

APPFOLIO INC
Form 10-Q
August 06, 2015
Table of Contents

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2015.

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

For the transition period from _____ to _____.

Commission File Number 001-37468

AppFolio, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State of incorporation or organization)

26-0359894

(I.R.S. Employer Identification No.)

50 Castilian Drive

Goleta, California

(Address of principal executive offices)

93117

(Zip Code)

(805) 617-2167

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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

YES NO

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Edgar Filing: APPFOLIO INC - Form 10-Q

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 July 24, 2015, the number of shares of the registrant's Class A common stock outstanding was 7,154,999 and the number of shares of the registrant's Class B common stock outstanding was 26,370,856.

Table of Contents

TABLE OF CONTENTS

Section	Page No.
<u>Cautionary Note Regarding Forward Looking Statements</u>	<u>1</u>
<u>Part I. Financial Information</u>	<u>2</u>
<u>Item 1. Condensed Consolidated Financial Statements (unaudited)</u>	<u>2</u>
<u>Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014</u>	<u>2</u>
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2015 and 2014</u>	<u>3</u>
<u>Consolidated Statement of Stockholders' Equity for the Six Months Ended June 30, 2015</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2015 and 2014</u>	<u>5</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
<u>Item 3. Qualitative and Quantitative Disclosure about Market Risk</u>	<u>26</u>
<u>Item 4. Controls and Procedures</u>	<u>26</u>
<u>Part II. Other Information</u>	<u>28</u>
<u>Item 1. Legal Proceedings</u>	<u>28</u>
<u>Item 1A. Risk Factors</u>	<u>28</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>48</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>48</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>49</u>
<u>Item 5. Other Information</u>	<u>49</u>
<u>Item 6. Exhibits</u>	<u>49</u>
<u>Signatures</u>	<u>50</u>
<u>Exhibits</u>	<u>51</u>

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2015 ("Quarterly Report"), includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which statements are subject to considerable risks and uncertainties. Forward-looking statements include all statements that are not statements of historical facts contained in this Quarterly Report and can be identified by words such as "anticipates," "believes," "seeks," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should" "would" or similar expressions and the negatives of those expressions. In particular, forward looking statements contained in this Quarterly Report relate to, among other things, our future or assumed financial condition, results of operations, business forecasts and plans, strategic plans and objectives, product development plans, and capital needs and financing plans. We caution you that the foregoing list does not include all of the forward-looking statements made in this Quarterly Report.

Forward-looking statements represent our management's current beliefs and assumptions based on information currently available. Forward-looking statements involve numerous known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss these risks and uncertainties in greater detail in the section entitled "Risk Factors" in Part II, Item 1A of this Quarterly Report, as well as in our other filings with the Securities and Exchange Commission ("SEC"). You should read this Quarterly Report, and the other documents that we have filed with the SEC, with the understanding that our actual future results may be materially different from the results expressed or implied by these forward-looking statements.

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

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

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

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Condensed consolidated financial statements

APPFOLIO, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except par values)

	June 30, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	\$69,924	\$5,412
Accounts receivable, net	2,524	1,191
Prepaid expenses and other current assets	1,834	1,204
Total current assets	74,282	7,807
Property and equipment, net	3,564	2,623
Capitalized software, net	7,391	5,509
Goodwill	6,737	4,998
Intangible assets, net	5,275	3,615
Other assets	1,047	882
Total assets	\$98,296	\$25,434
Liabilities, Convertible Preferred Stock and Stockholders' Equity (Deficit)		
Current liabilities		
Accounts payable	\$3,057	\$2,088
Accrued employee expenses	4,287	3,150
Accrued expenses	5,630	1,721
Deferred revenue	4,256	3,772
Long-term debt—current portion, net	231	—
Other current liabilities	598	2,797
Total current liabilities	18,059	13,528
Long term-debt, net	9,318	—
Deferred revenue	—	8
Other liabilities	440	199
Total liabilities	27,817	13,735
Commitments and contingencies (Note 8)		
Convertible preferred stock, Series A, B, B-1, B-2 and B-3, \$0.0001 par value, 68,027 shares authorized, issued and outstanding as of December 31, 2014.	—	63,166
Liquidation preference of \$62,020 as of December 31, 2014.		
Stockholders' equity (deficit):		
Preferred stock, \$0.0001 par value, 25,000 authorized and no shares issued and outstanding as of June 30, 2015	—	—
Class A common stock, \$0.0001 par value, 250,000 shares authorized at June 30, 2015; 6,225 shares issued and outstanding as of June 30, 2015	1	—
Class B common stock, \$0.0001 par value, 50,000 and 123,000 shares authorized as of June 30, 2015 and December 31, 2014, respectively; 26,369 and 9,042 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively;	3	1
Additional paid-in capital	130,507	1,546

Edgar Filing: APPFOLIO INC - Form 10-Q

Accumulated deficit	(60,032) (53,014)
Total stockholders' equity (deficit)	70,479	(51,467)
Total liabilities, convertible preferred stock and stockholders' equity (deficit)	\$98,296	\$25,434	

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

2

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue	\$18,425	\$11,594	\$34,273	\$21,428
Costs and operating expenses:				
Cost of revenue (exclusive of depreciation and amortization)	8,109	5,447	15,174	10,133
Sales and marketing	6,239	3,717	11,948	7,207
Research and product development	2,154	1,576	4,163	2,721
General and administrative	3,707	1,485	7,099	2,384
Depreciation and amortization	1,431	886	2,614	1,703
Total costs and operating expenses	21,640	13,111	40,998	24,148
Loss from operations	(3,215) (1,517) (6,725) (2,720
Other expense, net				