

RE/MAX Holdings, Inc.  
Form 10-K  
March 28, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended: December 31, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-36101

RE/MAX Holdings, Inc.

(Exact name of registrant as specified in its charter)

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

(303) 770-5531

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(Registrants' telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Class A Common Stock, par value \$0.0001 per share	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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes  No

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company   
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 28, 2013, the last business day of the registrant's most recently completed second quarter, there was no established public market for the registrant's common stock. The registrant's common stock began trading on the New York Stock Exchange on October 2, 2013. As of December 31, 2013, the aggregate value of the registrant's common stock held by non-affiliates was approximately \$372.3 million, based on the number of shares held by non-affiliates as of December 31, 2013 and the closing price of the registrant's common stock on the New York Stock Exchange on December 31, 2013.

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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 March 28, 2014 was 11,607,971 and 1, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2014 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, 2013.

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RE/MAX HOLDINGS, INC.

2013 ANNUAL REPORT ON FORM 10-K

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## SPECIAL NOTE REGARDING 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 may include words such as “anticipate,” “estimate,” “expect,” “project,” “plan,” “intend,” “believe,” “may,” “will,” “should,” “likely” and other words and similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, forward-looking statements include statements we make relating to:

- our expectations regarding consumer trends in residential real estate transactions;
- our expectations regarding overall economic and demographic trends, including the continued recovery of the U.S. residential real estate market;
- our expectations regarding our performance during future downturns in the housing sector;
- our growth strategy of increasing our agent count;
- our ability to expand our network of franchises at higher than average rates in both new and existing but underpenetrated markets;
- our expectations regarding agent count and productivity;
- our growth strategy of increasing our number of closed transaction sides and transaction sides per agent;
- our expectations of the effects of the reacquisitions of the regional franchise rights in the Southwest and Central Atlantic regions of the U.S. and in the state of Texas on our results of operations;
- the continued strength of our brand both in the U.S. and Canada and in the rest of the world;
- the pursuit of future reacquisitions of Independent Regions;
- our intention to pay dividends;
- our future financial performance;
- the effects of laws applying to our business;
- our ability to retain our senior management and other key employees;
- our intention to pursue additional intellectual property protections;
- our future compliance with U.S. or state franchise regulations; and
- other plans and objectives for future operations, growth, initiatives or strategies.

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 hereof. 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 otherwise required by law.



## PART I

### ITEM 1. BUSINESS

#### Our Company

We are one of the world's leading franchisors of real estate brokerage services. Our business strategy is to recruit and retain agents and sell franchises. Our franchisees operate under the RE/MAX brand name, which has held the number one market share in the U.S. and Canada since 1999, as measured by total residential transaction sides completed by our agents. Accordingly, our company slogan is "Nobody sells more real estate than RE/MAX." The RE/MAX brand has the highest level of unaided brand awareness in real estate in the U.S. and Canada according to a 2013 consumer survey 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.

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 this agent-centric approach, we believe that our agents are substantially more productive than the industry average. We consider agent count to be a key measure of our business performance as the majority of our revenue is derived from fixed, contractual fees and dues paid to us based on the number of agents in our franchise network.

RE/MAX was founded in 1973 by David and Gail Liniger with an innovative, entrepreneurial culture affording our agents and franchisees the flexibility to operate their businesses with great independence. This business strategy led to a 33-year period of uninterrupted growth, highlighted in the charts below, as RE/MAX added large numbers of franchises and agents in the U.S., Canada and around the world. Today, the RE/MAX brand operates in more countries than any other real estate brokerage brand in the world.

93,228 Agents\*    6,481 Offices\*    97 Countries\*

Number of Agents    Number of Offices    Number of Countries\*

\*As of December 31, 2013.

We grew our total agent count at a CAGR of 30% from our founding to a peak of approximately 120,000 agents in 2006. Our agent count declined approximately 26.8% from 2006 through 2011 as real estate transaction activity declined during the U.S. and global real estate downturn and economic recession. We returned to growth, with a net gain of 1,532 agents during 2012 (of which 651 agents were in the U.S.) and accelerated our growth in 2013 with a net gain of 4,220 agents (of which 2,688 agents were in the U.S.), as the upturn has continued. We expect that our U.S. agent count will continue to increase as we continue to attract productive agents who recognize the strength of the RE/MAX brand and our agent-centric value proposition.

As approximately 78.5% of our 2013 revenue come from the U.S., we believe that we are benefiting from the recovery in the U.S. housing market. Existing home sale transactions in the U.S. rose 9.4% in 2012 and 9.2% in 2013, according to the National Association of Realtors ("NAR"). NAR forecasts that existing home sale transactions will fall by 1.4% in 2014, but rise 5.3% in 2015. With approximately 15.8% of our 2013 revenue coming from Canada, where



RE/MAX has the leading market share among residential brokerage firms, we also expect to benefit from a continuation of generally stable Canadian housing market trends.

The RE/MAX network extends to commercial real estate brokerage as well, with over 2,700 RE/MAX Commercial® practitioners in over 45 countries. With over \$8 billion in 2013 sales and lease volume, RE/MAX Commercial® is perennially named one of the top 25 commercial brokerage networks by National Real Estate Investor magazine.

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As a franchisor with less than 1% owned brokerage offices in the U.S., we maintain a low fixed-cost structure, which enables us to generate high margins and helps us drive significant operating leverage through incremental revenue growth.

(1) Adjusted EBITDA includes adjustments to EBITDA for loss on sale or disposition of assets and sublease, loss on early extinguishment of debt, equity-based compensation, non-cash straight-line rent expense, salaries paid to David Liniger, our Chairman and Co-Founder, and Gail Liniger, our Vice Chair and Co-Founder, that we discontinued subsequent to our initial public offering (the "IPO"), expenses incurred in connection with the IPO and acquisition transaction costs. 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.

#### Market Opportunity

We operate in the real estate brokerage franchise industry in more than 95 countries, including the U.S. and Canada.

U.S. and Canadian Real Estate Brokerage Industry Overview. Based upon U.S. Census Bureau data and existing home sales information from NAR, the U.S. residential real estate industry is an approximately \$1.25 trillion market based on 2013 sales volume. Residential real estate represents the largest single asset class in the U.S. with a value of approximately \$19 trillion, according to the Federal Reserve.

Residential real estate brokerages typically realize revenue by charging a commission based on a percentage of the price of the home sold. 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 adversely impacted in periods of falling prices and home sale transactions (with the number of licensed real estate agents generally decreasing during such periods).

We believe that the traditional agent-assisted business model compares favorably to alternative channels of the residential brokerage industry, such as discount brokers and "for sale by owner," because full-service brokerages are the 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 unique nature of each home and (v) 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 use the agent-assisted model for residential real estate transactions. 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 professionally present their home to best attract potential buyers. According to NAR, 88% of existing homes were sold using an agent or broker in 2013 compared to 82% in 2004.

Cyclical Nature. The residential real estate industry is cyclical in nature but has shown strong long-term growth. From the second half of 2005 through 2011, the U.S. real estate industry experienced a significant downturn, with existing home sale transactions declining by 40% from 7.1 million in 2005 to 4.3 million in 2011, according to NAR. However, the U.S. real estate industry experienced a rebound in 2012, with 4.7 million existing home sale transactions in 2012 and 5.1 million in 2013, increases of 9.4% and 9.2%, respectively. NAR forecasts 5.0 million existing home sales in 2014.

Similarly, the median home sale price declined by 24% from 2005 to 2011, but increased by 6.4% in 2012 and another 11.5% in 2013, according to NAR. CoreLogic, Inc. estimates that between October 2012 and September 2013, approximately 5.2 million homes returned to positive equity value. We believe a trend toward positive equity value will unlock pent-up market demand for sales of existing homes in 2014 and beyond.

Favorable Long-term Demand. We believe that long-term demand for housing in the U.S. is primarily driven by the economic health of the domestic economy, low interest rates, and local factors such as demand relative to supply. We also believe that the residential real estate market in the U.S. will also benefit from fundamental demographic shifts over the long term. These include an increase in household formations, including as a result of immigration and population growth. According to the 2013 State of the Nation's Housing Report compiled by the Joint Center for Housing Studies, the number of U.S. households is projected to grow by an annual average of 1.2 million for the remainder of the decade. Likewise, the U.S. Census Bureau projects that the U.S. will continue to experience long-term population growth and predicts total net immigration of 39 million individuals between 2015 and 2050. We believe that there is also pent-up selling demand from generational shifts, such as many retirement age homeowners who are likely to take advantage of improving housing market conditions in order to sell their existing residences and retire in new areas of the country or purchase smaller homes. Similarly, we believe there is also pent-up buying demand among adult children, particularly in the large "millennial" generation, currently living in their parents' homes, who are likely to take advantage of more affordable housing prices.

Our Market Position. We attribute our success to our ability to recruit and retain experienced and productive agents and sell franchises. Our approach to sustained agent recruiting and retention and franchise sales depends upon two key elements of our unique business model: (i) creating and maintaining a premier market presence in the real estate brokerage industry worldwide, and (ii) creating and maintaining the unique RE/MAX "growth engine."

Premier Market Presence. The strength of our brand worldwide in the real estate brokerage industry is the result of our ability to successfully create and maintain "Premier Market Presence." We believe that we offer agents and franchisees a compelling market presence in the real estate brokerage industry through the combination of the following six attributes:

- leading unaided brand awareness;
- highly experienced and productive agents;
- leading market share;
- high traffic web presence;
- high level of customer satisfaction; and
- strong community citizenship.

We believe our focus on creating and maintaining Premier Market Presence has led to a sustained growth of our global franchise network and the RE/MAX brand.

RE/MAX “Growth Engine.” The RE/MAX Growth Engine is a virtuous circle whereby all of the key stakeholders in our franchise network—our franchisees, agents and RE/MAX—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 and low franchise fees	Franchise model—highly profitable with low capital requirements—leads to strong cash flow generation and high margins
Access to our lead referral system which is supported by our high traffic websites	
Comprehensive, award-winning training programs	

#### Our Franchise Structure

Franchise Organizational Model. We function under the following franchise organizational model, with nearly all of the RE/MAX branded brokerage office locations being operated by franchisees:

Franchise Tier	Description
RE/MAX	Owns the right to the RE/MAX brand and sells franchises and franchising rights.
Regional Franchise Owner	Owns rights to sell brokerage franchises in a specified region. Current network of 162 regions globally. In the U.S. and Canada, RE/MAX owns 12 of 32 regional franchises, representing 54% of our U.S. and Canada agent count. The remaining 20 regional franchises, representing 46% of our U.S. and Canada agent count, are Independent Regions.
Franchisee (or Broker-Owner)	Owns right to operate a RE/MAX-branded brokerage office, list properties and recruit agents. 6,481 offices globally, as of December 31, 2013.
Agent (or Sales Associate)	Branded independent contractors who operate out of local franchise brokerage offices. 93,228 agents globally, as of December 31, 2013.

In the early years of our expansion in the U.S. and Canada, we sold regional franchise rights to independent owners for certain Independent Regions while retaining rights to other regions. In recent years, we have pursued a strategy to reacquire regional franchise rights, such as the California-Hawaii, Florida and Carolinas regions in 2007, the Mountain States region in 2011, the Texas region in 2012 and the Central Atlantic and Southwest regions in 2013.

**Franchise Agreements and Relationship Terms.** In those regions that are owned by us in the U.S. and Canada, we typically enter into a five-year renewable franchise agreement with franchisees covering a standard set of terms and conditions. For those regions that are independently owned, we enter into a long-term agreement (typically between 15 and 20 years) with the Independent Region owner pursuant to which the regional franchise owner is authorized to enter into franchise agreements with individual franchisees in that region.

In general, the franchisees (or broker-owners) do not receive an exclusive territory 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. We maintain a close relationship with our franchisees and provide them with ongoing training via our RE/MAX University® to help them better attract and train agents, market, and operate more effectively. Prospective franchisees, renewing franchisees, and transferees of a franchise are subject to a criminal background check and must meet certain subjective and objective standards, including those related to relevant experience, education, licensing, background, financial capacity, skills, integrity and other qualities of character.

#### Our Revenue Model

The majority of our revenue is derived from a stable set of fees paid by our agents, franchisees and regional franchise owners.

**Revenue Streams.** Our revenue streams are illustrated in the following chart:

#### Revenue Streams as Percentage of 2013 Total Revenue

**Continuing Franchise Fees.** In the U.S. and Canada, continuing franchise fees are fixed contractual fees paid monthly by regional franchise owners in Independent Regions or franchisees in Company-owned Regions to RE/MAX based on the number of agents in the franchise region or the franchisee's office. Beginning January 1, 2014, continuing franchise fees increased \$3 per month per agent in our U.S. Company-owned Regions.

**Annual Dues.** Annual dues are the membership fees which agents pay to be a part of the RE/MAX network and brand. For the years ended December 31, 2013, 2012, and 2011, annual dues were a flat fee of US\$390 for U.S. agents and C\$390 for Canadian agents, paid directly to RE/MAX. Beginning January 1, 2014, annual dues membership fees increased \$10 per agent annually for our U.S. and Canadian agents and continue to be paid directly to us. Annual dues revenue is driven by the number of agents in our network.

**Broker Fees.** Broker fees are assessed to the broker against real estate commissions paid by customers when an agent sells a home. Agents pay a negotiated percentage of these earned commissions to the broker in whose office they work. Broker-owners in turn pay a percentage of the commission to the regional franchisor. Generally the amount paid by broker-owners to the regional franchisor, which we refer to as the “broker fee,” is 1% of the total commission on the transaction. 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 in particular. This revenue stream is based on sales volume and provides us with incremental upside during a real estate market recovery.

**Franchise Sales and Other Franchise Revenue.** Franchise sales and other franchise revenue is primarily comprised of the following items:

**Initial Franchise Fees and Renewal Fees.** In order to purchase a franchise in the U.S. and Canada, the franchisee pays an initial fee typically ranging from \$12,500 to \$35,000 in Company-owned Regions and \$2,500 to \$30,000 in Independent Regions, depending predominantly on the region and size of market. A lower fee (typically about one-half) is paid at the time of a franchise renewal.

**Regional Franchise Fees.** We sell regional master franchises in regions we do not own in the U.S. and Canada as well as in international locations outside of Canada, the Caribbean and Central America. In the case of international master franchise sales, we sell master franchises at either a regional or country level (in some cases our international master franchise agreement allows further grants of sub-master franchises). In the Independent Regions in the U.S. and Canada, we have experienced almost 100% renewal rates among our master franchisees.

**Preferred Marketing Arrangements and Approved Supplier Programs.** We receive revenue from marketing arrangements with third parties and approved suppliers for the opportunity to promote their goods and services to our franchisees and agents.

**Brokerage Revenue.** Brokerage revenue principally represents fees assessed by our owned brokerages for services provided to their affiliated real estate agents. We have owned brokerage offices solely in the U.S. that represent less than 1% of the over 3,300 real estate brokerage offices that operate under the RE/MAX brand name in the U.S.

Revenue Per Agent in U.S. and Canada Owned and Independent Regions. 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 RE/MAX brokerages and agents, 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. In 2013, the annual revenue per agent in our Company-owned Regions was approximately \$2,404, whereas the average annual revenue per agent in Independent Regions was approximately \$828.

\*Collected revenue per agent for 2013.

International Revenue. 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 than in the U.S. and Canada.

Our revenue and agent count by geography are illustrated in the following charts:

Revenue by Geography      Agents by Geography

Percent of 2013 Revenue      As of Year-end 2013

## Our Agent-Centric Approach

We believe that our agent-centric approach enables us to attract and retain highly effective agents and motivated franchisees to our network and drive growth in our business and profitability. We have built a franchise model designed to provide the following unique combination of benefits to our franchisees and agents:

**Affiliation with the Best Brand in Residential Real Estate.** We believe buyers and sellers of real estate are most comfortable doing business with an entity and brand with which they are familiar. We drive brand awareness through transaction activity and visibility in the market. The RE/MAX brand has held number one market share as measured by total residential transaction sides completed by our agents in both the U.S. and Canada since 1999. We reinforce brand awareness through national and regional marketing and advertising programs that are supported by promotional campaigns of our franchisees and agents in their local markets. RE/MAX has surpassed all U.S. real estate franchises in television advertising every year from 2002 to 2013, according to Nielsen Monitor-Plus total ad impressions among adults of ages from 25 to 54 for ads purchased through nationwide buys.

**Entrepreneurial, High Performance Culture.** We attract highly driven professionals through our recruiting and franchise sales efforts. We provide our franchisees and agents with a vast array of industry-leading tools, resources and support, but allow them autonomy to run their businesses independently. Our approach gives them the freedom generally to set commission rates and oversee local advertising in order to best meet the needs of their particular markets and circumstances. As we say to our agents, they are “in business for themselves, but not by themselves.”

**High Agent Commission Fee Split and Low Franchise Fees.** In the RE/MAX franchise network, we recommend to our franchisees an agent-favorable commission split of 95%/5% (with the agent receiving 95%). In exchange for the agent generally retaining a high percentage of commissions, our agents pay the franchise broker a pre-agreed to sum to share the overhead and other fixed costs of the brokerage. This model is highly attractive to high-producing agents because it allows them to earn a higher commission compared to traditional brokerages where the broker typically takes 30% to 40% of the agent’s commission.

**Lead Referral Systems Supported by High Traffic Websites.** We provide an attractive lead referral system to our agents free of referral fees. We believe that this system is attractive to our agents and franchisees and that no other national real estate brand provides their real estate agents comparable access to free leads. Our lead referral system, LeadStreet®, is supported by our award winning high-traffic websites, including remax.com, global.remax.com, theremaxcollection.com and remaxcommercial.com, which collectively attracted over 56 million visits in 2013 according to Experian Marketing Services Hitwise data. When a prospective buyer inquires about a property displayed on our websites, a RE/MAX agent receives this lead through LeadStreet® without a referral fee. In addition, the high traffic across our websites provides sellers and agents assurance that listed properties are receiving significant exposure to potential buyers. Our flagship website, remax.com, has generated over 13 million free leads for our agents since 2006. Our expansive global network of agents also generates traditional agent-to-agent leads, such as when a relocating home seller wants their RE/MAX agent’s referral for an agent to help them buy in their new area, or a customer’s business needs the specialized assistance of a RE/MAX Commercial® practitioner.

**RE/MAX University® Training Programs.** RE/MAX is an industry leader in providing comprehensive education programs for franchisees and agents. RE/MAX agents and brokers have earned credit toward more than 80,000 professional designations or certifications through our proprietary education systems. In 1994, RE/MAX created the revolutionary RE/MAX Satellite Network, which was the only real estate related educational and training system of its kind for over a decade. In 2007, RE/MAX introduced RE/MAX University®, or RU, which offers worldwide, 24/7, on-demand access to the latest information on key industry topics and is aimed at helping our global network of agents deliver the best service possible to their existing and potential new customers. RE/MAX University further enhances our agent expertise by equipping agents with advanced training in areas such as distressed properties, luxury properties, senior clients, buyer agency and many other specialty areas of real estate. For example, 34% of the 45,000 real estate agents in the U.S. who had acquired the Certified Distressed Property Expert (“CDPE”) designation were RE/MAX agents, while the closest competitor comprised only 11% of the total. Among Certified Residential Specialists (“CRS”), which is often considered the premier advanced education designation in the residential real estate



space, RE/MAX has more designees than the next two national franchise brands combined.

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## Our Growth Strategy

We intend to leverage our market leadership in the residential real estate brokerage industry in the U.S. and Canada through various growth initiatives. The key elements of our growth strategy include:

**Capitalize on Recovery in the U.S. Residential Real Estate Market and Increase Our Agent Count.** The number of agents in the residential real estate industry is highly correlated to overall transaction activity. Since 2006, the residential real estate industry across the globe, and especially in the U.S., experienced a historic downturn, including a significant decline in the number of agents in the business. The residential real estate market in the U.S. is in a recovery and we are well positioned to capitalize on this trend due, in large part, to our leading brand and the quality of our agent and franchise network. Based on our experience, we believe gradually improving market conditions in the U.S. will enable us to continue to sell franchises and recruit and retain higher numbers of productive agents, increasing our revenue and profitability. We experienced agent losses during the downturn, but we returned to a period of net agent growth in 2012 and our growth in agent count accelerated in 2013. As the housing market recovers, we expect the growth in our agent count to continue.

## Agent Count

### Number of Agents at Quarter-End

We believe our high-performing agent network has led to higher than average growth in the number of closed transaction sides and that we will continue to capitalize on the performance of our network as the U.S. residential real estate market rebounds. For example, existing U.S. home transactions rose 9.2% in 2013 according to NAR, while U.S. RE/MAX agents increased closed residential transaction sides by 9.7%. We believe the RE/MAX network in the U.S. is well-positioned to continue to outpace U.S. existing home sales.

**Drive Continuing Franchise Sales Growth and Agent Recruitment and Retention.** Our business strategy is to continue to sell franchises and recruit and retain agents:

We sold 710 franchises in 2013 and intend to continue adding franchises in new and existing markets, and as a result, increase our global market share and brand awareness. In the U.S., we believe we will increase the sales of our franchises as the U.S. housing recovery continues. We believe we are also well-positioned to further grow the number of our franchises outside the U.S. and Canada, where the growth potential for the RE/MAX brand is substantial, particularly in faster growing international markets. In 2012 and 2013, we expanded into several new markets outside of the U.S. and Canada, including China and Hong Kong in 2012 and Japan and South Korea in 2013.

We intend to continue to focus on recruiting and retaining agents, as each incremental agent leverages our existing infrastructure, allowing us to drive additional revenue at little incremental cost. We intend to focus on recruitment and retention of agents through a range of new and existing programs and tools, including increased marketing and promotional efforts, additional hiring of franchise sales representatives, improved training and development programs for agents, and enhanced benefits to both agents and franchisees from our network infrastructure such as our high-traffic websites and lead referral system.

Reacquire Independent RE/MAX Regional Franchises. We intend to continue to pursue reacquisitions of the regional RE/MAX franchise rights in a number of Independent Regions in the U.S. and Canada. The reacquisition of a regional 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. For example, we can establish operational efficiencies and improvements in financial performance of a reacquired region by leveraging our existing infrastructure and experience.

While both Company-owned Regions and Independent Regions charge relatively similar fees to their brokerages and agents, 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. In 2013, the annual revenue per agent in our Company-owned Regions was approximately \$2,404, whereas the average annual revenue per agent in Independent Regions was approximately \$828. By reacquiring regional franchise rights, we can capture 100% of the fees referred to above and substantially increase the average revenue per agent for agents in the reacquired region, which, as a result of our low fixed-cost structure, further increases our overall margins.

#### Recent History of Acquiring

##### Back Independent Regions

Year	Region	Current Agents*
1998	Western Canada	6,084
1999	Pennsylvania / Delaware	2,924
2007	California & Hawaii	5,381
2007	Florida	4,497
2007	Carolinas	1,737
2011	Mountain States	3,399
2012	Texas	4,694
2013	Central Atlantic	3,946
2013	Southwest	2,045

\* As of December 31, 2013

We currently franchise directly in Company-owned Regions representing 54% of our agents in the U.S. and Canada combined, while the remaining 46% of our U.S. and Canada combined agent count operate in 20 Independent Regions.

Franchise and Agent Fee Increases. Given the low fixed infrastructure cost of our franchise model, modest increases in aggregate fees per agent have a significant impact on our profitability. We are pursuing opportunities to increase our aggregate fees per agent over time in order to improve our results of operations.

#### Competition

The real estate brokerage franchise business is highly competitive. We primarily compete against other real estate franchisors seeking to grow their franchise system. Our largest national competitors in the U.S. include the brands operated by Realty Holdings Corp. (which include Century 21, Coldwell Banker, ERA, Sothebys and Better Homes and Gardens), Berkshire Hathaway Home Services (which acquired Prudential Real Estate and Relocation Services in 2012), Keller Williams Realty, Inc. and Royal LePage. In most markets, we also compete against regional chains and

against independently operating, non-franchise brokerages. In addition, we face competition from Internet-based and other brokers offering deeply discounted commissions. 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 quality of the franchisee's independent agents, the location of the franchisee's offices and the number of competing offices in the area. A franchisee's success may also be affected by general, regional and local housing conditions, as well as overall economic conditions.

#### Preferred Marketing and Supplier Arrangements

We have entered into preferred marketing arrangements providing various third parties, including mortgage lenders and other real estate service providers, with the opportunity to market their products and services to our franchisees and agents. Through these arrangements, we receive additional revenue in the form of fees paid for marketing access to our network of franchisees and agents.

In addition, with the collective buying power of company-owned and franchised brokerages, we have established a network of preferred suppliers whose products may be purchased directly by franchisees and agents. These relationships provide group discount prices, marketing materials that have been pre-vetted to comply with RE/MAX brand standards and higher quality materials that may not be cost-effective to procure on an individual office basis.

### Marketing and Promotion

We believe that the strength of the RE/MAX brand and our iconic red, white and blue RE/MAX hot air balloon logo help to drive brand awareness. RE/MAX advertising, marketing and promotion campaigns increase the strength of our brand and generate leads for our agents. We believe the widespread recognition of our brand is a key aspect of our value proposition to agents and franchisees.

A variety of programs build our brand, including leading websites such as remax.com, media campaigns using television, print, billboards and signs, flyers, advertising inserts, Internet, email, social media and mobile applications. Event-based marketing programs, sponsorships, sporting activities and other similar functions also promote our brand. These include the RE/MAX World Long Drive Championship, which is currently in its nineteenth season.

Nearly all of the advertising, marketing and promotion to support the RE/MAX brand is funded by our agents and franchisees. In the U.S. and Canada, there are three primary levels of advertising and promotion of our brand based on the source of funding for the activity: (i) a national advertising fund that spearheads brand efforts on a national level, (ii) regional advertising funds that focus on regional activities, and (iii) local campaigns that are paid for directly by agents and franchisees within their local markets. The national and regional advertising funds are funded by our agents through fees that our brokers collect and pay to the regional advertising funds, which remit a portion to the national advertising fund.

**National Advertising Fund.** The national advertising fund builds and maintains brand awareness through national campaigns that drive real estate consumers to use RE/MAX agents. For the national advertising fund's fiscal year ended January 31, 2014, aggregate U.S. franchisee contributions were \$28.8 million.

**Regional Advertising Funds.** Regional advertising funds primarily support advertising campaigns focused on building and maintaining brand awareness at the regional level, in coordination with Company-owned Regions. For the fiscal year ended January 31, 2014, franchisee contributions to the regional advertising funds that promote the RE/MAX brand in Company-owned Regions were \$38.0 million. The RE/MAX brand is promoted in Independent Regions by other regional advertising funds.

**Local Campaigns.** Our franchisees and agents engage in extensive promotional efforts within their local markets to attract customers and drive agent and brand awareness within the local market. These programs are subject to brand guidelines and quality standards that we establish 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. We believe that the marketing, advertising and promotion expenditures by our agents and franchisees at the local level substantially exceed the amounts allocated to the national and regional advertising funds each year.

### Intellectual Property

We protect the RE/MAX brand 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 have filed other trademark applications in the U.S. and certain other jurisdictions, and will pursue additional trademark registrations and other intellectual property protection to the extent we believe it would be beneficial and cost effective. We also are the registered holder of a variety of domain names that include "remax" and similar variations.

### History and Structure

RE/MAX Holdings

RE/MAX Holdings, Inc. (“RE/MAX Holdings”) is a Delaware corporation formed on June 25, 2013 for the purpose of facilitating an IPO of its common equity and to become the sole managing member of RMCO, LLC (“RMCO”). Prior to October 7, 2013, RE/MAX Holdings had not engaged in any business or activities except in connection with its formation and negotiating to acquire the business assets of HBN, Inc. d/b/a RE/MAX Southwest Region (“HBN”) and Tails, Inc. d/b/a RE/MAX Central Atlantic Region (“Tails”). Subsequent to October 7, 2013, we began to consolidate the financial position and results of operations of RMCO and its consolidated subsidiaries.

### Pre-IPO Reorganization Transactions

Prior to the completion of the IPO, Weston Presidio V, L.P. (“Weston Presidio”) and RIHI, Inc. (“RIHI”) (collectively, RMCO’s “Historical Owners”) held Class A preferred units and Class B common units in RMCO, respectively. In connection with the IPO, the capital structure of RMCO was modified so that Weston Presidio’s Class A preferred membership interests were recapitalized into (i) preferred interests that reflected Weston Presidio’s liquidation preference of approximately \$49.9 million and (ii) common interests that reflected Weston Presidio’s pro-rata share of the residual equity value of RMCO. At the same time, the Class B common membership interests held by RIHI was reclassified, and the common interests in RMCO were split, such that each common unit of RMCO held by Weston Presidio and RIHI could be acquired with the net proceeds received in the IPO from the sale of one share of our Class A common stock, after the deduction of underwriting discounts and commissions and prior to the payment of estimated offering expenses. RIHI also received a redemption right that entitles RIHI to have its remaining common units of RMCO redeemed at RIHI’s election in exchange for, at our option, newly issued shares of Class A common stock on a one-for-one basis (subject to customary adjustments, including conversion rate adjustments, underwriting discounts, commissions and adjustments for stock splits, stock dividends, and reclassifications) or a cash payment equal to the market price of one share of our Class A common stock.

### Initial Public Offering

On October 7, 2013, we issued and sold 11,500,000 shares of Class A common stock at a public offering price of \$22.00 per share in our IPO and became a member and the sole manager of RMCO. The net offering proceeds to us from the IPO were approximately \$224.9 million. We used approximately \$27.3 million of the net proceeds to acquire the business assets of HBN and Tails. We used the remaining net proceeds to purchase common units of RMCO. RMCO used the proceeds it received to purchase all of the preferred and common units interest in RMCO held by Weston Presidio and to redeem a portion of the common units in RMCO held by RIHI. These sales and purchases of preferred and common units by RMCO were at a price per unit equal to the public offering price per share of our Class A common stock, less underwriting discounts and commissions.

### Our Corporate Structure

We are a holding company and following the IPO and reorganization transactions described above, we own approximately 39.56% of the common units in RMCO. RIHI owns the remaining 60.44% of the common units in RMCO. Our only business is to act as the sole manager of RMCO and, in that capacity, we operate and control all of the business and affairs of RMCO. We conduct our business activities through the various domestic and international operating subsidiaries of RMCO. These operating subsidiaries include RE/MAX, LLC which, among other activities, owns the trademark and related intellectual property rights in the RE/MAX brand and operates the Company-owned Regions. Due to RIHI’s approximately 60.44% equity interest in RMCO, our post-IPO corporate structure results reflect a significant non-controlling interest and our net income represents approximately 39.56% of RMCO’s net income.

The diagram below depicts our organizational structure.

For the purpose of calculating the voting power shown above of the Class A shareholders of RE/MAX Holdings, the total votes allocable to Class A shareholders includes vested restricted stock units, granted in connection with the IPO, which provide the right to receive shares of Class A common stock. Upon the delivery of such Class A common stock, the recipients will collectively have 0.23% of the voting power in RE/MAX Holdings (out of 24.66% held by Class A shareholders overall). Through its ownership of 100% of our outstanding Class B common stock, RIHI holds a majority of the voting power in RE/MAX Holdings. Shares of Class B common stock entitle the holder, without regard to the number of shares of Class B common stock held, to a number of votes on matters presented to stockholders of RE/MAX Holdings that is equal to two times the aggregate number of common units of RMCO held by such holder. In addition, each common unit of RMCO held by RIHI is redeemable for, at RE/MAX Holdings' option, newly issued shares of Class A common stock in RE/MAX Holdings on a one-for-one basis or a cash payment equal to the market price of one share of Class A common stock. If RIHI redeemed all of its common units in RMCO for newly issued shares of Class A common stock, RIHI would own approximately 60.44% of the shares of RE/MAX Holdings Class A common stock, and RE/MAX Holdings would own all of the common units in RMCO. RIHI is a Delaware corporation that is majority owned and controlled by David Liniger, our Chairman and Co-Founder, and Gail Liniger, our Vice Chair and Co-Founder. Margaret Kelly, our Chief Executive Officer and a director, Vincent Tracey, our President and a director, and Daryl Jespersen, a director, hold minority ownership interests in RIHI.

#### Employees

As of December 31, 2013, we had approximately 443 employees, including 21 employees located in Western Canada, 322 in our corporate headquarters and 100 in our owned brokerage offices throughout the U.S. Other than with respect to our owned brokerage offices, our franchisees are independent businesses and their employees and independent contractor sales associates are therefore not included in our employee count. None of our employees are represented by a union. We believe our relations with our employees are good.



## 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 our 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 disclosure 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 Regulation.** The Real Estate Settlement Procedures Act (“RESPA”) and state real estate brokerage laws restrict payments which real estate 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 mortgages, homeowners insurance and title insurance. Such laws may to some extent restrict preferred vendor programs involving our real estate franchise and real estate brokerage businesses. In addition, with respect to our company-owned real estate brokerages, RESPA and similar state laws require timely disclosure of certain relationships or financial interests with providers of real estate settlement services. Our company-owned real estate brokerage business is also subject to numerous federal, state and local laws and regulations that provide standards for and prohibitions on the conduct of real estate brokers and agents.

## Available Information

RE/MAX Holdings 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 web site, [www.remax.com](http://www.remax.com), as soon as reasonably practical after they are filed with the Securities and Exchange Commission (“SEC”). The SEC maintains a web site, [www.sec.gov](http://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

We 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.

#### Risks Related to Our Business and Industry

The residential real estate market is cyclical and we are 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 short-term and long-term interest rates, inflation, fluctuations in debt and equity capital markets, levels of unemployment, consumer confidence and the general condition of the U.S. and the global economy. The residential real estate market also depends upon the strength of financial institutions, which are sensitive to changes in the general macroeconomic environment. Lack of available credit or lack of confidence in the financial sector could impact the residential real estate market, which in turn could materially and adversely affect our business, financial condition and results of operations.

For example, the U.S. residential real estate market has only recently shown signs of recovery after having been in a significant and prolonged downturn, which began in the second half of 2005. Due to the cyclical nature of the real estate market, we cannot predict whether the recovery will continue or if and when the market and related economic forces will return the U.S. residential real estate industry to a period of sustained growth. If the residential real estate market or the economy as a whole does not improve, we may experience adverse effects on our business, financial condition and liquidity, including our ability to access capital and grow our business.

Any of the following could be associated with cyclical nature in the housing market by halting or limiting a recovery in the housing market, 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 which, in turn, could adversely affect our revenue and profitability:

- continued high unemployment;
- a period of slow economic growth or recessionary conditions;
- weak credit markets;
- a low level of consumer confidence in the economy and/or the residential real estate market;
- instability of financial institutions;
- legislative, tax or regulatory changes that would adversely impact the residential real estate market, including but not limited to potential reform relating to Fannie Mae, Freddie Mac and other government sponsored entities (“GSEs”) that provide liquidity to the U.S. housing and mortgage markets;
- increasing mortgage rates and down payment requirements and/or constraints on the availability of mortgage financing, including but not limited to the potential impact of various provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) or other legislation and regulations that may be promulgated thereunder relating to mortgage financing, including restrictions imposed on mortgage originators as well as retention levels required to be maintained by sponsors to securitize certain mortgages;
- excessive or insufficient regional home inventory levels;
- renewed high levels of foreclosure activity, including but not limited to the release of homes already held for sale by financial institutions;
- adverse changes in local or regional economic conditions;
- the inability or unwillingness of homeowners to enter into home sale transactions due to negative equity in their existing homes;
- a decrease in the affordability of homes;
- local, state and federal government laws or regulations that burden residential real estate transactions or ownership, including but not limited to changes in the tax laws, such as potential limits on, or elimination of, the deductibility of certain mortgage interest expense, the application of the alternative minimum tax, and real property taxes and employee relocation expense;
- decreasing home ownership rates, declining demand for real estate and changing social attitudes toward home ownership; and/or
- acts of God, such as hurricanes, earthquakes and other natural disasters that disrupt local or regional real estate markets.

The failure of the U.S. residential real estate market recovery to be sustained or a prolonged decline in the number of home sales and/or home sale prices could adversely affect our revenue and profitability.

The U.S. residential real estate market has recently shown signs of recovery after having been in a significant and prolonged downturn, which began in the second half of 2005. However, we do not know if this recovery will continue in the future or if and when the market and related economic forces will return the U.S. residential real estate industry to a period of sustained growth. A lack of a continued recovery or a prolonged decline in existing home sales, a decline in home sale prices or a decline in commission rates charged by our franchisees/brokers could adversely affect our results of operations by reducing the ongoing monthly fees we receive from our franchisees and our company

owned brokerages and reduce the management fees charged by our company owned brokerages.

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The 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. Certain potential reforms such as the U.S. federal government's conservatorship of Fannie Mae and Freddie Mac, proposals to reform the U.S. housing market, attempts to increase loan modifications for homeowners with negative equity, monetary policy of the U.S. government, any rising interest rate environment and the Dodd-Frank Act 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. Policies of the Federal Reserve Board can affect interest rates available to potential homebuyers. Further, we are affected by any rising interest rate environment. Changes in the Federal Reserve Board's policies, the interest rate environment and mortgage market are beyond our control, are difficult to predict and could restrict the availability of financing on reasonable terms for homebuyers, which could have a material adverse effect on our business, results of operations and financial condition. Additionally, the possibility of the elimination of the mortgage interest deduction could have an adverse effect on the housing market by reducing incentives for buying or refinancing homes and negatively affecting property values.

In addition, the reduction in government support for home financing, including the winding down of Fannie Mae and Freddie Mac, further reduces the availability of financing for homebuyers in the U.S. residential real estate market. In connection with the U.S. federal government's conservatorship of Fannie Mae and Freddie Mac, it has provided billions of dollars of funding to these entities in the form of preferred stock investments to backstop shortfalls in their capital requirements. The U.S. Treasury announced that it would accelerate the winding down of these entities, but no consensus has emerged in Congress concerning a successor, if any. Given the current uncertainty with respect to the current and further potential reforms relating to Fannie Mae and Freddie Mac, we cannot predict either the short or long term effects of such regulation and its impact on homebuyers' ability to finance and purchase homes. In an effort to assist recovery of the housing market, the U.S. government has also attempted to increase loan modifications for homeowners with negative equity, but there can be no assurance that such measures will be effective.

Furthermore, during the past several years, many lenders have significantly tightened their underwriting standards, and many subprime and other alternative mortgage products are no longer being made available in the marketplace. If these trends continue and mortgage loans continue to be 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 will be adversely affected, which will adversely affect our operating results.

The Federal Housing Administration ("FHA") has recently increased loan guarantee fees, which may have contributed to a decline in FHA loan applications. Fannie Mae and Freddie Mac, the guarantors of many home loans, have proposed similar increases in guarantee fees. Such increases could lead to decreases in demand for certain mortgages, which could have a negative effect on our operating results.

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 enforces consumer protection laws, including mortgage finance. The Dodd-Frank Act also established new standards and practices for mortgage originators, including determining a prospective borrower's ability to repay their mortgage, removing incentives for higher cost mortgages, prohibiting prepayment penalties for non-qualified mortgages, prohibiting mandatory arbitration clauses, requiring additional disclosures to potential borrowers and restricting the fees that mortgage originators may collect. Rules enacted under the Dodd Frank Act relating to borrowers' ability to repay loans took

effect in January 2014. These rules create protection from liability for mortgages that meet the requirements for “qualified mortgages.” The rules place several restrictions on qualified mortgages, including caps on certain closing costs. These rules and other rules promulgated by the CFPB could have a significant impact on the availability of home mortgages. In addition, the Dodd-Frank Act contained provisions that require GSEs, including Fannie Mae and Freddie Mac, to retain an interest in the credit risk arising from the assets they securitize. This may serve to reduce GSEs’ interest in or demand for mortgage loans, which could have a material adverse effect on the mortgage industry, which may reduce the availability of mortgages to certain borrowers.

While we are continuing to evaluate all aspects of the current state of legislation, regulations and policies affecting the domestic real estate market, we cannot predict whether or not such legislation, regulation and policies may result in increased down payment requirements, increased mortgage costs, and 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 successfully execute our strategies to grow our business, including increasing our agent count, expanding our network of franchises and agents, pursuing reacquisitions of the regional franchise rights in a number of RE/MAX regions in the U.S. and Canada and increasing franchise and agent fees, or we may fail to manage our growth effectively, which could have a material adverse effect on our brand, our financial performance and results of operations.

We intend to pursue a number of different strategies to grow our revenue and earnings. However, we may not be able to successfully execute these strategies. We intend to pursue a strategy of increasing our agent count in correlation to overall transaction activity. Based on our experience, we believe gradually improving market conditions in the U.S. will enable us to sell more franchises and recruit and retain higher numbers of agents, increasing our revenue and profitability. As the housing market recovery continues, we expect the growth in our agent count to continue. However, competition for qualified and effective agents is intense, and we may be unable to recruit and retain enough qualified and effective agents to satisfy our growth strategies.

An additional key growth strategy is to expand our network of franchises and agents in the U.S., Canada and globally. However, we may face many challenges in adding franchises and attracting agents in new markets, such as:

- selection and availability of suitable markets;
- finding franchisees in these markets who are interested in opening franchises on terms that are favorable to us;
- significant competition in new and existing markets;
- increasing our local brand awareness in new markets;
- attracting and training of qualified local agents;
- impact of inclement weather, natural disasters and other acts of nature; and
- general economic and business conditions.

We are also pursuing a key growth strategy of reacquiring select RE/MAX independent regional franchises in the U.S. and Canada. The reacquisition of a regional franchise increases our revenue and provides an opportunity for us to drive enhanced profitability. This growth strategy depends on our ability to find regional franchisees willing to sell the franchise rights in their regions on favorable terms and to finance and complete these transactions. In addition, we may encounter higher than expected integration costs associated with the reacquisitions of Independent Regions.

Integrating acquired regions involves complex operational and personnel-related challenges. Future acquisitions may present similar challenges and difficulties, including:

- the possible departure of a significant number of key employees;
- the possible defection of franchisees and agents to other brands or independent real estate companies;
- the disruption of our respective ongoing business;
- possible inconsistencies in standards, controls, procedures and policies, including accounting controls and procedures;
- the failure to maintain important business relationships and contracts of the selling region;
- impairment of acquired assets;
- unanticipated expenses related to integration; and
- 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 the anticipated cost savings and revenue growth from our acquisitions.

An additional key growth strategy is to pursue opportunities to increase our aggregate fees per agent over time. We may fail to pursue any such opportunities effectively or in a timely manner. If that occurs, we may not be able to realize any improved profitability from any increases in aggregate fees per agent.





With the anticipated recovery of the U.S. housing market, it is our objective to enter into another period of renewed growth in our business. If we do not effectively manage our growth, the maintenance of our brand equity could suffer. In order to successfully expand our business, we must effectively recruit, develop and motivate new franchisees, and we must maintain the beneficial aspects of our corporate culture. We may not be able to hire new employees and our franchisees may not be able to recruit new agents necessary to manage our growth quickly enough to meet our needs. If we fail to effectively manage our hiring needs and successfully develop our franchisees, our franchisee and employee morale, productivity and retention could suffer, and our brand and results of operations could be harmed. We also need to continue to improve our existing systems for operational and financial management, including our reporting systems, procedures and controls. See “—We plan to implement a new information technology infrastructure for certain key aspects of our operations, which may be more costly than anticipated or take more time to complete and integrate than we expect, which could distract our management from our business and have an adverse impact on our results of operations.” These improvements could require significant capital expenditures and place increasing demands on our management. We may not be successful in managing or expanding our operations or in maintaining adequate financial and operating systems and controls. If we do not successfully manage these processes, our brand and results of operations could be adversely affected.

The failure to attract and retain highly qualified franchisees could compromise our ability to pursue our growth strategy.

Our most important asset is our people, and the success of our franchisees depends largely on the efforts and abilities of franchisees and their agents, which are subject to numerous factors, including the fees or sales commissions they receive, as applicable, and their perception of our brand value. If our franchisees do not continue to recognize or believe in the value proposition we offer with our brand, believe that our franchise fees are too high, or decide not to renew their franchise agreements with us for any other reason, our business may be materially adversely affected. Additionally, if our franchisees fail to attract and retain agents, they may fail to generate the revenue necessary to pay the contractual fees and dues owed to us.

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

Our financial results are heavily dependent upon the number of agents in our global network. The majority of our revenue is derived from recurring, contractual fees and dues paid by our agents and by our franchisees or regional franchise owners based on the number of agents within the franchisee’s or regional franchise owner’s network. If our franchisees are not able to attract and retain agents, our revenue may decline. In addition, our competitors may attempt to recruit the agents of our franchisees.

Our business depends on a strong brand, 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.

We have developed a strong brand that we believe has contributed significantly to the success of our business. Maintaining, protecting and enhancing the “RE/MAX” brand is critical to growing our business, particularly in new markets where we have limited brand recognition. If we do not successfully build and maintain a strong brand, our business could be materially harmed. Maintaining and enhancing the quality of our brand may require us to make substantial investments in areas such as marketing, community relations, outreach and employee training. We actively engage in television, print and online advertisements, targeted promotional mailings and email communications, and engage on a regular basis in public relations and sponsorship activities. These investments may be substantial and may not ultimately be successful.

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 ability to control and may damage our brand, such as actions taken (or not taken) by one or more franchisees or their employees 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 count and, ultimately, lower continuing franchise fees and annual dues, which in turn would materially and adversely affect our business and operating results.

Competition in the residential real estate franchising business is intense and may adversely affect our financial performance.

We generally face strong competition in the residential real estate services business. As a real estate brokerage franchisor, one of our primary assets is our brand name. 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 franchises monthly ongoing fees that are lower than those we charge, or that are more attractive in particular market environments.

Further, our largest competitors in this industry in the U.S. and Canada include the brands operated by Realogy Holdings, Corp., (which include Coldwell Banker, and Century 21, ERA, Sothebys and Better Homes and Gardens, among others), Berkshire Hathaway Home Services, (which acquired Prudential Real Estate and Relocation Services in 2012, and operates the Real Living brand), Keller Williams Realty, Inc. and Royal LePage. Some of these companies may have greater financial resources and larger budgets than we do. 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. Further, in certain areas, regional and local franchisors provide additional competitive pressure.

Our company owned brokerage business operates in the real estate brokerage business, which is highly competitive.

Our company owned brokerage business, like that of our franchisees, is generally subject to intense competition. We compete with other national and independent real estate organizations including our franchisees and those of other national real estate franchisors, franchisees of local and regional real estate franchisors, regional independent real estate organizations, discount brokerages, Internet-based brokerages and smaller niche companies competing in local areas. Competition is particularly intense in the densely populated metropolitan areas in which we operate. In addition, in the real estate brokerage industry, new participants face minimal barriers to entry into the market. We also compete for the services of qualified licensed agents, as well as franchisees. The ability of our company owned brokerage offices to retain agents is generally subject to numerous factors, including the sales commissions they receive and their perception of brand value.

Our franchisees or agents may become dissatisfied with their relationship with us.

Although we believe our relationship with our franchisees and agents is open and strong, the nature of such relationships can give rise to conflict. For example, franchisees or agents may become dissatisfied with the amount of contractual fees and dues owed under franchise or other applicable arrangements, particularly in the event that we decide to further increase fees and dues. They may disagree with certain network-wide policies and procedures, including policies such as those dictating brand standards, affecting their marketing efforts, or they may be disappointed with any national marketing campaigns designed to develop our brand. There are a variety of reasons why our franchisor franchisee relationship can give rise to conflict. If we experience any conflicts with our franchisees on a large scale, our franchisees 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.

Regional master and broker franchisees, as independent business operators may, from time to time, disagree with us and our strategies regarding the business or our interpretation of our respective rights and obligations under our franchise and other agreements. This may lead to disputes and we expect such disputes to occur from time to time in the future. To the extent we have such disputes, the attention of our management, regional master franchisees and broker franchisees will be diverted, which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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

Our real estate franchises generate revenue in the form of monthly ongoing fees, including monthly management fees and broker service fees (which are tied to gross commissions) charged by our franchisees. Our agents pay us dues out of their income from real estate transactions. Accordingly, our financial results depend upon the operational and financial success of our franchisees and their agents, whom we do not control, particularly in Independent Regions where we exercise less control over franchisees than in Company-owned Regions. If industry trends or economic conditions are not sustained or do not continue to improve, our franchisees' financial results may worsen and our

revenue may decline. We may also have to terminate franchisees more frequently in the future due to non-reporting and non-payment. Further, if franchisees fail to renew their franchise agreements, or if we decide to restructure franchise agreements in order to induce franchisees to renew these agreements, then our revenue from ongoing monthly fees may decrease, and profitability from new franchisees may be lower than in the past due to reduced ongoing monthly fees and other non-standard incentives we may need to provide.

Our franchisees and agents could take actions that could harm our business.

Our regional franchisees and brokerages are independent businesses and the agents who work with our company owned brokerage operations are independent contractors and, as such, neither are our employees, and we do not exercise control over their day-to-day operations. Broker franchisees may not operate real estate brokerage businesses in a manner consistent with industry standards, or may not attract and retain qualified independent contractor agents. If broker franchisees and agents were to provide diminished quality of service to customers, our image and reputation may suffer materially and adversely affect our results of operations.

Additionally, broker franchisees and agents may engage or be accused of engaging in unlawful or tortious acts such as violating the anti-discrimination requirements of the Fair Housing Act. Such acts or the accusation of such acts could harm our business and our brand, reputation and goodwill.

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

We have sold regional master franchises in the U.S. and Canada and have sold and continue to sell regional master franchises in our international locations outside of Canada. While in recent years, we have pursued a strategy to reacquire the regional franchise rights in a number of regions in the U.S., we still rely on independent regional master franchises in Independent Regions, and in all regions located outside the U.S. and Canada (except in Central America and the Caribbean). We derive only a limited portion of our revenue directly from master franchises. However, Independent Regions have the right to grant franchises within a particular region. The failure of any of these Independent Region owners to successfully develop or expand within their respective regions could result in the delay of the development of a particular region or an interruption in the operation of our brand in a particular market or markets. Any such delay or interruption would result in a delay in, or loss of, income to us, which would adversely impact our revenue, business and results of operations.

In addition, the termination of an agreement with a regional master franchisee could also result in the delay of the development of a franchised area, or an interruption in the operation of our brand in a particular market or markets, while we seek alternative methods to develop our franchises in the area. Such an event could result in lower revenue for us, which would adversely impact our business and results of operations.

We are subject to a variety of additional risks associated with our franchisees.

Our franchise system subjects us to a number of risks, any one of which may impact our ability to collect recurring, contractual fees and dues from our franchisees, may harm the goodwill associated with our brand, and/or may materially and adversely impact our business and results of operations.

Bankruptcy of U.S. Franchisees. A franchisee bankruptcy could have a substantial negative impact on our ability to collect fees and dues owed under such franchisee's franchise arrangements. In a franchisee bankruptcy, the bankruptcy trustee may reject its franchise arrangements pursuant to Section 365 under the U.S. bankruptcy code, in which case there would be no further payments for fees and dues from such franchisee, and there can be no assurance as to the proceeds, if any, that may ultimately be recovered in a bankruptcy proceeding of such franchisee in connection with a damage claim resulting from such rejection.

Franchisee Insurance. The franchise arrangements require each franchisee to maintain certain insurance types and levels. Certain extraordinary hazards, however, may not be covered, and insurance may not be available (or may be available only at prohibitively expensive rates) with respect to many other risks. Moreover, any loss incurred could exceed policy limits or the franchisee could lack the required insurance at the time the claim arises, in breach of the insurance requirement, and policy payments made to franchisees may not be made on a timely basis. Any such loss or delay in payment could have a material and adverse effect on a franchisee's ability to satisfy its obligations under its franchise arrangement, including its ability to make payments for contractual fees and dues or to indemnify us.

Franchise Arrangement Termination; Nonrenewal. Each franchise arrangement is subject to termination by us as the franchisor in the event of a default, generally after expiration of applicable cure periods, although under certain circumstances a franchise arrangement may be terminated by us upon notice without an opportunity to cure. The default provisions under the franchise arrangements are drafted broadly and include, among other things, any failure to meet operating standards and actions that may threaten the licensed intellectual property.

In addition, each franchise agreement has an expiration date. Upon the expiration of the franchise arrangement, we or the franchisee may or may not elect to renew the franchise arrangement. If the franchise arrangement is renewed, such renewal is generally contingent on the franchisee's execution of the then-current form of franchise arrangement

(which may include terms the franchisee deems to be more onerous than the prior franchise agreement), the satisfaction of certain conditions and the payment of a renewal fee. If a franchisee is unable or unwilling to satisfy any of the foregoing conditions, the expiring franchise arrangement will terminate upon expiration of the term of the franchise arrangement.

We may experience significant claims relating to our operations and losses resulting from fraud, defalcation, misconduct or negligence of our franchisees or agents.

Fraud, defalcation, misconduct and negligence by employees are risks inherent in our business. We may also, from time to time, be subject to liability claims based upon the fraud, misconduct or negligence of our franchisees and agents. To the extent that any loss or theft of funds substantially exceeds our insurance coverage, our business could be materially adversely affected.

In addition, we rely on the collection and use of personally identifiable information from consumers to conduct our business. We disclose our information collection and dissemination practices in a published privacy statement on our websites, which we may modify from time to time. We may be subject to legal claims, government action and damage to our reputation if we act or are perceived to be acting inconsistently with the terms of our privacy statement, consumer expectations, or the law. In the event we or the vendors with which we contract to provide services on behalf of our customers were to suffer a breach of personally identifiable information, our customers could terminate their business with us. Further, we may be subject to claims to the extent individual employees or independent contractors breach or fail to adhere to company policies and practices and such actions jeopardize any personally identifiable information.

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

Our company owned real estate brokerage business and the businesses of our franchisees are highly regulated and must comply with the requirements governing the licensing and conduct of real estate brokerage and brokerage-related businesses in the jurisdictions in which we and they do business. These laws and regulations contain general standards for and prohibitions on the conduct of real estate brokers and agents, including those relating to licensing of brokers and agents, fiduciary and agency duties, administration of trust funds, collection of commissions, advertising and consumer disclosures. Under state law, the franchisees and our real estate brokers have certain duties to supervise and are responsible for the conduct of their brokerage business.

Our company owned real estate brokerage business and the businesses of our franchisees (excluding 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 and our company owned brokerage business. 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. Pursuant to the Dodd-Frank Act, administration of RESPA has been moved from the Department of Housing and Urban Development (“HUD”) to the new CFPB and it is possible that the practice of HUD taking very expansive readings of RESPA will continue or accelerate at the CFPB, which creates an increased regulatory risk.

There is a risk that we 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. There is also a risk that a change in current laws could adversely affect our business or our franchisees’ business.

Regulatory authorities also have relatively broad discretion to grant, renew and revoke licenses and approvals and to implement regulations. Accordingly, such regulatory authorities could prevent or temporarily suspend our company owned brokerages or our franchisees from carrying on some or all of our activities or otherwise penalize them if their financial condition or our practices were found not to comply with the then current regulatory or licensing requirements or any interpretation of such requirements by the regulatory authority. Our failure to comply with any of these requirements or interpretations could limit our ability to renew current franchisees or sign new franchisees or otherwise have a material adverse effect on our operations.

We are also, to a lesser extent, subject to various other rules and regulations such as:

- the Gramm-Leach-Bliley Act which governs the disclosure and safeguarding of consumer financial information;
- various state and federal privacy 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 classification of independent contractors to employee status, and wage and hour regulations;
- increases in state, local or federal taxes that could diminish profitability or liquidity; and
- consumer fraud statutes that are broadly written.

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Our failure to comply with any of the foregoing laws and regulations may subject us to 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 internal control over financial reporting may not be effective and, if required, our management and our independent registered public accounting firm may not be able to certify as to its effectiveness, which could have a significant and adverse effect on our business and reputation.

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. We are required to comply with Section 404 of the Sarbanes-Oxley Act and related rules and regulations. Pursuant to Section 404, beginning with our Annual Report on Form 10-K for the year ending December 31, 2014, our management will be required to report on, and, if we cease to be an “emerging growth company,” our independent registered public accounting firm will have to attest to the effectiveness of, our internal control over financial reporting.

We are currently in the process of reviewing, documenting and testing our internal control over financial reporting. In connection with the IPO, we hired additional finance and accounting personnel with certain skill sets to assist us with public company reporting requirements, and we may need to hire additional personnel in the future to implement our internal control over financial reporting and to support our anticipated growth. Additionally, we may encounter problems or delays in completing the implementation of any changes necessary to make a favorable assessment of our internal control over financial reporting, including but not limited to problems or delays resulting from our acquisitions. In addition, in connection with the attestation process by our independent registered public accounting firm, we may encounter problems or delays in completing the implementation of any requested improvements and receiving a favorable attestation. Implementing changes to our internal controls may distract our officers and employees, entail substantial costs to modify our existing processes and take significant time to complete.

Under rules of the SEC, a material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company’s annual or interim financial statements will not be prevented or detected on a timely basis. We cannot assure you that material weaknesses will not be identified in the future.

If material weaknesses or other deficiencies occur in the future, or if we fail to fully maintain effective internal controls in the future, it could result in a material misstatement of our financial statements that would not be prevented or detected on a timely basis, which could require a restatement, cause investors to lose confidence in our financial information or cause our stock price to decline.

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 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 domestic and international regional franchisees self-report their agent counts, agent commissions and fees due to us, and we have limited tools to validate or verify these reports and a few of our domestic and international master franchise agreements do not contain audit rights. If a material number of our regional master franchisees were to under report 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.

Under our regional franchise agreements, owners in our Independent Regions report the number of agents, monthly management fees and broker service fees received by the brokers from the agents and the monthly ongoing fees (continuing franchise fees and broker fees) payable to us by the brokers. Generally, our regional agreements provide that the regional franchisee provide us with certain financial reports, including reports that we may reasonably request from time to time. Additionally, most of these agreements also provide us with audit rights. For those agreements that do not, we may have limited methods of validating the monthly ongoing fees due to us from these regions and must rely on reports submitted by such regional franchisees and our internal protocols for verifying agent counts. If such regional franchisees were to under report or erroneously report these amounts payable, even if unintentionally, we may not receive all of the annual agent dues or monthly ongoing fees 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 regional franchisees were to under report 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.

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, 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, franchising arrangements, negligence and fiduciary duty claims arising from franchising arrangements or company owned brokerage operations, breaches of fiduciary duty by our licensed brokers, standard brokerage disputes like the failure to disclose hidden defects in the property such as mold, vicarious liability based upon conduct of individuals or entities outside of our control, including franchisees and agents, antitrust claims, false advertising claims, general fraud claims and employment law claims, including claims challenging the classification of our agents as independent contractors, violations of state laws relating to business practices or consumer disclosures, and claims alleging violations of RESPA or state consumer fraud statutes. We may also be subject to employee claims based on, among other things, discrimination, harassment or wrongful termination.

Franchisees are subject to a variety of litigation risks, including, but not limited to, customer claims, personal injury claims, environmental claims, agent allegations of improper termination and discrimination, claims related to violations of the Fair Labor Standards Act, the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and intellectual property claims. Litigation against a franchisee or its affiliates by third parties, whether in the ordinary course of business or otherwise, may include claims against us by virtue of the franchise relationship. In addition to increasing costs and limiting the funds available to pay contractual fees and dues and reducing the execution of new franchise arrangements, such 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 international 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 or diminished 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 international operations, including Canada, are subject to risks not generally experienced by our U.S. operations.

We have international regional franchisees and master franchisees. For the year ended December 31, 2013, revenue from these operations represented approximately 21.5% of our total revenue. Our international operations are subject to risks not generally experienced by our U.S. operations. The risks involved in our international operations and relationships that could result in losses against which we are not insured and therefore affect our profitability include:

- fluctuations in foreign currency exchange rates and foreign exchange restrictions;
- 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;

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- 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;
- investment restrictions or requirements;
- diminished ability to legally enforce our contractual rights in foreign countries;
- difficulties in registering, protecting or preserving trade names and trademarks in foreign countries;
- restrictions on the ability to obtain or retain licenses required for operation;
- increased franchise regulations in foreign jurisdictions;
- withholding and other taxes on remittances and other payments by subsidiaries; and
- changes in foreign tax laws.

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

Loss or attrition among our senior management or other key employees or the inability to hire additional qualified personnel could adversely affect our operations, our brand and our financial performance.

Our future success is largely dependent on the efforts and abilities of our Chief Executive Officer, Margaret Kelly, our Chairman and Co-Founder, David Liniger, our senior management and other key employees. The loss of the services of these two individuals and our other key employees could make it more difficult to successfully operate our business and achieve our business goals. In addition, we do not maintain key employee life insurance policies on either of these two individuals or our other key employees. As a result, we may not be able to cover the financial loss we may incur in losing the services of any of these individuals.

Our ability to retain our employees is generally subject to numerous factors, including the compensation and benefits we pay, the mix between the fixed and variable compensation we pay our employees and prevailing compensation rates. As such, we could suffer significant attrition among our current key employees. Competition for qualified employees in the real estate franchising industry is intense. We may be unable to retain existing employees that are important to our business or hire additional qualified employees. The process of locating employees with the combination of skills and attributes required to carry out our goals is often lengthy. We cannot assure you that we will be successful in attracting and retaining qualified employees.

If we were to lose key employees and not promptly fill their positions with comparably qualified individuals, our business may be materially adversely affected.

We only have one primary facility, which serves as our corporate headquarters, and are in the process of implementing business continuity procedures. If we encounter difficulties associated with this facility, we could face management issues that could have a material adverse effect on our business operations.

We only have one primary facility, in Denver, Colorado, which serves as our corporate headquarters where most of our employees are located. A significant portion of our computer equipment and senior management, including critical resources dedicated to financial and administrative functions, is also located at our corporate headquarters. 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 recognize the need for, and are in the process of, developing disaster recovery, business continuity and document retention plans that would allow us to be operational despite casualties or unforeseen events impacting our corporate headquarters. If we encounter difficulties or disasters at our corporate headquarters without disaster recovery, business continuity and document retention plans in place, our critical systems, operations and information may not be restored

in a timely manner, or at all, and this would have a material adverse effect on our business.

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

We regard our RE/MAX<sup>®</sup> 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 believe that this and other intellectual property are valuable assets that are critical to our success. We rely on a combination of protections provided by contracts, as well as copyright, trademark, and other laws, to protect our intellectual property from infringement, misappropriation or dilution. We have registered certain trademarks and service marks and have other trademark and service mark registration applications pending in the U.S. and foreign jurisdictions. However, 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. Although we monitor trademark portfolios both internally and through external search agents and impose an obligation on franchisees to notify us upon learning of potential infringement, 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 not aware of any challenges to our right to use any of our brand names or trademarks. We are commonly involved in numerous proceedings, generally on a small scale, to enforce our intellectual property and protect our brand. Unauthorized uses or other infringement of our trademarks or service marks, including ones 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 in which we have franchised or intend to franchise. Failure to adequately protect our intellectual property rights could damage our brand and impair our ability to compete effectively. Even where we have effectively secured statutory protection for our trademarks and other intellectual property, our competitors may misappropriate our intellectual property. Defending or enforcing our trademark rights, branding practices and other intellectual property, and seeking an injunction and/or compensation for misappropriation of confidential information, could result in the expenditure of significant resources and divert the attention of management, which in turn may materially and adversely affect our business and operating results.

Although we monitor and restrict our franchisees' activities through our franchise agreements, franchisees may refer to our brand improperly in writings or conversations, resulting in the dilution of our intellectual property. 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 the failure to meet the FTC guidelines or applicable state laws, or through the participation in improper or objectionable business practices. Moreover, unauthorized third parties may use our intellectual property to trade on the goodwill of our brand, resulting in consumer confusion or dilution. Any reduction of our brand's goodwill, consumer confusion, or dilution is likely to impact sales, and could materially and adversely impact our business and operating results.

We plan to implement a new information technology infrastructure for certain key aspects of our operations, which may be more costly than anticipated or take more time to complete and integrate than we expect, which could distract our management from our business and have an adverse impact on our results of operations.

We plan to implement a new information technology infrastructure for certain key aspects of our operations. In the process of designing, developing and integrating such infrastructure, 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 such 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, and we may not be able to devote financial resources to new technologies and systems in the future.

We rely on traffic to our websites, including our flagship website, remax.com, directed from search engines like Google, Yahoo! and Bing. If our websites fail to rank prominently in unpaid search results, traffic to our websites could decline and our business would be adversely affected.

Our success depends in part on our ability to attract users through unpaid Internet search results on search engines like Google, Yahoo! and Bing. The number of users we attract to our websites, including our flagship website, remax.com, 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, many of which are not under our direct control, and they may change frequently. For example, a search engine may change its ranking algorithms, methodologies or design layouts. As a result, links to our websites may not be prominent enough to drive traffic to our websites, and we may not know how or otherwise be in a position to influence the results. In some instances, search engine companies may change these rankings in order to promote their own competing services or the services of one or more of our competitors. 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.



A failure of our websites or website-based technology, including our lead referral system LeadStreet®, which are subject to factors beyond our control, could significantly disrupt our business and lead to reduced revenue and reputational damage.

We operate LeadStreet® which is a lead referral system that provides leads to our agents free of referral fees. LeadStreet® is supported by our websites, including, remax.com, global.remax.com, theremaxcollection.com and remaxcommercial.com. When a prospective buyer views a property listed on our websites by a specific RE/MAX agent, the agent gets this lead through LeadStreet® without a referral fee. However, we are vulnerable to certain additional risks and uncertainties associated with websites, including changes in required technology interfaces, website downtime and other technical failures, security breaches and consumer privacy concerns. Our failure to successfully address these risks and uncertainties could reduce our Internet presence, generate fewer leads for our agents and damage our brand.

Many of the risks relating to our website operations, such as governmental regulation of the Internet, increased competition from websites that facilitate private sales and online security breaches, are beyond our control.

We may not timely and effectively scale and adapt our existing technology and network infrastructure to ensure that our platform is accessible.

It is important to our success that users in all geographies be able to access our website at all times. We may experience, in the future, service disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors, capacity constraints due to an overwhelming number of users accessing our platform simultaneously, and denial of service or fraud or security attacks. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. If our website is unavailable when users attempt to access it or it does not load as quickly as they expect, users may seek other services to obtain the information for which they are looking, and may not return to our website as often in the future, or at all. This would negatively impact our ability to attract customers and decrease the frequency with which they use our website. We expect to continue to make ongoing investments to maintain and improve the availability of our website and to enable rapid releases of new features. To the extent that we do not effectively address capacity constraints, upgrade our systems as needed and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business and operating results may be harmed.

Any disruption or reduction in our information technology capabilities or other threats to our cybersecurity could harm our business.

Our information technologies and systems and those of our suppliers 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) computer viruses, penetration by individuals seeking to disrupt operations or misappropriate information and other physical or electronic breaches of security. We may not be able to successfully prevent a disruption to or material adverse effect on our business or operations in the event of a disaster, theft of data or other business interruption. Any extended interruption in our technologies or systems or significant breach could significantly curtail our ability to conduct our business and generate revenue. Additionally, our business interruption insurance may be insufficient to compensate us for losses that may occur.

A significant increase in private sales of residential property, including through the Internet, could have a material adverse effect on our business, prospects and results of operations.

A significant increase in the volume of private sales completed without the involvement of a real estate agent due to, for example, increased access to the Internet and the proliferation of websites that facilitate such sales, and a corresponding decrease in the volume of sales through real estate agents could have a material adverse effect on our business, prospects and results of operations.

The terms of RE/MAX, LLC's senior secured credit facility restrict the current and future operations of RMCO, RE/MAX, LLC and their subsidiaries, which could adversely affect their ability to respond to changes in business and to manage operations.

RE/MAX, LLC's senior secured credit facility includes a number of customary restrictive covenants. These covenants could impair the financing and operational flexibility of RMCO, RE/MAX, LLC and their subsidiaries and make it difficult for them to react to market conditions and satisfy their ongoing capital needs and unanticipated cash requirements. Specifically, such covenants may restrict their ability to, among other things:

- incur additional debt;
- make certain investments, acquisitions and joint ventures;
- enter into certain types of transactions with affiliates;
- pay dividends or make distributions or other payments to us;

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- use assets as security in certain transactions;
- repurchase their equity interests;
- sell certain assets or merge with or into other companies;
- guarantee the debts of others;
- enter into new lines of business; and
- make certain payments on subordinated debt.

In addition, so long as any revolving loans are outstanding under the senior secured credit facility, RE/MAX, LLC is required to maintain specified financial ratios. As of December 31, 2013, there were no outstanding revolving loans.

The ability to comply with the covenants and other terms of the senior secured credit facility will depend on future operating performance of RE/MAX, LLC and its subsidiaries. If RE/MAX, LLC fails to comply with such covenants and terms, it would be required to obtain waivers from the lenders or agree with the lenders to an amendment of the facility's terms to maintain compliance under the facility. If RE/MAX, LLC is unable to obtain any necessary waivers or amendments and the debt under our senior secured credit facility is accelerated or the lenders bring other remedies, it would likely have a material adverse effect on our financial condition and future operating performance.

We have significant debt service obligations and may incur additional indebtedness in the future which could adversely affect our financial health and our ability to react to changes to our business.

We have significant debt service obligations. 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. In 2013, we had total debt service obligations of \$10.5 million. 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 will be able to take any of such actions on a timely basis, on terms satisfactory to us or at all. Our level of indebtedness has important consequences to you and your investment in our Class A common stock.

For example, our level of indebtedness may:

- require us to use a substantial portion of our cash flow from operations to pay interest and principal on our debt, which would reduce the funds available to us for working capital, capital expenditures and other general corporate purposes;
- limit our ability to pay future dividends;
- limit our ability to obtain additional financing for working capital, capital expenditures, expansion plans and other investments, which may limit our ability to implement our business strategy;
- heighten our vulnerability to downturns in our business, the housing industry or in the general economy and limit our flexibility in planning for, or reacting to, changes in our business and the housing industry; or
- prevent us from taking advantage of business opportunities as they arise or successfully carrying out our plans to expand our franchise base and product offerings.

We cannot assure you that our business will generate sufficient cash flow from operations or that future financing will be available to us in amounts sufficient to enable us to make payments on our indebtedness or to fund our operations.

As a result of these covenants, we are limited in the manner in which we conduct our business and we may be unable to engage in favorable business activities or finance future operations or capital needs.

Future indebtedness may impose various additional restrictions and covenants on us which could limit our ability to respond to market conditions, to make capital investments or to take advantage of business opportunities. Our ability to make payments to fund working capital, capital expenditures, debt service, and strategic acquisitions will depend on our ability to generate cash in the future, which is subject to general economic, financial, competitive, regulatory and

other factors that are beyond our control.

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Variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

As of December 31, 2013, \$228.4 million in term loans were outstanding under our senior secured credit facility net of unamortized discount, which was at variable rates of interest, thereby exposing us to interest rate risk. We currently do not engage in any interest rate hedging activity and we have no intention to do so in the foreseeable future. As such, if interest rates increase, our debt service obligations on our outstanding indebtedness would increase even if the amount borrowed remained the same, and our net income would decrease.

Our operating results are subject to quarterly fluctuations, 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 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 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.

Changes in accounting standards, subjective assumptions and estimates used by management related to complex accounting matters could have a material adverse effect on our financial performance and results of operations.

Generally accepted accounting principles (GAAP) in the U.S. and related accounting pronouncements, implementation guidance and interpretations with regard to a wide range of matters, such as revenue recognition, accounting for leases, equity-based compensation, asset impairments, valuation reserves, income taxes and fair value accounting, are highly complex and involve many subjective assumptions, estimates and judgments made by management. Changes in these rules or their interpretations or changes in underlying assumptions, estimates or judgments made by management could significantly change our reported results.

We have incurred and will continue to incur new costs as a result of becoming a public company, and such costs will likely increase when we are no longer an “emerging growth company.”

As a public company, we incur significant legal, accounting, insurance and other expenses that we did not incur as a private company, including costs associated with public company reporting requirements. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. We expect compliance with these public reporting requirements and associated rules and regulations to increase our legal and financial costs, particularly after we are no longer an “emerging growth company” as defined in the JOBS Act, which reduces certain disclosure requirements for “emerging growth companies,” thereby decreasing related regulatory compliance costs, and to make some activities more time-consuming and costly, although we are currently unable to estimate these costs with any degree of certainty. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as our executive officers. Further, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our Class A common stock, fines, sanctions and other regulatory action and, potentially, civil litigation.

#### Risks Related to Our Organizational Structure

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

RIHI, an entity controlled by David and Gail Liniger, our Chairman and Co-Founder and Vice-Chair and Co-Founder, respectively, (with Margaret Kelly, our Chief Executive Officer and a director, Vincent Tracey, our President and a director, and Daryl Jespersion, a director, who hold minority ownership interests in RIHI), holds a majority of the combined voting power of the different classes of our capital stock through its ownership of 100% of our outstanding Class B common stock. Additionally, the shares of Class B common stock entitle the holder, without regard to the number of shares of Class B common stock held, to a number of votes on matters presented to stockholders of RE/MAX Holdings that is equal to two times the aggregate number of common units of RMCO held by such holder.

Accordingly, RIHI, acting alone, has the ability to approve or disapprove substantially all transactions and other matters submitted to a vote of our stockholders, such as a merger, consolidation, dissolution or sale of all or substantially all of our assets, the issuance or redemption of certain additional equity interests, and the election of directors. These voting and class approval rights may enable RIHI to consummate transactions that may not be in the best interests of holders of our Class A common stock or, conversely, prevent the consummation of transactions that may be in the best interests of holders of our Class A common stock. In addition, although RIHI has voting control of us, 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 whether and when to dispose of assets, whether and when to incur new or refinance existing indebtedness, especially in light of the existence of the tax receivable agreements that we entered into in connection with our IPO, and whether and when we should terminate the tax receivable agreements and accelerate our obligations thereunder. In addition, the structuring of future transactions may take into consideration the tax or other considerations of our Historical Owners, even in situations where no similar considerations are relevant to us.

We are a "controlled company" within the meaning of the NYSE listing requirements and, as a result, qualify for, and intend to rely on, exemptions from certain corporate governance requirements. You do not have the same protections afforded to stockholders of companies that are subject to such corporate governance requirements.

Because of the voting power over our Company held by RIHI, we are considered a "controlled company" for the purposes of the New York Stock Exchange ("NYSE") listing requirements. As such, we are exempt from certain corporate governance requirements, including:

- the requirement that the majority of directors on our board be independent;
- the requirement that we have a nominating and corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;
- the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and
- the requirement for an annual performance evaluation of the nominating and corporate governance and compensation committees.

The corporate governance requirements and specifically the independence standards are intended to ensure that directors who are considered independent are free of any conflicting interest that could influence their actions as directors. We are utilizing these exemptions afforded to a "controlled company." As a result, the majority of directors on our board is not independent nor do our nominating and corporate governance and compensation committees consist entirely of independent directors. We also are not required to conduct an annual performance evaluation of the nominating and corporate governance and compensation committees. Accordingly, you do not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the NYSE.

We depend on distributions from RMCO to pay taxes and expenses, including payments under the tax receivable agreements, but RMCO's ability to make such distributions may be subject to various limitations and restrictions.

We have no material assets other than our ownership of common units of RMCO and have no independent means of generating revenue.





RMCO is treated as a partnership for U.S. federal income tax purposes and, as such, is not subject to U.S. federal income tax. Instead, taxable income is allocated to holders of RMCO's common units, including us. As a result, we incur income taxes on our allocable share of any net taxable income of RMCO. Under the terms of RMCO's fourth amended and restated limited liability company operating agreement, which became effective upon the completion of our IPO (the "RMCO, LLC agreement"), RMCO is obligated to make tax distributions to holders of its units, including us. In addition to tax expenses, we also incur expenses related to our operations, including expenses under the tax receivable agreements, which we expect will be significant. As RMCO's managing member, we cause RMCO to make distributions in an amount sufficient to allow us to pay our taxes and operating expenses, including any payments due under the tax receivable agreements. However, RMCO's ability to make such distributions may be subject to various limitations and restrictions including, but not limited to, restrictions on distributions that would either violate any contract or agreement to which RMCO is then a party, including debt agreements, or any applicable law, or that would have the effect of rendering RMCO insolvent. If RMCO does not have sufficient funds to pay tax or other liabilities to fund our operations, we may have to borrow funds, which could adversely affect our liquidity and financial condition and subject us to various restrictions imposed by any such lenders. To the extent that we are unable to make payments under the tax receivable agreements for any reason, such payments will be deferred and will accrue interest until paid. If RMCO does not have sufficient funds to make distributions, our ability to declare and pay cash dividends may also be restricted or impaired. See "—Risks Related to Ownership of Our Class A Common Stock."

Our tax receivable agreements with our Historical Owners require us to make cash payments to them in respect of future tax benefits to which we may become entitled, and the amounts that we may be required to pay could be significant.

In connection with our IPO, we entered into tax receivable agreements with our Historical Owners. Pursuant to the tax receivable agreements, we are required to make cash payments to our Historical Owners equal to 85% of the applicable cash savings, if any, in U.S. federal, state and local tax that we actually realize, or in some circumstances are deemed to realize, as a result of certain future tax benefits to which we may become entitled. 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. Any payments made by us to our Historical Owners under the tax receivable agreements will generally reduce the amount of overall cash flow that might have otherwise been available to us and the first payments are expected to be made in the second half of 2014 and annually thereafter. To the extent that we are unable to make timely payments under the tax receivable agreements for any reason, the unpaid amounts will be deferred and will accrue interest until paid by us. Furthermore, our future obligation to make payments under the tax receivable agreements could make us a less attractive target for an acquisition, particularly in the case of an acquirer that cannot use some or all of the tax benefits that may be deemed realized under the tax receivable agreements. The payments under the tax receivable agreements are also not necessarily conditioned upon our Historical Owners maintaining a continued ownership interest in either RMCO or us.

The amounts that we may be required to pay to our Historical Owners under the tax receivable agreements may be accelerated in certain circumstances and may also significantly exceed the actual tax benefits that we ultimately realize.

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 our Historical Owners 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. In these situations, our obligations under the tax receivable agreements could have a substantial negative impact on our liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, other forms of business combination, or other changes of control. There can be no assurance that we will be able to finance our obligations under the tax receivable agreements.

We will also not be reimbursed for any cash payments previously made to our Historical Owners 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 our Historical Owners 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 our Historical Owners 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.

If we were deemed to be an investment company under the Investment Company Act of 1940, as amended (the “1940 Act”) as a result of our ownership of RMCO, applicable restrictions could make it impractical for us to continue our business as contemplated and could have an adverse effect on our business.

Under Sections 3(a)(1)(A) and (C) of the 1940 Act, a company generally will be deemed to be an “investment company” for purposes of the 1940 Act if (i) it is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities or (ii) it engages, or proposes to engage, in the business of investing, reinvesting, owning, holding or trading in securities and it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We do not believe that we are an “investment company,” as such term is defined in either of those sections of the 1940 Act.

As the sole managing member of RMCO, we control and operate RMCO. On that basis, we believe that our interest in RMCO is not an “investment security” as that term is used in the 1940 Act. However, if we were to cease participation in the management of RMCO, our interest in RMCO could be deemed an “investment security” for purposes of the 1940 Act.

We and RMCO intend to conduct our operations so that we will not be deemed an investment company. However, if we were to be deemed an investment company, restrictions imposed by the 1940 Act, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.

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

RIHI directly (through ownership of our Class B common stock) and indirectly (through ownership of RMCO common units) owns interests in us, and RIHI has the right to redeem and cause us to redeem, as applicable, such interests pursuant to the terms of the RMCO, LLC agreement. We may elect to issue shares of Class A common stock upon such redemption, and the issuance and sale of such shares may have a negative impact on the market price of our Class A common stock.

We have an aggregate of more than 168,392,029 shares of Class A common stock authorized but unissued, including approximately 17,734,600 shares of Class A common stock issuable upon redemption of RMCO common units that are held by RIHI. In connection with our IPO, RMCO entered into the RMCO, LLC agreement, and subject to certain restrictions set forth therein, RIHI is entitled to potentially redeem the RMCO common units it holds for an aggregate of up to 17,734,600 shares of our Class A common stock, subject to customary adjustments. We also have entered into a registration rights agreement pursuant to which the shares of Class A common stock issued upon such redemption are eligible for resale, subject to certain limitations set forth therein.

We cannot predict the size of future issuances of our Class A common stock or the effect, if any, that future issuances and sales of shares of our Class A common stock may have on the market price of our Class A common stock. Sales or distributions of substantial amounts of our Class A common stock, including shares issued in connection with an acquisition, or the perception that such sales or distributions could occur, may cause the market price of our Class A common stock to decline.

The dual class structure of our common stock has the effect of concentrating voting control with RIHI and our Chairman and Founder.

The Class B common stock has no economic rights but entitles the holder, without regard to the number of shares of Class B common stock held, to a number of votes on matters presented to stockholders of RE/MAX Holdings that is

equal to two times the aggregate number of common units of RMCO held by such holder. Our Class A common stock has one vote per share.

Based on the voting rights associated with our Class B common stock, and the number of common units of RMCO that RIHI currently owns, RIHI holds approximately 75.34% of the voting power of our outstanding capital stock. As a result, RIHI controls a majority of the combined voting power of our common stock and therefore is able to control all matters submitted to our stockholders for approval. This concentrated control will limit or preclude your ability to influence corporate matters for the foreseeable future.

RIHI is a Delaware corporation that is majority owned and controlled by David Liniger, our Chairman and Co-Founder, and Gail Liniger, our Vice Chair and Co-Founder. Margaret Kelly, our Chief Executive Officer and a director, Vincent Tracey, our President and a director, and Daryl Jespersen, a director, hold minority ownership interests in RIHI.

You may be diluted by future issuances of additional Class A common stock in connection with our incentive plans, acquisitions or otherwise; future sales of such shares in the public market, or the expectations that such sales may occur, could lower our stock price.

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. As of December 31, 2013, we had 1,336,439 reserved shares available for issuance under our 2013 Stock Incentive Plan. We have granted options to purchase 787,500 in substitution of options that were granted by RMCO. In addition, in connection with the IPO, we granted 107,971 restricted stock units to certain officers and employees that vested upon grant, but for which the underlying shares will not be delivered until May 20, 2014. We also granted 115,699 restricted stock units to certain officers and employees that vest over a three-year period beginning on December 1, 2014 and 18,184 restricted stock units to our directors that vest over a one-year period on December 1, 2014. Any Class A common stock that we issue, including under our 2013 Stock Incentive Plan or other equity incentive plans that we may adopt in the future, would dilute the percentage ownership held by the investors who own Class A common stock.

Our Class A common stock price may be volatile or may decline regardless of our operating performance and you may not be able to resell your shares at or above the price you paid for them.

Many factors, which are outside our control, may cause the market price of our Class A common stock to fluctuate significantly, including those described elsewhere in this “Risk Factors” section, as well as the following:

- our operating and financial performance and prospects;
- our quarterly or annual earnings or those of other companies in our industry compared to market expectations;
- conditions that impact demand for our services, including the condition of the U.S. residential housing market unrelated to our performance;
- future announcements concerning our business or our competitors’ businesses;
- the public’s reaction to our press releases, other public announcements and filings with the SEC;
- the size of our public float;
- coverage by or changes in financial estimates by securities analysts or failure to meet their expectations;
- market and industry perception of our success, or lack thereof, in pursuing our growth strategy;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- changes in government and environmental regulation;
- housing and mortgage finance markets;
- changes in accounting standards, policies, guidance, interpretations or principles;
- changes in senior management or key personnel;
- issuances, exchanges or sales, or expected issuances, exchanges or sales of our capital stock;
- adverse resolution of new or pending litigation against us;
- changes in general market, economic and political conditions in the U.S. and global economies or financial markets, including those resulting from natural disasters, terrorist attacks, acts of war and responses to such events; and
- material weakness in our internal control over financial reporting.

Volatility in the market price of our common stock may prevent investors from being able to sell their common stock at or above the price they paid for the stock. In addition, price volatility may be greater if the public float and trading volume of our common stock is low. As a result, you may suffer a loss on your investment.

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

We recently declared a cash dividend of \$0.0625 per share of Class A common stock. We intend to pay a cash dividend in this amount on a quarterly basis. 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 the 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 ("DGCL"), 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.

Our business and stock price may suffer as a result of our lack of public company operating experience.

Prior to the IPO, we were a privately-held company since we began operations in 1973. Our lack of public company operating experience may make it difficult to forecast and evaluate our future prospects. If we are unable to execute our business strategy, either as a result of our inability to effectively manage our business in a public company environment or for any other reason, our prospects, financial condition and results of operations may be harmed and our stock price may decline.

As an "emerging growth company," we cannot be certain whether taking advantage of the reduced disclosure requirements applicable to "emerging growth companies" makes our common stock less attractive to investors.

The JOBS Act provides that, so long as a company qualifies as an "emerging growth company," it will, among other things, be exempt from the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that its independent registered public accounting firm provide an attestation report on the effectiveness of its internal control over financial reporting, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding advisory "say-on-pay" votes on executive compensation

and shareholder advisory votes on golden parachute compensation.

We take advantage of the reduced disclosure requirements regarding executive compensation. We have irrevocably elected not to take advantage of the extension of time to comply with new or revised financial accounting standards available under Section 107(b) of the JOBS Act. We cannot predict whether investors will find our Class A common stock less attractive if we rely on these exemptions, or whether taking advantage of these exemptions would result in less active trading or more volatility in the price of our Class A common stock. Also, we intend to take advantage of some of the reduced regulatory and reporting requirements that will be available to us as long as we qualify as an “emerging growth company.”



The historical financial information in this Annual Report on Form 10-K may not be an accurate representation of our costs of operations in the future.

The historical financial information in this report does not reflect all of the added costs we expect to incur as a public company. For more information on our historical financial information, see “Item 7.—Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

#### 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. As of December 31, 2013, our company-owned real estate brokerage business leases approximately 172,081 square feet of office space in the U.S. and Canada under approximately 23 leases. These offices are generally located in shopping centers and small office parks, generally with lease terms of 1 to 10 years. We believe that all of our properties and facilities are well maintained.

#### ITEM 3. LEGAL PROCEEDINGS

From time to time we are involved in litigation, claims and other proceedings relating to the conduct of our business. 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 management time. Litigation and other claims and regulatory proceedings against us could result in unexpected expenses and liability and could also materially adversely affect our operations and our reputation.

#### ITEM 4. MINE SAFETY DISCLOSURES

None.



## PART II

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

Shares of our Class A common stock began trading on the NYSE under the symbol "RMAX" on October 2, 2013. Prior to that date, there was no public trading market for shares of our Class A common stock.

The table below shows the highest and lowest prices paid per share for our Class A common stock for the quarter since our initial public offering.

Quarter	Highest	Lowest
2013 – Fourth Quarter (from October 2, 2013)	\$ 33.54	\$ 25.40

As of March 19, 2014, we had four 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., and there is no public market for these shares.

We did not pay any cash dividends on our Class A common shares during 2013. On March 21, 2014, we declared a dividend of \$0.0625 per Class A common share to be paid on April 18, 2014 to shareholders of record as of April 4, 2014. We intend to pay a cash dividend in this amount on a quarterly basis. 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 the financial results and cash flows of RMCO and its subsidiaries, distributions we receive from RMCO, 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.

## Performance Graph

The following graph and table depict the total return to shareholders from October 2, 2013 (the date our Class A common stock began trading on the NYSE) through December 31, 2013, relative to the performance of the S&P 500 Index, Russell 2000 (Total Return) Index and a peer group of real estate and franchise related companies. The graph and table assume \$100 invested at the closing price of \$27.00 on October 2, 2013 (rather than the IPO offering price of \$22.00 per share) and that all dividends were reinvested.

The performance graph and table are not intended to be indicative of future performance. The performance graph and table 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.



Other franchise and real estate related companies: Realty Holding Corp., Dunkin Brands Group Inc., Domino's Pizza Inc., Yum! Brands Inc., Choice Hotels International Inc., Marriott International Inc., CBRE Group Inc., Jones Lang LaSalle Inc. For purposes of the chart and table, the companies in this peer group are weighted according to their market capitalization.

	October 2, 2013	December 31, 2013
RE/MAX Holdings Inc	\$ 100.00	\$ 118.78
Other franchise and real estate related companies	100.00	110.46
S&P 500 Index	100.00	109.12
Russell 2000 (Total Return) Index	100.00	107.83

#### ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth our selected historical consolidated financial 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, 2013, 2012 and 2011, and the consolidated statements of financial condition data as of December 31, 2013 and 2012 have been derived from our audited consolidated financial statements included elsewhere in this report.

The selected consolidated statements of income data for the years ended December 31, 2010 and 2009 and as of December 31, 2011, 2010 and 2009 have been derived from our audited consolidated financial statements not included in this report.

After the completion of the IPO, RE/MAX Holdings' owns 39.56% of the common membership units in RMCO. RE/MAX Holdings' only business is to act as the sole manager of RMCO and, in that capacity, RE/MAX Holdings operates and controls all of the business and affairs of RMCO. As a result, RE/MAX Holdings consolidates RMCO, and because RE/MAX Holdings and RMCO are entities under common control, such consolidation has been reflected for all periods presented. Our selected historical financial data does not reflect what our financial position, results of operations, and cash flows would have been had we been a separate, stand-alone public company during those periods.

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

You should read the information set forth below in conjunction with our historical consolidated 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,				
	2013	2012	2011	2010	2009
	(in thousands, except per share amounts and agent data)				
<b>Consolidated Statements of Income Data:</b>					
Total revenue:					
Continuing franchise fees	\$64,465	\$56,350	\$57,200	\$60,865	\$62,623
Annual dues	29,524	28,909	28,922	30,472	31,627
Broker fees	24,811	19,579	16,764	16,021	16,010
Franchise sales and other franchise revenue	23,574	22,629	19,354	15,709	17,841
Brokerage revenue	16,488	16,210	16,062	17,150	21,569
Total revenue	158,862	143,677	138,302	140,217	149,670
Operating expenses:					
Selling, operating and administrative expenses	96,243	84,337	85,291	81,353	78,882
Depreciation and amortization	15,166	12,090	14,473	16,735	20,861
Impairment of goodwill	-	-	-	-	17,137
Loss on sale or disposition of assets, net	373	1,704	67	3,719	2,686
Total operating expenses	111,782	98,131	99,831	101,807	119,566
Operating income	47,080	45,546	38,471	38,410	30,104
Other expenses, net:					
Interest expense	(14,647 )	(11,686 )	(12,203 )	(22,295 )	(29,805 )
Interest income	321	286	372	538	770
Foreign currency transaction (losses) gains, net	(764 )	208	(266 )	167	1,163
Loss on early extinguishment of debt	(1,798 )	(136 )	(384 )	(18,161 )	(2,833 )
Equity in earnings of investees	904	1,244	431	643	1,428
Total other expenses, net	(15,984 )	(10,084 )	(12,050 )	(39,108 )	(29,277 )
Income (loss) before provision for income taxes	31,096	35,462	26,421	(698 )	827
Provision for income taxes	(2,844 )	(2,138 )	(2,172 )	(2,049 )	(2,278 )
Net income (loss) to controlling and non-controlling interests	28,252	33,324	24,249	(2,747 )	(1,451 )
Less: net income (loss) attributable to non-controlling interests	26,746	33,324	24,249	(2,747 )	(1,451 )
Net income attributable to RE/MAX Holdings, Inc.	\$1,506	-	-	-	-
Earnings per share data:					
Basic (1)	\$0.13				
Diluted (1)	\$0.12				
Other data:					
Agent count at period end (unaudited)	93,228	89,008	87,476	89,628	92,071

(1) We consummated our initial public offering on October 7, 2013. Since that date, we have consolidated the results of RMCO due to our role as RMCO’s managing member. Therefore, all income for the period prior to October 7,

2013 is entirely attributable to the non-controlling interests which existed prior to the initial public offering. As a result, in the computation of U.S. generally accepted accounting principles (“GAAP”) earnings per share, only the net income attributable to our controlling interests from the period subsequent to the initial public offering is considered. Additionally, the computation of weighted average basic and diluted shares of Class A common stock outstanding considers the outstanding shares from the date our Class A common stock started trading on the New York Stock Exchange, October 2, 2013 through December 31, 2013.

	As of December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
<b>Consolidated Balance Sheets Data:</b>					
Cash	\$88,375	\$68,501	\$38,611	\$44,569	\$37,129
Franchise agreements, net	89,071	78,338	72,217	83,452	94,727
Goodwill	72,781	71,039	41,882	41,963	41,867
Total assets	352,823	251,416	186,465	206,160	292,838
Long-term debt, including current portion	228,404	232,326	195,340	211,366	297,075
Redeemable preferred units	-	78,400	66,500	62,200	-
Total stockholders' equity/members' deficit	15,539	(96,769 )	(109,524 )	(97,946 )	(61,102 )

## 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 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 RMCO and its consolidated subsidiaries prior to October 7, 2013 and RE/MAX Holdings and its consolidated subsidiaries, including RMCO, commencing on October 7, 2013 (collectively, the "Company," "we," "our" or "us"). Subsequent to the IPO, RE/MAX Holdings' began to operate and control all of the business affairs of RMCO. As a result, RE/MAX Holdings began to consolidate RMCO on October 7, 2013, and because RE/MAX Holdings and RMCO are entities under common control, such consolidation has been reflected for all periods presented.

### Business Overview

We are one of the world's leading franchisors of real estate brokerage services. Our business strategy is to recruit and retain agents and sell franchises. Our franchisees operate under the RE/MAX brand name which has held the number one market share in the U.S. and Canada since 1999 as measured by total residential transaction sides completed by our agents. We operate in two reportable segments, (1) Real Estate Franchise Services and (2) Brokerage and Other. The Real Estate Franchise Services reportable segment comprises the operations of our owned and independent global franchising operations. The Brokerage and Other reportable segment contains the operations of our 21 owned brokerage offices in the U.S., the results of operations of a mortgage brokerage company in which we own a non-controlling interest, the elimination of intersegment revenue and other consolidation entities, as well as corporate and professional services expenses.

Our financial results are driven by the number of agents in our global network. The majority of our revenue is derived from fixed, contractual fees and dues paid to us based on the number of agents in our franchise network. We grew our total agent count at a CAGR of 30% from our founding to a peak of approximately 120,000 agents in 2006. Our agent count declined approximately 26.8% from 2006 through 2011 as real estate transaction activity declined during the



U.S. and global real estate downturn and economic recession. We returned to growth with a net gain of 1,532 agents during 2012 (of which 651 agents were in the U.S.) and accelerated our growth in 2013 with a net gain of 4,220 agents (of which 2,688 agents were in the U.S.). We expect that our U.S. agent count will continue to increase as we attract productive agents who recognize the strength of the RE/MAX brand and our agent-centric value proposition.

As approximately 78.5% of our 2013 revenue came from the U.S., we believe that we are benefiting from the recovery in the U.S. housing market. Existing home sale transactions in the U.S. rose 9.4% in 2012 and 9.2% in 2013, according to NAR. NAR forecasts that existing home sale transactions will fall by 1.4% in 2014, but rise 5.3% in 2015. With approximately 15.8% of our 2013 revenue coming from Canada, where RE/MAX has the leading market share among residential brokerage firms, we also expect to benefit from a continuation of generally stable Canadian housing market trends.

Our current growth strategies include the following initiatives:

Capitalize on the U.S. housing recovery and increase our total agent count;  
Continue to drive franchise sales growth and agent recruitment and retention;

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Reacquire select RE/MAX regional franchises in the U.S. and Canada; and  
Increase franchise and agent fees.

We function under the following franchise organizational model, with nearly all of the RE/MAX branded brokerage office locations being operated by franchisees:

Franchise Tier	Description
RE/MAX	Owns the right to the RE/MAX brand and sells franchises and franchising rights.
Regional Franchise Owner	Owns rights to sell brokerage franchises in a specified region. Current network of 162 regions globally. In the U.S. and Canada, RE/MAX owns 12 of 32 regional franchises, representing 54% of our U.S. and Canada agent count. The remaining 20 regional franchises, representing 46% of our U.S. and Canada agent count, are Independent Regions.
Franchisee (or Broker-Owner)	Owns right to operate a RE/MAX-branded brokerage office, list properties and recruit agents. 6,481 offices globally as of December 31, 2013.
Agent (or Sales Associate)	Branded independent contractors who operate out of local franchise brokerage offices. 93,228 agents globally as of December 31, 2013.

In the early years of our expansion in the U.S. and Canada, we sold regional franchise rights to independent owners for certain Independent Regions while retaining rights to other regions. In recent years, we have pursued a strategy to reacquire regional franchise rights, such as the California, Hawaii, Florida and Carolinas regions in 2007, the Mountain States region in 2011, the Texas region in 2012 and the Central Atlantic and Southwest regions in 2013.

As a franchisor (less than 1% of the brokerages in the U.S. RE/MAX system are owned by us), we maintain a low fixed-cost structure which enables us to generate high margins and helps us drive significant operating leverage through incremental revenue growth as reflected in our financial results.

We have multiple revenue streams, with the majority of our revenue derived from fixed contractual fees and dues paid by our agents, franchisees and regional franchise owners. Our revenue consists of (i) continuing franchise fees from regional franchise owners and franchisees as a fixed amount per agent, (ii) fixed annual dues from agents, (iii) broker fees derived from a percentage of agent commissions, (iv) franchise fees from the sale or renewal of franchises and other franchise revenue and (v) brokerage revenue, which principally represents fees assessed by our owned brokerages for services provided to their affiliated real estate agents. Our revenue streams are illustrated in the following chart:

Our financial results for the years ended December 31, 2013, 2012 and 2011 were as follows:

	Year Ended December 31,		
	2013	2012	2011
Revenue	\$158.9 million	\$143.7 million	\$138.3 million
Adjusted EBITDA*	\$77.3 million	\$ 66.7 million	\$ 59.3 million
Net income	\$28.3 million	\$ 33.3 million	\$ 24.2 million

\* See “—Non-GAAP Financial Measures” for further discussion of Adjusted EBITDA and a reconciliation of the differences between Adjusted EBITDA and net income.

### Significant Transactions Impacting Our Operating Results

#### Incorporation of RE/MAX Holdings

RE/MAX Holdings was formed as a Delaware corporation on June 25, 2013 for the purpose of facilitating an IPO of its common equity and to become the sole managing member of RMCO. Prior to October 7, 2013, RE/MAX Holdings had not engaged in any business or activities except in connection with its formation and the negotiation of the acquisitions of the business assets of HBN and Tails.

#### Reorganization Transactions

In connection with the IPO, RMCO’s third amended and restated limited liability company agreement (the “third RMCO, LLC Agreement”), dated as of February 1, 2013, was amended and restated to, among other things, modify RMCO’s capital structure so that Weston Presidio’s Class A preferred membership interests were recapitalized into (i) preferred interests that reflected Weston Presidio’s liquidation preference of approximately \$49.9 million and (ii) common interests that reflected Weston Presidio’s pro-rata share of the residual equity value of RMCO. At the same time, the Class B common membership interest held by RIHI was reclassified, and the common interests in RMCO were split, such that each common unit of RMCO held by Weston Presidio and RIHI could be acquired with the net proceeds received in the IPO from the sale of one share of our Class A common stock, after the deduction of underwriting discounts and commissions and prior to the payment of estimated offering expenses. RIHI also received a redemption right that entitles RIHI to have its remaining common units of RMCO redeemed, at RIHI’s election in exchange for, at our option, newly issued shares of Class A common stock on a one-for-one basis (subject to customary adjustments, including conversion rate adjustments, underwriting discounts, commissions and adjustments for stock splits, stock dividends and reclassifications) or a cash payment equal to the market price of one share of our Class A common stock.

#### Initial Public Offering

On October 7, 2013, we issued and sold 11,500,000 shares of our Class A common stock at a public offering price of \$22.00 per share in our IPO and became a member and the sole manager of RMCO. The net offering proceeds to us from the IPO, after deducting underwriting discounts and commissions totaling approximately \$17.1 million and offering expenses totaling approximately \$11.0 million, were approximately \$224.9 million. We used approximately \$27.3 million of the net proceeds from the IPO to reacquire regional RE/MAX franchise rights in the Southwest and Central Atlantic regions of the U.S. through the acquisitions of the business assets of HBN and Tails and contributed these acquired assets to RMCO in exchange for common units. The remaining \$197.6 million of net proceeds was used to purchase common units from RMCO. RMCO used the net proceeds it received to pay \$49.9 million to Weston Presidio to redeem all of the preferred units in RMCO held by Weston Presidio, \$76.9 million to redeem all common

units in RMCO held by Weston Presidio and \$70.8 million to redeem common units in RMCO held by RIHI, in each case at a price per common unit equal to the net proceeds received in the IPO from the sale of one share of our Class A common stock, after the deduction of underwriting discounts and commissions and prior to the payment of estimated offering expenses.

We are a holding company and own approximately 39.56% of the common units in RMCO. RIHI owns the remaining 60.44% of the common units in RMCO. Our only business is to act as the sole manager of RMCO and, in that capacity, we operate and control all of the business and affairs of RMCO. As a result, on October 7, 2013, we began to consolidate the financial results of RMCO and its subsidiaries. Due to RIHI's approximate 60.44% equity interest in RMCO, our post-IPO results reflect a significant non-controlling interest and our net income represents approximately 39.56% of RMCO's net income. Our only source of cash flow from operations is in the form of distributions from RMCO and management fees paid by RMCO pursuant to a management services agreement between us and RMCO.

#### Tax Impact of Reorganization Transactions and IPO

Following the IPO and related reorganization transactions described above, RE/MAX Holdings became subject to U.S. federal and state income taxation on its allocable portion of the income of RMCO.

At the time of the IPO, we entered into separate tax receivable agreements (collectively, the “TRAs”) with the Historical Owners that will provide for the payment by us to the Historical Owners of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that we actually realize, or in some circumstances are deemed to realize, as a result of an expected increase in our share of tax basis in RMCO’s tangible and intangible assets, including increases attributable to payments made under the TRAs, and deductions attributable to imputed and actual interest that accrues in respect of such payments. These tax benefit payments are not necessarily conditioned upon one or more of the Historical Owners maintaining a continued ownership interest in either RMCO or us. We expect to benefit from the remaining 15% of cash savings, if any, that we may actually realize. The provisions of the TRAs that we entered into with the Historical Owners are substantially identical.

As of December 31, 2013, a net deferred tax asset of \$69.2 million and amounts payable under the TRAs of \$68.8 million have been recorded in the Consolidated Balance Sheets. As of December 31, 2013, no amounts had been paid pursuant to the TRAs.

### Costs of Being a Public Company

Following the IPO, we expect to incur additional expenses as a result of becoming a public company, including expenses related to additional staffing, directors’ and officers’ liability insurance, directors fees, SEC reporting and compliance (including Sarbanes-Oxley compliance), transfer agent fees, professional fees and other similar expenses. Further, we may incur significant legal, accounting and other fees and expenses associated with future offerings of Class A common stock. These additional expenses will increase our selling, operating and administrative expenses and reduce our net income.

### Factors Affecting Our Operating Results

Various factors affected our results for the periods presented in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” including the following:

**Changes in Agent Count.** The majority of our revenue is derived from fees and dues based on the number of agents in the RE/MAX network. Due to the low fixed cost structure of our franchise model, the addition of new agents generally requires little incremental investment in capital or infrastructure. Accordingly, the number of agents in our network (particularly in our owned U.S. and Canadian regions) is the most important factor affecting our results of operations and the addition of new agents can favorably impact our revenue and Adjusted EBITDA. Historically, the number of agents in the residential real estate industry has been highly correlated with overall home sale transaction activity. Our agent count decreased during the downturn in the U.S. housing sector, but has recently returned to growth as the market continues to recover. However, we do not use our overall home sale transaction activity on a per agent or aggregate basis in order to evaluate our results of operations. We believe that the number of agents in our network is the primary statistic that drives our revenue.

**Cyclical Residential Real Estate Market.** The residential real estate industry in which we operate is cyclical and, consequently, our revenue is affected by general conditions within the residential real estate market.

**U.S. Real Estate Downturn.** From the second half of 2005 through 2011, the U.S. real estate industry experienced a significant downturn, with existing home transactions declining by 40% from 7.1 million in 2005 to 4.3 million in 2011, according to NAR. The majority of our revenue is derived from recurring, fixed contractual fees and dues paid by our agents, franchisees and regional franchise owners, which we believe provides for a more stable revenue stream than a model based upon real estate transaction activity, which would be impacted more significantly during industry downturns. For example, during the downturn in the U.S. housing sector discussed above, our total revenue declined by approximately 20% between the peak level in 2007 and the recent low point in 2011, which represented our

highest and lowest revenue periods during the most recent cycle.

U.S. Real Estate Recovery. The U.S. real estate industry experienced a rebound in 2012 and 2013, with 4.7 million and 5.1 million existing home sale transactions, respectively, increases of 9.4% and 9.2%, respectively. Historically, an increase in overall transaction activity is highly correlated with a subsequent increase in the number of agents in the residential real estate brokerage industry. NAR is forecasting that in 2014, existing home sales transactions will fall by 1.4% compared to 2013. NAR also forecasts 5.0 million existing home sales in 2014. We believe we are well-positioned to benefit from recent increases in our agent count as a result of our ability to attract productive agents who recognize the strength of the RE/MAX brand and our agent-centric value proposition.

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Changes in Aggregate Fee Revenue Per Agent. A significant portion of our revenue is tied to various fees that are ultimately tied to the number of agents, including annual dues, continuing franchise fees and certain transaction or service based fees. Our average annual revenue per agent for our Company-owned Regions in the U.S. and Canada is more than two times greater than for our Independent Regions. Our average revenue per agent in regions outside the U.S. and Canada is substantially lower than the average revenue per agent in the U.S. and Canada. We have expanded our owned regional franchising operations through acquisitions of Independent Regions in the U.S. and Canada. We reacquired the regional franchise rights for the Mountain States region in 2011 and for the Texas region in 2012. On October 7, 2013, we reacquired regional RE/MAX franchise rights in the Central Atlantic and Southwest regions, and intend to pursue reacquisition of other regions in the future. In addition, other changes in our aggregate revenue per agent are derived from changes in our fee arrangements with our franchisees and agents over time. Our revenue per agent also increases in other ways including when transaction sides and transaction sizes increase since a portion of our revenue comes from fees tied to the number and size of real estate transactions closed by our agents. Given the low fixed cost structure of our franchise model, modest increases in revenue per agent, including increases to our annual dues and continuing franchise fees charged in our U.S. owned regions, which occurred on January 1, 2014, could have a significant impact on our profitability.

#### How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of financial and operating measures that affect our operating results, including agent count, franchise sales, revenue and Adjusted EBITDA.

Agent Count and Franchise Sales. Agent count reflects the number of licensed agents who have active, independent contractual relationships with RE/MAX offices at a particular time. The majority of our revenue is derived from recurring fixed fee streams we receive from our franchisees and agents that are closely correlated to our aggregate agent count.

The following table shows our agent count at the end of the periods indicated:

	As of December 31,		
	2013	2012	2011
<b>Agent Count:</b>			
<b>U.S.</b>			
Company-owned regions	33,416(1)	25,819(2)	21,050
Independent regions	21,075	25,984	30,102
<b>U.S. Total</b>	<b>54,491</b>	<b>51,803</b>	<b>51,152</b>
<b>Canada</b>			
Company-owned regions	6,084	6,070	5,976
Independent regions	12,838	12,796	12,594
<b>Canada Total</b>	<b>18,922</b>	<b>18,866</b>	<b>18,570</b>
<b>Outside U.S. and Canada</b>			
Company-owned regions	338	336	1,276
Independent regions	19,477	18,003(3)	16,478
<b>Outside U.S. and Canada Total</b>	<b>19,815</b>	<b>18,339</b>	<b>17,754</b>
<b>Total</b>	<b>93,228</b>	<b>89,008</b>	<b>87,476</b>
<b>Net change in agent count compared to the prior period</b>	<b>4,220</b>	<b>1,532</b>	<b>(2,152)</b>

(1)

As of December 31, 2013, U.S. Company-owned Regions include 5,991 agents in the Southwest and Central Atlantic regions which converted from Independent Regions to Company-owned regions in connection with the acquisitions of the business assets of HBN and Tails on October 7, 2013. As of the acquisition date, the Southwest and Central Atlantic regions had 5,918 agents.

- (2) As of December 31, 2012, U.S. Company-owned Regions include 4,214 agents in the Texas region which converted from an Independent Region to a Company-owned Region in connection with the acquisition of RE/MAX of Texas on December 31, 2012.
- (3) As of December 31, 2012, Independent Regions outside of the U.S. and Canada include 863 agents in the Australia and New Zealand regions which converted from Company-owned Regions to Independent Regions in connection with the divestiture of the Australia and New Zealand regions during the fourth quarter of 2012.

Substantially all of our revenue is derived from the U.S. and Canada. Our agent count decreased during the U.S. housing sector downturn, but returned to growth as the market started to rebound in 2012 and continued to grow in 2013.

Franchise sales consist of sales of individual franchises from Company-owned Regions and Independent Regions in the U.S. and Canada, as well as regional and country master franchise sales in international markets. Franchise sales activity enables us to recruit and retain agents and increase agent count and the related recurring fixed fee streams we receive.



The following table shows the number of franchise sales for the periods indicated:

	As of December 31,		
	2013	2012	2011
U.S.	220	233	234
Canada	33	42	41
Outside U.S. and Canada	439	454	439
Office franchise sales total	692	729	714
Global regional franchise sales	17	9	11
Global master franchise sales	1	1	-
Global regional and master franchise sales total	18	10	11
Total	710	739	725

Revenue. The majority of our revenue is derived from recurring, fixed contractual fees and dues paid by our agents, franchisees and regional franchise owners with a smaller percentage of our revenue being based on transaction activity derived from a percentage of agent commissions.

Adjusted EBITDA. We present Adjusted EBITDA because we believe Adjusted EBITDA is useful as a supplemental measure in evaluating the performance of our business and provides greater transparency into our results of operations. Our management uses Adjusted EBITDA as a factor in evaluating the performance of our business. Our presentation of Adjusted EBITDA may not be comparable to similarly-titled measures used by other companies. See below under “—Non-GAAP Financial Measures” for further discussion of our presentation of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income.

We define Adjusted EBITDA as EBITDA (consolidated net income before depreciation and amortization, interest expense, net and income taxes, each of which is presented in our consolidated financial statements included elsewhere in this Annual Report on Form 10-K), adjusted for the impact of the following items that we do not consider representative of our ongoing operating performance: loss on sale or disposition of assets and sublease, loss on early extinguishment of debt, equity-based compensation, non-cash straight-line rent expense, salaries paid to David and Gail Liniger, our Chairman and Vice Chair, respectively, that we discontinued subsequent to the completion of the IPO, expenses incurred in connection with the IPO and acquisition transaction costs. See “—Non-GAAP Financial Measures.” Because Adjusted EBITDA omits certain non-cash items and other infrequent cash charges, we feel that it is less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges and other infrequent cash charges and is more reflective of other factors that affect our operating performance.

The following table shows our Adjusted EBITDA and Adjusted EBITDA margins on a consolidated basis and for our reportable segments for the periods presented:

	Year ended December 31,		
	2013	2012	2011
	(in thousands, except margin data)		
<b>Consolidated:</b>			
Adjusted EBITDA	\$77,286	\$66,744	\$59,281
Adjusted EBITDA margins	48.6 %	46.5 %	42.9 %
<b>Real Estate Franchise Services:</b>			

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Adjusted EBITDA	\$78,024	\$66,776	\$60,590
Adjusted EBITDA margins	54.2 %	51.8 %	49.0 %

Brokerage and Other:

Adjusted EBITDA	\$(738 )	\$(32 )	\$(1,309 )
Adjusted EBITDA margins	(4.9 )%	(0.2 )%	(9.0 )%

We generally experience lower Adjusted EBITDA margins in the first and fourth quarters of the fiscal year primarily due to lower home sale transactions in the residential housing market in the U.S. and Canada, which result in lower broker fees in these quarters. Generally, our margins in the first quarter are lower also because of higher selling, operating and administrative expenses incurred in connection with our annual convention. See “Item 1A.—Risk Factors—Our operating results are subject to quarterly fluctuations and results for any quarter may not necessarily be indicative of the results that may be achieved for the full fiscal year.”

Our Adjusted EBITDA margins result from the high margin Real Estate Franchise Services segment, and are offset slightly by the owned real estate brokerage operations, which have much lower margins due primarily to higher fixed costs resulting from rent expense, which in turn adversely impacts our consolidated margins.

## Components of Operating Results

### Revenue

The majority of our revenue is derived from recurring, fixed contractual fees and dues paid by our agents, franchisees and regional franchise owners, with a smaller percentage of our revenue being based on transaction activity derived from a percentage of agent commissions.

**Continuing Franchise Fees\***. In the U.S. and Canada, continuing franchise fees are fixed contractual fees paid monthly by regional franchise owners in Independent Regions, or franchisees in Company-owned Regions, to RE/MAX based on the number of agents in the franchise region or the franchisee's office. For the years ended December 31, 2013, 2012 and 2011, continuing franchise fees were typically approximately \$120 per month per agent. Beginning January 1, 2014, continuing franchise fees increased by \$3 per month per agent in our U.S. Company-owned Regions. In our Company-owned Regions, we receive the entire amount of the continuing franchise fee. In Independent Regions, we generally receive 15%, 20% or 30% of the continuing franchise fee established by the terms of the applicable contract with the Independent Region, which is a fixed rate.

**Annual Dues\***. Annual dues are the membership fees which agents pay to be a part of the RE/MAX network and brand, are due on the anniversary date of the agent joining RE/MAX and are recognized ratably over the following twelve-month period. Annual dues revenue may be impacted by the fact that annual dues are deferred and recognized over a twelve-month period from the agent's anniversary date as well as the related timing of agent losses and agent gains during that period. For the years ended December 31, 2013, 2012 and 2011, annual dues were primarily derived by an annual flat fee of \$390 for our U.S. and Canadian agents that were paid directly to us in their respective local currencies. Beginning January 1, 2014, annual dues membership fees increased \$10 per agent annually for our U.S. and Canadian agents and continue to be paid directly to us. Annual dues revenue is driven by the number of agents in our network. We receive 100% of the annual dues fee, regardless of whether the agent is in a Company-owned Region or Independent Region.

**Broker Fees\***. Broker fees are assessed to the broker against real estate commissions paid by customers when an agent sells a home. Agents pay a negotiated percentage of these earned commissions to the broker in whose office they work. Broker-owners in turn pay a percentage of the commission to the regional franchisor. Generally the amount paid by broker-owners to the regional franchisor, which we refer to as the "broker fee," is 1% of the total commission on the transaction. In our Company-owned Regions, we receive the entire amount of the broker fee. In Independent Regions, we generally receive 15%, 20% or 30% of the broker fee established by the terms of the applicable franchise agreement with the Independent Region, which is a fixed rate. The amount of commission collected by franchisees is based primarily on the sales volume of RE/MAX agents and real estate commissions earned by agents on these transactions. These broker fees therefore depend upon the overall home sales volume. Because there are little incremental variable costs associated with this revenue stream, increased home sales provide us with incremental upside during a real estate market recovery.

**Franchise Sales and Other Franchise Revenue**. Franchise sales and other franchise revenue is primarily comprised of: Franchise Sales. Franchise sales revenue consists of revenue from sales and renewals of individual franchises from Company-owned Regions and Independent Regions, as well as regional and country master franchises in international markets. We receive only a portion of the revenue from the sales and renewals of individual franchises from Independent Regions.

**Other Franchise Revenue**. Other franchise revenue includes revenue from preferred marketing arrangements and approved supplier programs with third parties, including mortgage lenders and other real estate service providers, as well as event-based revenue from training and other programs, including our annual convention in the U.S.

**Brokerage Revenue.** Brokerage revenue principally represents fees assessed by our owned brokerages for services provided to their affiliated real estate agents. We have 21 owned brokerage offices solely in the U.S. that represent less than 1% of the over 3,300 real estate brokerage offices that operate under the RE/MAX brand name in the U.S. \* We base our continuing franchise fees, annual dues and broker fees outside the U.S. and Canada on generally the same structure as our U.S. and Canadian Independent Regions, but the amount we charge is lower. As a result, revenue earned by us in those regions is substantially lower than in our U.S. and Canadian Independent Regions.

## Operating Expenses

Operating expenses include selling, operating and administrative expenses, depreciation and amortization and the gains and losses on sales and disposition of assets. Set forth below is a brief discussion of some of the key operating expenses that impact our results of operations:

**Selling, operating and administrative expenses.** Selling, operating and administrative expenses primarily consists of personnel costs comprised of salaries, benefits and other compensation expenses paid to our personnel, professional fee expenses, rent and related facility operations expense, and other expenses including certain marketing and production costs that are not paid by our related party advertising funds, including travel and entertainment costs, costs associated with our annual convention and other events.

**Depreciation and amortization.** Depreciation and amortization expense consists of our depreciation expense related to our investments in property and equipment and our amortization of long-lived assets and intangibles, which consists principally of capitalized software, trademarks and franchise agreements. Depreciation and amortization expense may increase as we continue to pursue acquisitions.

**Gains and losses on sale and disposition of assets.** Gains and losses on sale of assets are recognized when assets are disposed of for amounts greater than or less than their carrying values.

### Other Expenses, Net

Other expenses, net include interest expense, interest income, foreign currency transactions gains and losses, losses on the early extinguishment of debt and equity in earnings of investees.

The most significant items that are included in other expenses, net are interest expense and interest income, which consist primarily of interest on borrowings under our credit agreement with JPMorgan Chase Bank, N.A., as administrative agent, and various lenders party thereto on July 31, 2013 (the "Senior Secured Credit Facility") and income earned on our cash and cash equivalents. Our interest expense depends on the level of our outstanding indebtedness as well as the applicable interest rate with respect to outstanding indebtedness which is a variable rate in excess of any contractual interest rate floor, tied to prevailing interest rates. Lastly, fluctuations in exchange rates between the U.S. dollar and other currencies, primarily the Canadian dollar, impact our results of operations and are recorded in foreign currency transaction gains and losses.

### Provision for Income Taxes

Prior to the formation of RE/MAX Holdings and the admission of RE/MAX Holdings as a partner of RMCO in connection with the IPO, our business was not generally subject to direct U.S. federal income tax and certain state income tax obligations because RMCO is classified as a partnership for U.S. federal income tax purposes and thus, is treated as a "flow through entity." Our subsidiaries that operate in foreign jurisdictions were, and continue to be, however, taxable entities. Income taxes incurred by the subsidiaries that operate in foreign jurisdictions are recorded in the provision for income taxes. RE/MAX Holdings is organized as a corporation for tax purposes that is subject to direct U.S. federal corporate income tax and certain state corporate income tax obligations. Following the IPO, the corporate tax obligations of RE/MAX Holdings have generally arisen with respect to, and been payable in respect of, its allocable share of net income attributable to the business operations of RMCO.

### Acquisitions and Divestitures

One of our strategies is to pursue reacquisitions of regional franchise rights in Independent Regions in the U.S. and Canada. 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 RE/MAX brokerages and agents, we receive the entire amount of the continuing franchise fee, broker fee, initial franchise fee

and franchise renewal fee in Company-owned Regions, whereas we receive only a portion of these fees in Independent Regions.

Effective October 7, 2013, we used approximately \$27.3 million of the proceeds from the IPO to reacquire regional franchise rights in the Southwest and Central Atlantic regions of the U.S. through the acquisitions of the business assets of HBN and Tails and contributed those assets to RMCO in exchange for an ownership interest in RMCO. We recorded \$2.0 million of goodwill and \$23.0 million of intangible assets related to reacquired franchise rights in connection with these acquisitions.

Effective December 31, 2012, we acquired certain assets of RE/MAX of Texas, including the regional franchise agreements permitting the sale of RE/MAX franchises in the state of Texas. The purchase price was \$45.5 million and was paid in cash primarily using proceeds from borrowings. We recorded \$30.2 million of goodwill and \$15.2 million of intangible assets related to reacquired franchise rights in connection with this acquisition.

Effective November 30, 2012, we sold substantially all of the assets of owned and operated regional franchising operations located in Eastern Australia and New Zealand and entered into regional franchising agreements with new independent owners of these regions. We decided to sell these operations following our determination that due to the costs, logistics and differences in local markets, we were not able to efficiently operate these foreign regions given their remoteness from our U.S. headquarters. We sold these regions for a net purchase price of approximately \$0.2 million. We recognized losses on the sale of the assets amounting to approximately \$1.7 million, as the consideration received in the transactions was lower than the value of the assets of these operations as reflected in our consolidated financial statements prior to the sale transaction.

Effective December 31, 2011, we acquired the assets of RE/MAX of Colorado, Inc. (which we refer to as the Mountain States region) for consideration paid of \$15.9 million, including the regional franchise agreement permitting the sale of RE/MAX franchises in the states of Colorado, Utah, Wyoming, North Dakota and South Dakota. We accounted for the transfer of assets as a combination of entities under common control. All acquired assets and liabilities recognized in the balance sheets of RE/MAX of Colorado, Inc. were carried forward to the balance sheet of RE/MAX, LLC, at their respective carrying amounts, and no other assets were recognized as a result of the combination. In addition, the combination of entities under common control was presented in the accompanying consolidated financial statements as if it had always been combined. The consideration paid was recognized at December 31, 2011, with an offsetting adjustment to equity.

## Results of Operations

For comparability purposes, the following tables set forth our results of operations for the periods presented in our annual consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The period-to-period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods.

### Year Ended December 31, 2013 vs. Year Ended December 31, 2012

Our consolidated results comprised the following:

	Year Ended		Change		
	December 31,	December 31,	(\$)	(%)	
	2013	2012			
	(in thousands, except percentages)				
<b>Revenue:</b>					
Continuing franchise fees	\$64,465	\$56,350	\$8,115	14.4	%
Annual dues	29,524	28,909	615	2.1	%
Broker fees	24,811	19,579	5,232	26.7	%
Franchise sales and other franchise revenue	23,574	22,629	945	4.2	%
Brokerage revenue	16,488	16,210	278	1.7	%
<b>Total revenue</b>	<b>158,862</b>	<b>143,677</b>	<b>15,185</b>	<b>10.6</b>	<b>%</b>
<b>Operating expenses:</b>					
Selling, operating and administrative expenses	96,243	84,337	11,906	14.1	%
Depreciation and amortization	15,166	12,090	3,076	25.4	%
Loss on sale or disposition of assets, net	373	1,704	(1,331)	-78.1	%
<b>Total operating expenses</b>	<b>111,782</b>	<b>98,131</b>	<b>13,651</b>	<b>13.9</b>	<b>%</b>
<b>Operating income</b>	<b>47,080</b>	<b>45,546</b>	<b>1,534</b>	<b>3.4</b>	<b>%</b>
<b>Other expenses, net:</b>					
Interest expense	(14,647)	(11,686)	(2,961)	25.3	%

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Interest income	321	286	35	12.2 %
Foreign currency transaction (losses) gains, net	(764 )	208	(972 )	-467.3 %
Loss on early extinguishment of debt	(1,798 )	(136 )	(1,662 )	1222.1 %
Equity in earnings of investees	904	1,244	(340 )	-27.3 %
Total other expenses, net	(15,984 )	(10,084 )	(5,900 )	58.5 %
Income before provision for income taxes	31,096	35,462	(4,366 )	-12.3 %
Provision for income taxes	(2,844 )	(2,138 )	(706 )	33.0 %
Net income	\$28,252	\$33,324	\$(5,072 )	-15.2 %
Adjusted EBITDA(1)	\$77,286	\$66,744	\$10,542	15.8 %

(1) See “—Non-GAAP Financial Measures” for further discussion of Adjusted EBITDA and a reconciliation of the differences between Adjusted EBITDA and net income.



## Total Revenue

A summary of the components of our revenue for the years ended December 31, 2013 and 2012 is as follows:

	Year Ended		Change	
	December 31, 2013	2012	(\$)	(%)
(in thousands, except percentages)				
<b>Revenue:</b>				
Continuing franchise fees	\$64,465	\$56,350	\$8,115	14.4%
Annual dues	29,524	28,909	615	2.1%
Broker fees	24,811	19,579	5,232	26.7%
Franchise sales and other franchise revenue	23,574	22,629	945	4.2%
Brokerage revenue	16,488	16,210	278	1.7%
<b>Total revenue</b>	<b>\$158,862</b>	<b>\$143,677</b>	<b>\$15,185</b>	<b>10.6%</b>

## Continuing Franchise Fees

Continuing franchise fees increased as a result of agent count growth with the acquisition and subsequent growth of RE/MAX of Texas and the acquisitions of HBN and Tails, which resulted in agents within Independent Regions being converted to agents within Company-owned Regions, and gave us the right to earn 100% of the fixed continuing franchise fee per agent. This resulted in an increase of \$6.9 million in continuing franchise fee revenue. This increase was offset partially by a net decrease of \$1.3 million in continuing franchise fees for the Australia and New Zealand regions, which were sold during the fourth quarter of 2012 and, as a result, the agents in Australia and New Zealand are no longer agents of a Company-owned Region. Excluding acquisition and divestiture activity, continuing franchise fees earned from Company-owned Regions in the U.S. and Canada, where we receive a higher continuing franchise fee per agent, increased \$2.1 million due to an increase in agent count, primarily in the U.S.

## Annual Dues

Revenue from annual dues increased due to an overall increase in total agent count of 4,220 for the year ended December 31, 2013, of which 2,744 agents were located in the U.S. and Canada as compared to an overall increase in total agent count of 1,532 agents for the year ended December 31, 2012, of which 947 agents were located in the U.S. and Canada. For the years ended December 31, 2013 and 2012, U.S. and Canadian agents paid us directly annual dues fees of \$390 per agent in their respective local currencies.

## Broker Fees

Revenue from broker fees increased during 2013, due to additional broker fees of \$3.2 million that resulted from the acquisition of RE/MAX of Texas, HBN and Tails, which converted agents from Independent Regions to Company-owned Regions resulting in a higher portion of broker fees for these agents being retained by us. These increases were partially offset by a net decrease in broker fees of \$2.0 million in Australia and New Zealand as these regions were sold during the fourth quarter of 2012, resulting in agents in those regions no longer being agents of a Company-owned Region. The increase in broker fees revenue for our Company-owned and Independent Regions in the U.S. and Canada was also due to the overall increase in home sales volume, which increased commissions earned by our U.S. and Canadian agents as well as increased agent count. Excluding acquisition and divestiture activity, revenue from broker fees earned from Company-owned Regions in the U.S. and Canada increased \$3.1 million during 2013, while revenue from broker fees earned from Independent Regions in the U.S. and outside the U.S. and Canada increased \$1.1 million during 2013.

#### Franchise Sales and Other Franchise Revenue

Franchise sales and other franchise revenue increased \$0.9 million during 2013. We sold the franchise rights in 18 countries in 2013, including in Japan for \$1.0 million, compared to the sale of regional and master franchise rights in 10 countries in 2012, including in China/Hong Kong/Macau for \$2.1 million. During 2013, other franchise revenue increased \$1.3 million, primarily due to an increase in registration revenue associated with the increased attendance at our annual convention, which occurs during the first quarter.

#### Brokerage Revenue

Brokerage revenue, which principally represents fees assessed by our owned brokerages for services provided to their affiliated real estate agents, increased due to an increase in home sales volume.

## Operating Expenses

A summary of the components of our operating expenses for the years ended December 31, 2013 and 2012 is as follows:

	Year Ended		Change	
	December 31, 2013	2012	(\$)	(%)
(in thousands, except percentages)				
<b>Operating expenses:</b>				
Selling, operating and administrative expenses	\$96,243	\$84,337	\$11,906	14.1 %
Depreciation and amortization	15,166	12,090	3,076	25.4 %
Loss on sale or disposition of assets, net	373	1,704	(1,331 )	-78.1 %
<b>Total operating expenses</b>	<b>\$111,782</b>	<b>\$98,131</b>	<b>\$13,651</b>	<b>13.9 %</b>
Percent of revenue	70.4	%	68.3	%

## Selling, Operating and Administrative Expenses

Selling, operating and administrative expenses increased in 2013 as follows:

Personnel costs increased \$3.3 million from \$42.3 million for the year ended December 31, 2012 to \$45.6 million for year ended December 31, 2013. The increase in personnel costs was primarily due to \$1.9 million of additional equity-based compensation related to equity awards granted to certain officers and employees in connection with the IPO, \$1.5 million of additional personnel costs associated with the acquisitions of RE/MAX of Texas, HBN and Tails and a \$2.2 million increase in general personnel costs driven by increased headcount and employee incentives. These increases were offset by a decrease of \$1.5 million resulting from the divestitures of the Australia and New Zealand regions in the fourth quarter of 2012 and a decrease in executive compensation of \$0.8 million due to the discontinuance of salaries paid to David and Gail Liniger subsequent to the closing of the IPO.

Professional fees increased \$6.1 million from \$5.8 million for the year ended December 31, 2012 to \$11.9 million for the year ended December 31, 2013 primarily due to \$6.5 million of expenses incurred in connection with the IPO, offset by a reduction in professional fees incurred by the Australia and New Zealand regions which were sold during the fourth quarter of 2012.

Rent and related facility operations expense increased \$0.6 million from \$14.0 million for the year ended December 31, 2012 to \$14.6 million for the year ended December 31, 2013 due to a \$1.2 million loss recorded in 2013 on the sublease of a portion of our corporate headquarters office building that did not occur in 2012 offset by a decrease of \$0.6 million for reductions in rent expense at our company-owned brokerage offices and acquisition and divestiture activities.

Other selling, operating and administrative expenses increased \$1.9 million from \$22.2 million for the year ended December 31, 2012 to \$24.1 million for the year ended December 31, 2013. This increase is primarily due to an increase in total marketing expenses of \$1.7 million driven both by increased attendance at our annual convention which occurs in the first quarter and expenses incurred associated with the acquisitions of certain assets of RE/MAX of Texas, HBN and Tails.

## Depreciation and Amortization

Depreciation and amortization expense increased in 2013 as a result of the following:

an increase of \$4.1 million of additional amortization expense related to intangible assets acquired from RE/MAX of Texas in December 2012 and HBN and Tails in October 2013;  
an increase of \$0.5 million of additional amortization expense related to other intangible assets acquired in the current year;

a decrease of \$0.9 million related to certain intangible assets that became fully amortized; and  
a net decrease in depreciation expense of \$0.6 million related to assets that became fully depreciated.

Loss on Sale or Disposition of Assets, Net

Loss on sale or disposition of assets, net decreased in 2013 primarily due to the \$1.7 million loss on the sale of the Australia and New Zealand regions in the fourth quarter of 2012 compared to a loss of \$0.4 million related to assets disposed of during 2013.

## Other Expenses, Net

A summary of the components of our other expenses, net for the years ended December 31, 2013 and 2012 is as follows:

	Year Ended		Change	
	December 31, 2013	2012	(\$)	(%)
(in thousands, except percentages)				
Other expenses, net:				
Interest expense	\$(14,647)	\$(11,686)	\$(2,961)	25.3 %
Interest income	321	286	35	12.2 %
Foreign currency transaction (losses) gains, net	(764 )	208	(972 )	-467.3 %
Loss on early extinguishment of debt	(1,798 )	(136 )	(1,662)	1222.1 %
Equity in earnings of investees	904	1,244	(340 )	-27.3 %
Total other expenses, net	\$(15,984)	\$(10,084)	\$(5,900)	58.5 %
Percent of revenue	-10.1 %	-7.0 %		

Other expenses, net increased in 2013 primarily due to an increase in the loss on early extinguishment of debt of approximately \$1.7 million associated with executing our new Senior Secured Credit Facility on July 31, 2013 (See “—Liquidity and Capital Resources—Senior Secured Credit Facility”). Additionally, interest expense increased \$3.0 million due to a combination of additional interest expense on the incremental \$45.0 million of long-term debt borrowed on December 31, 2012 to finance the acquisition of certain assets of RE/MAX of Texas and \$2.0 million of interest expense associated with costs incurred upon entering into our new Senior Secured Credit Facility offset by a reduction in interest rates between our previous senior secured credit facility and our new Senior Secured Credit Facility. Lastly, foreign currency transaction (losses) gains, net decreased \$1.0 million primarily as a result of the weakening of the Canadian dollar compared to the U.S. dollar.

## Provision for Income Taxes

The provision for income taxes increased \$0.7 million, or 33.0% during the year ended December 31, 2013. The increase in the provision for income taxes is related to U.S. federal and state income tax obligations related to RE/MAX Holdings’ allocable portion of the income of RMCO subsequent to the reorganization transactions and IPO (see additional information included in “—Tax Impact of Reorganization Transactions and IPO”). Our effective income tax rate is dependent 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 thus, is treated as a “flow through entity.”

## Adjusted EBITDA

Adjusted EBITDA and Adjusted EBITDA margins were \$77.3 million and 48.6%, an increase of \$10.5 million or 15.8% from the prior year. The increase in Adjusted EBITDA was principally the result of an increase in total revenue of \$15.2 million arising from the acquisitions of RE/MAX of Texas, HBN and Tails, agent growth and higher broker fees. Selling, operating and administrative expenses adjusted for certain non-cash items such as the loss on sublease and equity-based compensation expense and other infrequent cash charges, including expenses incurred in preparation for the IPO, increased \$3.4 million. These increases were offset by an increase in foreign currency transaction losses and a decrease in equity in earnings of investees of \$1.0 million and \$0.3 million, respectively.

Year Ended December 31, 2012 vs. Year Ended December 31, 2011

Our consolidated results comprised the following:

	Year Ended		Change	
	December 31,	December 31,	(\$)	(%)
	2012	2011		
	(in thousands, except percentages)			
<b>Revenue:</b>				
Continuing franchise fees	\$56,350	\$57,200	\$(850 )	-1.5 %
Annual dues	28,909	28,922	(13 )	0.0 %
Broker fees	19,579	16,764	2,815	16.8 %
Franchise sales and other franchise revenue	22,629	19,354	3,275	16.9 %
Brokerage revenue	16,210	16,062	148	0.9 %
Total revenue	143,677	138,302	5,375	3.9 %
<b>Operating expenses:</b>				
Selling, operating and administrative expenses	84,337	85,291	(954 )	-1.1 %
Depreciation and amortization	12,090	14,473	(2,383)	-16.5 %
Loss on sale or disposition of assets, net	1,704	67	1,637	*
Total operating expenses	98,131	99,831	(1,700)	-1.7 %
Operating income	45,546	38,471	7,075	18.4 %
<b>Other expenses, net:</b>				
Interest expense	(11,686 )	(12,203 )	517	-4.2 %
Interest income	286	372	(86 )	-23.1 %
Foreign currency transaction gains (losses), net	208	(266 )	474	178.2 %
Loss on early extinguishment of debt	(136 )	(384 )	248	-64.6 %
Equity in earnings of investees	1,244	431	813	188.6 %
Total other expenses, net	(10,084 )	(12,050 )	1,966	-16.3 %
Income before provision for income taxes	35,462	26,421	9,041	34.2 %
Provision for income taxes	(2,138 )	(2,172 )	34	-1.6 %
Net income	\$33,324	\$24,249	\$9,075	37.4 %
Adjusted EBITDA(1)	\$66,744	\$59,281	\$7,463	12.6 %

\*Calculation is not meaningful.

(1) See “—Non-GAAP Financial Measures” for further discussion of Adjusted EBITDA and a reconciliation of the differences between Adjusted EBITDA and net income.

Total Revenue

A summary of the components of our revenue for the years ended December 31, 2012 and 2011 is as follows:

	Year Ended		Change	
	December 31,	December 31,	(\$)	(%)
	2012	2011		
	(in thousands, except percentages)			
<b>Revenue:</b>				
Continuing franchise fees	\$56,350	\$57,200	\$(850 )	-1.5 %
Annual dues	28,909	28,922	(13 )	0.0 %

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Broker fees	19,579	16,764	2,815	16.8%
Franchise sales and other franchise revenue	22,629	19,354	3,275	16.9%
Brokerage revenue	16,210	16,062	148	0.9 %
Total revenue	\$143,677	\$138,302	\$5,375	3.9 %

### Continuing Franchise Fees

Revenue from continuing franchise fees decreased \$0.9 million during 2012. For Company-owned Regions in the U.S., continuing franchise fees decreased \$0.2 million primarily resulting from the full year impact of the loss of 1,115 U.S. agents that occurred in 2011 not being fully offset by 555 U.S. agent gains during 2012 reflecting the overall U.S. real estate market rebounding. For Independent Regions in the U.S., continuing franchise fees decreased \$0.3 million primarily resulting from the full year impact of the loss of 2,381 U.S. agents that occurred in 2011 not being fully offset by 96 U.S. agent gains during 2012 reflecting the overall U.S. real estate market rebounding. Continuing franchise fees also decreased \$0.4 million as a result of reduced continuing franchise fees for the Australia and New Zealand regions, which were sold during the fourth quarter of 2012 coupled with decreases in agent count and changes in foreign currency exchange rates in our other non-U.S. regions.

### Annual Dues

Annual dues remained consistent for the year ended December 31, 2012 compared to the year ended December 31, 2011 at \$28.9 million. While agent count increased from 87,476 as of December 31, 2011 to 89,008 as of December 31, 2012, annual dues remained flat due primarily to 3,496 U.S. agent losses that occurred in 2011 not being fully offset by 651 U.S. agent gains during 2012 as a result of the U.S. real estate market rebounding.

### Broker Fees

Revenue from broker fees increased in 2012 due to an overall increase in the U.S. home sales volume, thereby increasing commissions earned by our U.S. agents from which we are paid a percentage. Revenue from broker fees earned from Company-owned Regions in the U.S. and Canada increased \$2.4 million from the year ended December 31, 2011 to the year ended December 31, 2012, while revenue from broker fees earned from Independent Regions increased \$0.4 million from the year ended December 31, 2011 to the year ended December 31, 2012.

### Franchise Sales and Other Franchise Revenue

Franchise sales and other franchise revenue increased in 2012 primarily attributable to an incremental increase in franchise sales of \$1.8 million, from the sale of master franchise rights for China/Hong Kong/Macau in 2012 and a \$1.8 million increase in other franchise revenue from preferred marketing arrangements and approved supplier programs with two third parties. These increases were offset by decreases in franchise renewal revenue, training income and registration revenue resulting from a fewer number of events in 2012.

### Brokerage Revenue

Brokerage revenue increased in 2012 driven by increased revenue from our owned brokerage offices due to an increase in real estate home sales volume.

### Operating Expenses

A summary of the components of our operating expenses for the years ended December 31, 2012 and 2011 is as follows:

Year Ended		Change	
December 31,		(\$)	(%)
2012	2011		
(in thousands, except percentages)			



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Operating expenses:				
Selling, operating and administrative expenses	\$84,337	\$85,291	\$(954 )	-1.1 %
Depreciation and amortization	12,090	14,473	(2,383)	-16.5 %
Loss on sale or disposition of assets, net	1,704	67	1,637	*
Total operating expenses	\$98,131	\$99,831	\$(1,700)	-1.7 %
Percent of revenue	68.3 %	72.2 %		

\*Calculation is not meaningful.

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## Selling, Operating and Administrative Expenses

Selling, operating and administrative expenses decreased in 2012 as follows:

Personnel costs increased \$2.5 million from \$39.8 million for the year ended December 31, 2011 to \$42.3 million for year ended December 31, 2012. The increase in personnel costs was primarily attributable to \$1.1 million of severance payments for employees that were terminated in 2012 and \$1.1 million of equity-based compensation expense recorded for equity awards granted in 2012.

Professional fees decreased \$0.3 million from \$6.1 million for the year ended December 31, 2011 to \$5.8 million for the year ended December 31, 2012 due primarily a reduction in professional fees incurred by the Australia and New Zealand regions which were sold during the fourth quarter of 2012.

Rent and related facility operations expense decreased \$2.0 million from \$16.0 million for the year ended December 31, 2011 to \$14.0 million for the year ended December 31, 2012 due to the loss recorded in 2011 as a result of the sublease in our corporate headquarters office building and higher sublease income partially offset by higher rent expense at some of our company-owned brokerage offices.

Other selling, operating and administrative expenses, decreased \$1.2 million from \$23.4 million for the year ended December 31, 2011 to \$22.2 million for the year ended December 31, 2012. This decrease is primarily driven by a decrease in advertising and production expense driven by timing of events held by our regions and marketing publications, as well as a decrease in travel and entertainment due to a reduction in executive travel.

## Depreciation and Amortization

Depreciation and amortization expense decreased primarily as a result of certain franchise agreements that became fully amortized.

## Loss on Sale or Disposition of Assets, Net

Loss on sale or disposition of assets, net increased in 2012 primarily due to the \$1.7 million loss on the sale of the Australia and New Zealand regions in the fourth quarter of 2012.

## Other Expenses, Net

A summary of the components of our other expenses, net for the years ended December 31, 2012 and 2011 is as follows:

	Year Ended		Change	
	December 31,	December 31,	(\$)	(%)
	2012	2011		
	(in thousands, except percentages)			
Other expenses, net:				
Interest expense	\$(11,686)	\$(12,203)	\$517	-4.2 %
Interest income	286	372	(86 )	-23.1 %
Foreign currency transaction gains (losses), net	208	(266 )	474	178.2 %
Loss on early extinguishment of debt	(136 )	(384 )	248	-64.6 %
Equity in earnings of investees	1,244	431	813	188.6 %
Total other expenses, net	\$(10,084)	\$(12,050)	\$1,966	-16.3 %
Percent of revenue	-7.0 %	-8.7 %		

Total other expenses, net increased in 2012 due to decreased interest expense of \$0.5 million as a result of a declining debt balance during most of the year, a \$0.2 million decrease in the loss on early extinguishment of debt because of differences in the timing and amount of loan repayments, an increase in foreign currency transaction gains of \$0.5

million due to fluctuations in the exchange rates between the U.S. dollar and the Australian, Canadian and New Zealand dollars and an increase of \$0.8 million in equity in earnings of investees.

#### Provision for Income Taxes

During 2012 and 2011, our provision for income taxes consisted only of income taxes on the net taxable earnings of our consolidated foreign subsidiaries. Income tax expense was \$2.1 million and \$2.2 million for the years ended December 31, 2012 and 2011, respectively. The slight reduction in income tax expense was the result of lower taxable earnings of our foreign subsidiaries in 2012, partially driven by the sale of the Australia and New Zealand operations in the fourth quarter of 2012.

## Adjusted EBITDA

Adjusted EBITDA and Adjusted EBITDA margins were \$66.7 million and 46.5%, and \$59.3 million and 42.9% for the years ended December 31, 2012 and 2011, respectively. The increase in Adjusted EBITDA of \$7.4 million, or 12.6%, was primarily the result of an increase in total revenue of \$5.4 million principally due to increased broker fee revenue and the sale of master franchise rights for China/Hong Kong/Macau recorded in franchise sales and other franchise revenue. In addition, there was a \$2.1 million reduction in selling, operating and administrative expenses, excluding \$1.1 million of non-cash equity-based compensation expense. A reconciliation of Adjusted EBITDA to net income (loss) under GAAP is set forth below in “—Non-GAAP Financial Measures.”

## Non-GAAP Financial Measures

The SEC has adopted rules to regulate the use in filings with the SEC and in public disclosures of non-GAAP financial measures, such as Adjusted EBITDA and the ratios related thereto. These measures are derived on the basis of methodologies other than in accordance with GAAP.

We define Adjusted EBITDA as EBITDA (consolidated net income (loss) before depreciation and amortization, interest expense, net and income taxes, each of which is presented in our consolidated financial statements included elsewhere in this Annual Report on Form 10-K), adjusted for the impact of the following items that we do not consider representative of our ongoing operating performance: loss on sale or disposition of assets and sublease, loss on early extinguishment of debt, equity-based compensation, non-cash straight-line rent expense, salaries paid to David and Gail Liniger that we have not continued to pay subsequent to the completion of the IPO, expenses incurred in connection with the IPO and acquisition transaction costs.

Because Adjusted EBITDA omits certain non-cash items and other infrequent cash charges, we believe that it is less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges and other infrequent cash charges and is more reflective of other factors that affect our operating performance. We present Adjusted EBITDA because we believe it is useful as a supplemental measure in evaluating the performance of our operating businesses and provides greater transparency into our results of operations. Our management uses Adjusted EBITDA as a factor in evaluating the performance of our business. Adjusted EBITDA should not be considered in isolation or as a substitute for net income or other statement of operations data prepared in accordance with GAAP.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider Adjusted EBITDA either in isolation or as a substitute for analyzing our results as reported under GAAP. Some of these limitations are:

- this measure does not reflect changes in, or cash requirements for, our working capital needs;
- this measure does not reflect our interest expense, or the cash requirements necessary to service interest or principal payments on our debt;
- this measure does not reflect our income tax expense or the cash requirements to pay our taxes;
- this measure does not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments;
- 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; and
- other companies may calculate this measure differently so they may not be comparable.

A reconciliation of Adjusted EBITDA to net income for our consolidated results and reportable segments for the periods presented is set forth in the following tables:

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
<b>Consolidated:</b>			
Net income	\$28,252	\$33,324	\$24,249
Depreciation and amortization	15,166	12,090	14,473
Interest expense	14,647	11,686	12,203
Interest income	(321 )	(286 )	(372 )
Provision for income taxes	2,844	2,138	2,172
EBITDA	60,588	58,952	52,725
Loss on sale or disposition of assets and sublease (1)	971	1,352	1,595
Loss on early extinguishment of debt (2)	1,798	136	384
Equity-based compensation (3)	2,995	1,089	-
Non-cash straight-line rent expense (4)	1,183	1,879	1,577
Chairman executive compensation (5)	2,261	3,000	3,000
Acquisition integration costs (6)	495	336	-
Public offering related expenses (7)	6,995	-	-
Adjusted EBITDA	\$77,286	\$66,744	\$59,281
<b>Real Estate Franchise Services:</b>			
Net income	\$29,046	\$33,747	\$26,583
Depreciation and amortization	14,791	11,575	13,574
Interest expense	14,641	11,677	12,189
Interest income	(321 )	(284 )	(372 )
Provision for income taxes	2,915	2,138	2,172
EBITDA	61,072	58,853	54,146
Loss on sale or disposition of assets and sublease (1)	1,110	1,637	1,561
Loss on early extinguishment of debt (2)	1,798	136	384
Equity-based compensation (3)	2,995	1,089	-