
2019	352
2020	259
2021	124
2022	61
Total amortization expense	$1,397

6. Commitments and Contingencies

Lease Obligations

As of March 31, 2018, we had operating lease obligations of approximately $8.5 million through 2022. We recorded rent expense of $0.5 million for the three months ended March 31, 2018 and 2017.

Line of Credit

We are party to a Credit Agreement with Wells Fargo, as administrative agent, and the lenders that are parties thereto (as amended, the "Credit Agreement"). Under the terms of the Credit Agreement, the lenders made available to us a $25.0 million revolving line of credit (the "Revolving Facility"). Borrowings under the Revolving Facility are subject to the satisfaction of customary conditions. The Revolving Facility matures on October 9, 2020; however, we can make payments on the Revolving Facility and cancel it in full at any time without premium or penalty.

As of March 31, 2018 and December 31, 2017, we had no outstanding balance and were in compliance with the financial covenants under the Revolving Facility.

Legal Liability to Landlord Insurance

We have a wholly owned subsidiary, Terra Mar Insurance Company, Inc., which was established to provide our customers with the option to purchase legal liability to landlord insurance. If our customers choose to use this insurance service, they are issued an insurance policy underwritten by our third-party service provider. The policy has a limit of $100,000 per incident for each insured residence. We have entered into a reinsurance agreement with our third-party service provider and, as a result, we assume a 100% quota share of the legal liability to landlord insurance provided to our customers through our third-party service provider. We accrue in cost of revenue the expense for reported claims and an estimate of losses incurred but not reported by our property manager customers, as we bear the risk related to claims. Our liability for reported claims and incurred but not reported claims as of March 31, 2018 and December 31, 2017 was $0.5 million and is included in other current liabilities on the Condensed Consolidated Balance Sheets.

Included in other current assets as of March 31, 2018 and December 31, 2017, are $0.9 million and $1.8 million, respectively, of deposits held with a third party related to requirements to maintain collateral for this insurance service.

Litigation

From time to time, we are involved in various legal proceedings arising from or related to claims incident to the ordinary course of our business activities, including actions with respect to intellectual property, employment and contractual matters. Although the results of such legal proceedings and claims cannot be predicted with certainty, we believe that we are not currently a party to any legal proceeding(s) which, if determined adversely to us, would, individually or taken together, have a material adverse effect on our business, operating results, financial condition or cash flows.

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Indemnification

In the ordinary course of business, we may provide indemnification of varying scope and terms to customers, investors, directors and officers with respect to certain matters, including, but not limited to, losses arising out of our breach of any applicable agreements, services to be provided by us, or intellectual property infringement claims made by third parties. These indemnification provisions may survive termination of the underlying agreement and the maximum potential amount of future payments we could be required to make under these indemnification provisions may not be subject to maximum loss clauses. The maximum potential amount of future payments we could be required to make under these indemnification provisions is indeterminable. We have never paid a material claim, nor have any legal claims been brought against us in connection with these indemnification arrangements. As of March 31, 2018 and December 31, 2017, we had not accrued a liability for these indemnification arrangements because we determined that the likelihood of incurring a payment obligation, if any, in connection with these indemnification arrangements is not probable or reasonably possible and the amount or range of amounts of any such liability is not reasonably estimable.

7. Stock-Based Compensation

Stock Options

A summary of our stock option activity for the three months ended March 31, 2018, is as follows (number of shares in thousands):

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life in Years
Options outstanding as of December 31, 2017	1,692	$ 10.81	7.3
Options granted	—	—	
Options exercised	(98)	4.81	
Options cancelled/forfeited	(1)	14.35	
Options outstanding as of March 31, 2018	1,593	$ 11.18	7.5

Included in the options outstanding as of March 31, 2018 are 172,000 and 250,000 PSOs granted in 2017 and 2016, respectively. Vesting of these PSOs is based on the achievement of pre-established performance target for each of the years ended December 31, 2018 and 2019, and continued employment throughout the performance period. Of the PSOs granted during 2017, 132,000 shares vest as to the maximum payout of 100% of the initial target award based on the maximum achievement of the 2019 free cash flow performance metric at 150% of the performance target. The remaining 40,000 PSOs granted during 2017 have a pre-established adjusted gross margin target for 2019. PSOs tied to the gross margin performance metric have two levels of vesting, with 50% vesting based upon the achievement of 110% of the targeted amount and the remaining 50% vesting upon the achievement of 115% of the targeted amount. The 250,000 PSOs granted in 2016 vest based on the achievement of a pre-established free cash flow performance metric for the year ended December 31, 2018, and assume achievement of the performance metric at the maximum level, which is 150% of the performance target.