RE/MAX Holdings, Inc.
Form 10-Q
May 03, 2019
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2019.

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to .

Commission file number 001-36101

RE/MAX Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware (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

(Registrant’s telephone number, including area code)

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

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

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

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

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

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

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 April 30, 2019 was 17,807,948 and 1, respectively.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. – FINANCIAL INFORMATION

Item 1. Financial Statements

RE/MAX HOLDINGS, INC.

Condensed Consolidated Balance Sheets

(In thousands, except share and per share amounts)

(Unaudited)

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 64,771	$ 59,974
Restricted cash	33,227	—
Accounts and notes receivable, current portion, less allowances of $12,431 and $7,980, respectively	29,080	21,185
Income taxes receivable	1,188	533
Other current assets	7,471	5,855
Total current assets	135,737	87,547
Property and equipment, net of accumulated depreciation of $13,642 and $13,280 respectively	5,654	4,390
Operating lease right of use assets	54,429	—
Franchise agreements, net	99,282	103,157
Other intangible assets, net	21,836	22,965
Goodwill	150,749	150,684
Deferred tax assets, net	52,494	53,698
Other assets, net of current portion	5,755	4,399
Total assets	$ 525,936	$ 426,840
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 3,027	$ 1,890
Accrued liabilities	55,712	13,143
Income taxes payable	—	208
Deferred revenue	25,228	25,489
Current portion of debt	2,629	2,622
Current portion of payable pursuant to tax receivable agreements	3,567	3,567
Operating lease liabilities	4,680	—
Total current liabilities	94,843	46,919
Debt, net of current portion	224,632	225,165
Payable pursuant to tax receivable agreements, net of current portion	37,220	37,220
Deferred tax liabilities, net	294	400
Deferred revenue, net of current portion	19,716	20,224

Operating lease liabilities, net of current portion	59,849	—
Other liabilities, net of current portion	5,756	17,637
Total liabilities	442,310	347,565
Commitments and contingencies (note 14)		
Stockholders' equity:		
Class A common stock, par value $0.0001 per share, 180,000,000 shares authorized; 17,807,948 shares issued and outstanding as of March 31, 2019; 17,754,416 shares issued and outstanding as of December 31, 2018	2	2
Class B common stock, par value $0.0001 per share, 1,000 shares authorized; 1 share issued and outstanding as of March 31, 2019 and December 31, 2018	—	—
Additional paid-in capital	462,601	460,101
Retained earnings	21,765	21,138
Accumulated other comprehensive income, net of tax	364	328
Total stockholders' equity attributable to RE/MAX Holdings, Inc.	484,732	481,569
Non-controlling interest	(401,106)	(402,294)
Total stockholders' equity	83,626	79,275
Total liabilities and stockholders' equity	$ 525,936	$ 426,840

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

RE/MAX HOLDINGS, INC.

Condensed Consolidated Statements of Income

(In thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Revenue:		
Continuing franchise fees	$ 24,956	$ 25,240
Annual dues	8,854	8,696
Broker fees	8,588	9,188
Marketing Funds fees	18,772	—
Franchise sales and other revenue	10,008	9,518
Total revenue	71,178	52,642
Operating expenses:		
Selling, operating and administrative expenses	33,524	34,368
Marketing Funds expenses	18,772	—
Depreciation and amortization	5,558	4,575
Loss (gain) on sale or disposition of assets, net	379	(18)
Total operating expenses	58,233	38,925
Operating income	12,945	13,717
Other expenses, net:		
Interest expense	(3,155)	(2,724)
Interest income	320	119
Foreign currency transaction gains (losses)	55	(83)
Total other expenses, net	(2,780)	(2,688)
Income before provision for income taxes	10,165	11,029
Provision for income taxes	(1,908)	(1,862)
Net income	$ 8,257	$ 9,167
Less: net income attributable to non-controlling interest (note 4)	3,848	4,184
Net income attributable to RE/MAX Holdings, Inc.	$ 4,409	$ 4,983
Net income attributable to RE/MAX Holdings, Inc. per share of Class A common stock		
Basic	$ 0.25	$ 0.28
Diluted	$ 0.25	$ 0.28
Weighted average shares of Class A common stock outstanding		
Basic	17,775,381	17,709,095
Diluted	17,817,620	17,762,133
Cash dividends declared per share of Class A common stock	$ 0.21	$ 0.20

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

RE/MAX HOLDINGS, INC.

Condensed Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Net income	$ 8,257	$ 9,167
Change in cumulative translation adjustment	69	(82)
Other comprehensive income (loss), net of tax	69	(82)
Comprehensive income	8,326	9,085
Less: comprehensive income attributable to non-controlling interest	3,881	4,145
Comprehensive income attributable to RE/MAX Holdings, Inc., net of tax	$ 4,445	$ 4,940

See accompanying notes to unaudited condensed consolidated financial statements.

RE/MAX HOLDINGS, INC.

Condensed Consolidated Statement of Stockholders' Equity

(In thousands, except share amounts)

(Unaudited)

	Class A common stock Shares	Amount	Class B common stock Shares	Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss), net of tax	Non-controlling interest	Total stockho equity
Balances, January 1, 2018	17,696,991	$ 2	1	$ —	$ 451,199	$ 8,400	$ 459	$ (410,934)	$ 49,12
Net income	—	—	—	—	—	4,983	—	4,184	9,167
Distributions to non-controlling unitholders	—	—	—	—	—	—	—	(4,212)	(4,21
Equity-based compensation expense and related dividend equivalents	46,520	—	—	—	1,268	(48)	—	—	1,220
Dividends to Class A common stockholders	—	—	—	—	—	(3,547)	—	—	(3,54
Change in accumulated other comprehensive income	—	—	—	—	—	—	(43)	(39)	(82)
Payroll taxes related to net settled restricted stock units	(10,209)	—	—	—	(564)	—	—	—	(564)
Balances, March 31, 2018	17,733,302	$ 2	1	$ —	$ 451,903	$ 9,788	$ 416	$ (411,001)	$ 51,10

Class A common stock Shares	Amount	Class B common stock Shares	Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss), net of tax	Non-controlling interest	Total stockho equity
17,754,416	$ 2	1	$ —	$ 460,101	$ 21,138	$ 328	$ (402,294)	$ 79,27

Balances, January 1, 2019									
Net income	—	—	—	—	—	4,409	—	3,848	8,257
Distributions to non-controlling unitholders	—	—	—	—	—	—	—	(2,693)	(2,69
Equity-based compensation expense and related dividend equivalents	70,797	—	—	—	3,213	(42)	—	—	3,171
Dividends to Class A common stockholders	—	—	—	—	—	(3,740)	—	—	(3,74
Change in accumulated other comprehensive income	—	—	—	—	—	—	36	33	69
Payroll taxes related to net settled restricted stock units	(17,265)	—	—	—	(713)	—	—	—	(713)
Balances, March 31, 2019	17,807,948	$ 2	1	$ —	$ 462,601	$ 21,765	$ 364	$ (401,106)	$ 83,62

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

RE/MAX HOLDINGS, INC.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2019	2018
Cash flows from operating activities:		
Net income	$ 8,257	$ 9,167
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,558	4,575
Bad debt expense	1,439	464
Loss (gain) on sale or disposition of assets and sublease, net	379	(28)
Equity-based compensation expense	4,051	1,268
Deferred income tax expense	1,081	478
Fair value adjustments to contingent consideration	(70)	135
Other, net	272	127
Changes in operating assets and liabilities	1,474	(2,614)
Net cash provided by operating activities	22,441	13,572
Cash flows from investing activities:		
Purchases of property, equipment and software and capitalization of trademark costs	(3,940)	(691)
Acquisitions, net of cash acquired of $0 and $362, respectively	—	(26,250)
Restricted cash acquired with the Marketing Funds acquisition	28,495	—
Other	(1,200)	—
Net cash provided by (used in) investing activities	23,355	(26,941)
Cash flows from financing activities:		
Payments on debt	(653)	(592)
Distributions paid to non-controlling unitholders	(2,693)	(2,521)
Dividends and dividend equivalents paid to Class A common stockholders	(3,782)	(3,595)
Payment of payroll taxes related to net settled restricted stock units	(713)	(564)
Payment of contingent consideration	—	(50)
Net cash used in financing activities	(7,841)	(7,322)
Effect of exchange rate changes on cash	69	(13)
Net increase (decrease) in cash, cash equivalents and restricted cash	38,024	(20,704)
Cash, cash equivalents and restricted cash, beginning of year	59,974	50,807
Cash, cash equivalents and restricted cash, end of period	$ 97,998	$ 30,103
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 2,951	$ 2,585
Net cash paid for income taxes	$ 1,729	$ 1,217
Schedule of non-cash investing activities:		
Property, equipment, software and trademarks included in accounts payable and accrued liabilities	$ 512	$ 206

Schedule of non-cash financing activities:		
Tax and other distributions payable to non-controlling unitholders	$ —	$ 1,691

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

1. Business and Organization

RE/MAX Holdings, Inc. (“RE/MAX Holdings”) and its consolidated subsidiaries, including RMCO, LLC (“RMCO”), are referred to hereinafter as the “Company.”

The Company is a franchisor in the real estate industry, franchising real estate brokerages globally under the RE/MAX brand (“RE/MAX”) and mortgage brokerages within the United States (“U.S.”) under the Motto Mortgage brand. RE/MAX, founded in 1973, has over 125,000 agents operating in over 8,000 offices and a presence in more than 110 countries and territories. Motto Mortgage (“Motto”), founded in 2016, is the first nationally franchised mortgage brokerage in the U.S.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Condensed Consolidated Balance Sheet at December 31, 2018, which was derived from the audited consolidated financial statements at that date, and the unaudited interim condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”). Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The accompanying condensed consolidated financial statements are presented on a consolidated basis and include the accounts of RE/MAX Holdings and its consolidated subsidiaries. All significant intercompany accounts and transactions have been eliminated. In the opinion of management, the accompanying condensed consolidated financial statements reflect all normal and recurring adjustments necessary to present fairly the Company’s financial position as of March 31, 2019 and the results of its operations and comprehensive income, cash flows and changes in its stockholder’s equity for the three months ended March 31, 2019 and 2018. Interim results may not be indicative of full-year performance. These condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements within the Company’s Annual Report on Form 10-K for the year ended December 31, 2018 (“2018 Annual Report on Form 10-K”).

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Segment Reporting

In January 2019, the Company acquired all of the regional and pan-regional advertising fund entities previously owned by its founder and Chairman of the Board of Directors, David Liniger. All of these entities, except for the

Western Canada region, were then merged into a new entity called RE/MAX Marketing Fund (with the Western Canada fund, collectively, the "Marketing Funds"). See Note 6, Acquisitions for more information. As a result of the acquisition of the Marketing Funds, the Company added the Marketing Funds as a reportable segment as of January 1, 2019.

The Company operates under the following reportable segments:

- RE/MAX Franchising – comprises the operations of the Company's owned and independent global franchising operations under the RE/MAX brand name and corporate-wide shared services expenses.
- Marketing Funds – comprises the operations of the Company's marketing campaigns designed to build and maintain brand awareness and support certain agent marketing technology.

Table of Contents

- Other – comprises the operations of Motto Franchising and booj, which, due to quantitative insignificance, do not meet the criteria of a reportable segment.

Principles of Consolidation

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

Revenue Recognition

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

Continuing Franchise Fees

Revenue from continuing franchise fees consists of fixed contractual fees paid monthly by franchisees based on the number of RE/MAX agents in the respective franchised region or office and the number of Motto offices. This revenue is recognized in the month for which the fee is billed. This revenue is a usage-based royalty as it is dependent on the number of RE/MAX agents and number of Motto offices.

Marketing Funds Fees

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

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

Annual Dues

Annual dues revenue consists of fixed contractual fees paid annually based on the number of RE/MAX agents. The Company defers the annual dues revenue when billed and recognizes the revenue ratably over the 12-month period to which it relates. Annual dues revenue is a usage-based royalty as it is dependent on the number of RE/MAX agents.

Table of Contents

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

	Balance at beginning of period	New billings	Revenue recognized(a)	Balance at end of period
Three months ended March 31, 2019	$ 15,877	$ 10,038	$ (8,854)	$ 17,061

(a)Revenue recognized related to the beginning balance was $6.9 million for the three months ended March 31, 2019.

Broker Fees

Revenue from broker fees represents fees received from the Company's RE/MAX franchised regions or franchise offices that are based on a percentage of RE/MAX agents' gross commission income on home sale transactions. Revenue from broker fees is recognized as a sales-based royalty and recognized in the month when a home sale transaction occurs. Motto franchisees do not pay any fees based on the number or dollar value of loans brokered.

Franchise Sales

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

	Balance at beginning of period	New billings	Revenue recognized(a)	Balance at end of period
Three months ended March 31, 2019	$ 27,560	$ 1,756	$ (2,449)	$ 26,867

(a)Revenue recognized related to the beginning balance was $2.3 million for the three months ended March 31, 2019.

Commissions Related to Franchise Sales

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

	Balance at beginning of period	Expense recognized	Additions to contract cost for new activity	Balance at end of period
Three months ended March 31, 2019	$ 3,748	$ (385)	$ 369	$ 3,732

Other Revenue

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

Table of Contents

Disaggregated Revenue

In the following table, segment revenue is disaggregated by geographical area for the three months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended March 31,	
	2019	2018
U.S.	$ 41,735	$ 43,352
Canada	5,349	5,763
Global	2,740	2,479
Total RE/MAX Franchising	49,824	51,594
U.S.	16,672	—
Canada	1,885	—
Global	215	—
Total Marketing Funds	18,772	—
Other	2,582	1,048
Total	$ 71,178	$ 52,642

In the following table, segment revenue is disaggregated by owned or independent regions in the U.S. and Canada for the RE/MAX Franchising segment for the three months ended March 31, 2019 and 2018 (in thousands). The split between owned or independent regions is not applicable to the Marketing Funds or Other segments:

	Three Months Ended March 31,	
	2019	2018
Company-owned Regions	$ 30,018	$ 31,363
Independent Regions	10,923	11,149
Global and Other	8,883	9,082
Total RE/MAX Franchising	49,824	51,594
Marketing Funds	18,772	—
Other	2,582	1,048
Total	$ 71,178	$ 52,642

Transaction Price Allocated to the Remaining Performance Obligations

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

	Remaining 9 months of 2019	2020	2021	2022	2023	2024	Thereafter	Total
Annual dues	$ 15,731	$ 1,330	$ —	$ —	$ —	$ —	$ —	$ 17,061
Franchise sales	5,579	6,321	4,943	3,448	1,941	996	3,639	26,867
Total	$ 21,310	$ 7,651	$ 4,943	$ 3,448	$ 1,941	$ 996	$ 3,639	$ 43,928

Table of Contents

Cash, Cash Equivalents and Restricted Cash

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

	March 31, 2019	December 31, 2018
Cash and cash equivalents	$ 64,771	$ 59,974
Restricted cash	33,227	—
Total cash, cash equivalents and restricted cash	$ 97,998	$ 59,974

Services Provided to the Marketing Funds by RE/MAX Franchising

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

Costs charged from RE/MAX Franchising to the Marketing Funds for the three months ended March 31, 2019 are as follows (in thousands):

Technology development - operating	$ 965
Technology development - capital	935
Marketing staff and administrative services	1,025
Total	$ 2,925

Costs charged to the Marketing Funds for the three months ended March 31, 2018 are disclosed in Note 15, Related-Party Transactions.

Recently Adopted Accounting Pronouncements

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

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), with several subsequent amendments, which requires lessees to recognize the assets and liabilities that arise from operating and finance leases on the consolidated balance sheets, with a few exceptions. ASU 2016-02 became effective for the Company on January 1, 2019 and replaced the existing lease guidance in U.S. GAAP when it became effective. The Company did not retrospectively recast prior periods presented and instead adjusted assets and liabilities on January 1, 2019. In addition, the Company elected the package of practical expedients permitted under the transition guidance, which allowed the Company to forgo reassessing (a) whether a contract contains a lease, (b) lease classification, and (c) whether capitalized costs associated with a lease are initial direct costs. The practical expedient was applied consistently to all the Company’s leases, including those for which the Company acts as the lessor. In addition, the Company elected the practical expedient relating to the combination of lease and non-lease components as a single lease component. The Company chose not to apply the hindsight practical expedient. The new lease guidance has been applied to all the Company’s leases as of

Table of Contents

January 1, 2019, which impacted how operating lease assets and liabilities were recorded within the Condensed Consolidated Balance Sheet, resulting in the recording of approximately $65.8 million of lease liabilities and approximately $55.6 million of right-of-use ("ROU") assets on the Condensed Consolidated Balance Sheet. Deferred rent and sublease loss balances as of January 1, 2019 of approximately $9.3 million and approximately $2.4 million, respectively, and intangible assets of approximately $1.5 million were subsumed into the ROU asset at transition. Adoption of the new standard did not materially affect the Company's consolidated net earnings and had no impact on cash flows. See Note 3, Leases, for more information.

New Accounting Pronouncements Not Yet Adopted

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

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350), which simplifies the subsequent measurement of goodwill by eliminating step two from the goodwill impairment test. ASU 2017-04 is effective for annual and interim impairment tests beginning January 1, 2020 for the Company and is required to be adopted using a prospective approach. Early adoption is allowed for annual goodwill impairment tests performed on testing dates after January 1, 2017.

3. Leases

The Company leases corporate offices, a distribution center, billboards and certain equipment. As all franchisees are independently owned and operated, there are no leases recognized for any offices used by the Company's franchisees. The leases have remaining lease terms ranging from less than a year up to 15 years, some of which include one or more options to renew, with renewal terms that can extend the lease term from one to 20 years depending on the lease. Of these renewal options, the Company determined that none are reasonably certain to be exercised.

The Company has an 18-year lease for its corporate headquarters office building (the "Master Lease"). The Company may, at its option, extend the Master Lease for two renewal periods of 10 years. Under the terms of the Master Lease, the Company pays an annual base rent, which escalates 3% each year, including the first optional renewal period. The first year of the second optional renewal period is at a fair market rental value, and the rent escalates 3% each year until expiration. The Company pays for operating expenses in connection with the ownership, maintenance, operation, upkeep and repair of the leased space. The Company may assign or sublet an interest in the Master Lease only with the approval of the landlord. The Master Lease is the Company's only significant lease as of March 31, 2019.

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

The Company has made an accounting policy election not to recognize right-of-use assets and lease liabilities that arise from any of its short-term leases. All leases with a term of 12 months or less at commencement, for which the

Company is not reasonably certain to exercise available renewal options that would extend the lease term past 12 months, will be recognized on a straight-line basis over the lease term. The short-term lease expense was not material as of March 31, 2019.

Table of Contents

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

	Three Months Ended March 31, 2019	
Lease Cost		
Operating lease cost (a)	$ 2,940	
Sublease income	(360)	
Total lease cost	$ 2,580	
Other information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 2,086	
Weighted-average remaining lease term in years - operating leases	9.2	
Weighted-average discount rate - operating leases	6.3	%

(a) Includes approximately $0.6 million of variable lease cost.

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

	Rent Payments	Sublease Receipts	Total Cash Outflows
Year ending December 31:			
Remainder of 2019	$ 6,417	$ (823)	$ 5,594
2020	8,752	(888)	7,864
2021	9,006	(775)	8,231
2022	9,000	(804)	8,196
2023	9,173	(822)	8,351
Thereafter	43,713	(1,382)	42,331
Total lease payments	$ 86,061	$ (5,494)	$ 80,567
Less: imputed interest	21,532		
Present value of lease liabilities	$ 64,529		

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

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

Total lease payments	$ 90,080	$ (5,748)	$ 84,332

Table of Contents

4. Non-controlling Interest

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

	March 31, 2019 Shares	Ownership %		December 31, 2018 Shares	Ownership %	
Non-controlling interest ownership of common units in RMCO	12,559,600	41.36	%	12,559,600	41.43	%
RE/MAX Holdings, Inc. outstanding Class A common stock (equal to RE/MAX Holdings, Inc. common units in RMCO)	17,807,948	58.64	%			