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 March 31, 2021.

☐ 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 **Santa Barbara, California** *(Address of principal executive offices)*	**93117** *(Zip Code)*

(805) 364-6093

(Registrant's telephone number, including area code)

N/A

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

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	APPF	NASDAQ Global Market

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

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

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

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

As of May 3, 2021, the number of shares of the registrant's Class A common stock outstanding was 18,951,445 and the number of shares of the registrant's Class B common stock outstanding was 15,550,875.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2021 (this "Quarterly Report"), includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which statements are subject to considerable risks and uncertainties. These forward-looking statements are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that are not statements of historical facts and can be identified by words such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts," “projects,” “seeks,” “should,” “will,” “would” or similar expressions and the negatives of those expressions. Forward-looking statements also include the assumptions underlying or relating to such statements. In particular, forward-looking statements contained in this Quarterly Report relate to, among other things:

- our future or assumed financial condition, results of operations and liquidity;
- business forecasts and plans;
- trends affecting our business and industry, and the economy as a whole;
- capital needs and financing plans;
- capital resource allocation plans;
- share repurchase plans;
- research and product development plans;
- future products and Value+ services;
- growth in the size of our business and number of customers;
- strategic plans and objectives;
- the impact of acquisitions, investments and divestitures;
- changes in the competitive environment;
- commitments and contingencies, including with respect to the outcome of legal proceedings or regulatory matters;
- the application of accounting guidance, including the impact from adoption of recent accounting pronouncements; and
- the impacts of, and our response to, the novel coronavirus ("COVID-19") pandemic.

The foregoing list may not include all of the forward-looking statements made in this Quarterly Report.

Our forward-looking statements are based on our management’s current beliefs, assumptions and expectations about future events and trends, which affect or may affect our business, strategy, operations, financial performance or liquidity. Although we believe these forward-looking statements are based upon reasonable assumptions, they are subject to numerous known and unknown risks and uncertainties and are made in light of information currently available to us. Our actual financial condition and results could differ materially from those expressed or implied by these forward-looking statements as a result of various factors, including those discussed in the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" in this Quarterly Report and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (our "Annual Report"), as well as in the other reports we file with the Securities and Exchange Commission (the "SEC"). You should read this Quarterly Report, and the other documents we file 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.

Forward-looking statements speak only as of the date they were made, and, except to the extent required by law or the rules of the NASDAQ Global Market, we undertake no obligation to update or review any forward-looking statement because of new information, future events or other factors.

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

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

APPFOLIO, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except par values)

	March 31, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 44,744	$ 140,263
Investment securities—current	103,341	28,256
Accounts receivable, net	12,524	10,057
Prepaid expenses and other current assets	20,843	20,777
Total current assets	181,452	199,353
Investment securities—noncurrent	11,806	6,770
Property and equipment, net	26,530	26,439
Operating lease right-of-use assets	30,021	30,561
Capitalized software development costs, net	37,554	35,459
Goodwill	56,147	56,147
Intangible assets, net	15,170	16,357
Deferred income taxes—noncurrent	13,401	12,181
Other long-term assets	6,616	6,213
Total assets	$ 378,697	$ 389,480
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 2,262	$ 1,040
Accrued employee expenses—current	20,050	18,888
Accrued expenses	10,231	14,069
Deferred revenue	3,135	2,262
Income tax payable	2,601	9,095
Other current liabilities	4,758	4,451
Total current liabilities	43,037	49,805
Accrued employee expenses—noncurrent	1,172	—
Operating lease liabilities	39,598	40,146
Deferred income taxes—noncurrent	9,106	13,609
Total liabilities	92,913	103,560
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, $0.0001 par value, 25,000 shares authorized and no shares issued and outstanding as of March 31, 2021 and December 31, 2020	—	—
Class A common stock, $0.0001 par value, 250,000 shares authorized as of March 31, 2021 and December 31, 2020; 19,321 and 19,148 shares issued as of March 31, 2021 and December 31, 2020, respectively; 18,902 and 18,729 shares outstanding as of March 31, 2021 and December 31, 2020, respectively	2	2
Class B common stock, $0.0001 par value, 50,000 shares authorized as of March 31, 2021 and December 31, 2020; 15,551 and 15,659 shares issued and outstanding as of March 31, 2021 and December 31, 2020, respectively	2	2
Additional paid-in capital	160,650	161,247
Accumulated other comprehensive income	38	56
Treasury stock, at cost, 419 shares of Class A common stock as of March 31, 2021 and December 31, 2020	(25,756)	(25,756)
Retained earnings	150,848	150,369
Total stockholders' equity	285,784	285,920
Total liabilities and stockholders' equity	$ 378,697	$ 389,480

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

APPFOLIO, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2021	**2020**
Revenue	$ 78,921	$ 72,495
Costs and operating expenses:		
Cost of revenue (exclusive of depreciation and amortization)	33,298	28,961
Sales and marketing	16,179	14,506
Research and product development	14,383	11,212
General and administrative	13,361	8,572
Depreciation and amortization	7,369	6,414
Total costs and operating expenses	84,590	69,665
(Loss) income from operations	(5,669)	2,830
Other income, net	562	22
Interest income (expense), net	53	(494)
(Loss) income before (benefit from) provision for income taxes	(5,054)	2,358
(Benefit from) provision for income taxes	(5,533)	375
Net income	$ 479	$ 1,983
Net income per common share:		
Basic	$ 0.01	$ 0.06
Diluted	$ 0.01	$ 0.06
Weighted average common shares outstanding:		
Basic	34,409	34,175
Diluted	35,712	35,681

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

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

	Three Months Ended March 31,	
	2021	**2020**
Net income	$ 479	$ 1,983
Other comprehensive income:		
Changes in unrealized gains on investment securities	(18)	132
Comprehensive income	$ 461	$ 2,115

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

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

	Common Stock Class A		Common Stock Class B		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Treasury Stock	Retained Earnings	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2020	18,729	$ 2	15,659	$ 2	$ 161,247	$ 56	$ (25,756)	$ 150,369	$ 285,920
Exercise of stock options	23	—	—	—	100	—	—	—	100
Stock-based compensation	—	—	—	—	3,295	—	—	—	3,295
Vesting of restricted stock units, net of shares withheld for taxes	42	—	—	—	(3,992)	—	—	—	(3,992)
Conversion of Class B stock to Class A stock	108	—	(108)	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	(18)	—	—	(18)
Net income	—	—	—	—	—	—	—	479	479
Balance at March 31, 2021	18,902	$ 2	15,551	$ 2	$ 160,650	$ 38	$ (25,756)	$ 150,848	$ 285,784

	Common Stock Class A		Common Stock Class B		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Treasury Stock	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2019	16,552	$ 2	17,594	$ 2	$ 161,509	$ 33	$ (21,562)	$ (8,034)	$ 131,950
Exercise of stock options	17	—	—	—	97	—	—	—	97
Stock-based compensation	—	—	—	—	1,365	—	—	—	1,365
Vesting of restricted stock units, net of shares withheld for taxes	91	—	—	—	(6,458)	—	—	—	(6,458)
Conversion of Class B stock to Class A stock	58	—	(58)	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	132	—	—	132
Repurchase of common stock	(48)	—	—	—	—	—	(4,194)	—	(4,194)
Net income	—	—	—	—	—	—	—	1,983	1,983
Balance as of March 31, 2020	16,670	$ 2	17,536	$ 2	$ 156,513	$ 165	$ (25,756)	$ (6,051)	$ 124,875

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

APPFOLIO, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Three Months Ended March 31,	
	2021	**2020**
Cash from operating activities		
Net income	$ 479	$ 1,983
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	7,369	6,414
Amortization of operating lease right-of-use assets	662	1,053
Deferred income taxes	(5,723)	362
Stock-based compensation	2,776	959
Other	(157)	(38)
Changes in operating assets and liabilities:		
Accounts receivable	(1,896)	(1,616)
Prepaid expenses and other current assets	47	(2,822)
Other assets	(403)	(148)
Accounts payable	870	(362)
Accrued employee expenses—current	728	(5,427)
Accrued expenses	(3,804)	726
Deferred revenue	299	693
Income tax payable	(6,494)	—
Other current liabilities	310	522
Accrued employee expenses—noncurrent	1,172	—
Operating lease liabilities	(672)	784
Net cash (used in) provided by operating activities	(4,437)	3,083
Cash from investing activities		
Purchases of available-for-sale investments	(99,011)	(649)
Proceeds from sales of available-for-sale investments	17,899	13,942
Proceeds from maturities of available-for-sale investments	1,000	7,250
Purchases of property, equipment and intangible assets	(938)	(7,992)
Capitalization of software development costs	(6,140)	(6,822)
Net cash (used in) provided by investing activities	(87,190)	5,729
Cash from financing activities		
Proceeds from stock option exercises	100	97
Tax withholding for net share settlement	(3,992)	(6,458)
Payment of contingent consideration	—	(5,977)
Proceeds from issuance of debt	—	49,437
Principal payments on debt	—	(749)
Purchase of treasury stock	—	(4,194)
Net cash (used in) provided by financing activities	(3,892)	32,156
Net (decrease) increase in cash, cash equivalents and restricted cash	(95,519)	40,968
Cash, cash equivalents and restricted cash		
Beginning of period	140,699	16,247
End of period	$ 45,180	$ 57,215
Noncash investing and financing activities		
Purchases of property and equipment included in accounts payable and accrued expenses	$ 688	$ 4,251
Capitalization of software development costs included in accrued expenses and accrued employee expenses	817	687
Stock-based compensation capitalized for software development	520	406

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

	March 31,	
	2021	2020
Cash and cash equivalents	$ 44,744	$ 56,779
Restricted cash included in other assets	436	436
Total cash, cash equivalents and restricted cash	$ 45,180	$ 57,215

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

APPFOLIO, INC.

NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

1. Nature of Business

AppFolio, Inc. (the "Company," "we," "us" or "our") provides innovative software, services and data analytics to the real estate industry. Our industry-specific, cloud-based solutions are used primarily by property managers, and also by numerous other constituencies in the property management business ecosystem. These other constituencies include property owners, rental prospects, tenants and service providers, whom we refer to collectively as "users". Although specific functionality varies by product, our core solutions are designed to enable our customers to digitally transform their businesses, address critical business operations and enable exceptional customer service. In addition to our core solutions, we offer an array of optional, but often business-critical, Value+ services that are designed to enhance, automate and streamline processes and workflows that are essential to our customers' businesses. Our Value+ services are generally available on an as-needed basis and enable our customers to adapt our offerings to their specific operational requirements.

Our solutions and services are designed to be a system of record to automate essential business processes, a system of engagement to enhance business interactions between our customers and their business ecosystems and a system of intelligence designed to leverage data to predict and optimize business workflows in order to enable exceptional customer experiences and increase efficiency across our customers' businesses. Our mobile-optimized software solutions are designed for use across multiple devices and operating systems. Our software solutions are offered as a service, are hosted using a modern cloud-based architecture, and in part, use artificial intelligence technologies. This architecture leads to rich data sets that have a consistent schema across our customer and user base and enables us to deploy data-powered products and services for our customers and users.

During the three months ended March 31, 2020, we also provided software solutions and services to the legal vertical. As previously disclosed, we completed our divestiture of MyCase, Inc. on September 30, 2020. For additional details, see Note 3, *Divestitures*.

2. Summary of Significant Accounting Policies

Basis of Presentation and Significant Accounting Policies

The accompanying unaudited Condensed Consolidated Financial Statements were prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information. Certain information and disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. Accordingly, these Condensed Consolidated Financial Statements should be read in conjunction with our audited consolidated financial statements and the related notes included in our Annual Report, which was filed with the SEC on March 1, 2021. The year-end condensed balance sheet was derived from our audited consolidated financial statements. Our unaudited interim Condensed Consolidated Financial Statements include, in the opinion of management, all adjustments, consisting of normal and recurring items, necessary for the fair statement of our Condensed Consolidated Financial Statements. The operating results for the three months ended March 31, 2021 are not necessarily indicative of the results expected for the full year ending December 31, 2021.

Reclassifications

We reclassified certain amounts in our Condensed Consolidated Statements of Cash Flows within the cash from operating activities section in the prior year to conform to the current year's presentation.

Changes in Accounting Policies

Except as described below under *Recently Adopted Accounting Pronouncements*, there have been no significant changes in our accounting policies from those disclosed in our annual consolidated financial statements and the related notes included in our Annual Report.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue, expenses, other income, and provision for income taxes during the reporting period. Assets and liabilities which are subject to judgment and use of estimates include the fair value of assets and liabilities assumed in business combinations, fair value of financial instruments, capitalized software costs, period of benefit associated with deferred costs, incremental borrowing rate used to measure operating lease liabilities, the recoverability of goodwill and long-lived assets, income taxes, useful lives associated with property and equipment and intangible assets, contingencies, assumptions underlying performance-based compensation, and valuation and assumptions underlying stock-based compensation and other equity instruments.

In light of the unknown duration and severity of COVID-19, we face a greater degree of uncertainty than normal in making the judgments and estimates needed to apply our significant accounting policies. We assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to us and the unknown future impacts of COVID-19 as of March 31, 2021 and through the date of this report. The accounting matters assessed included, but were not limited to, our allowance for credit losses, the carrying value of goodwill and other long-lived assets, performance-based compensation and income taxes.

As of the date of our Condensed Consolidated Financial Statements, we are not aware of any specific event or circumstance that would require us to update our estimates or judgments or to revise the carrying value of our assets or liabilities. However, these estimates and judgments may change as new events occur and additional information is obtained, which may result in changes being recognized in our consolidated financial statements in future periods. While we considered the effects of COVID-19 in our estimates and assumptions, due to the level of uncertainty regarding the economic and operational impacts of COVID-19 on our business, there may be other judgments and assumptions that we have not considered. Such judgments and assumptions could result in a meaningful impact on our financial statements in future periods. Actual results could differ from those estimates and any such differences may have a material impact on our Condensed Consolidated Financial Statements.

Net Income per Common Share

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

	Three Months Ended March 31,	
	2021	**2020**
Weighted average common shares outstanding	34,414	34,180
Less: Weighted average unvested restricted shares subject to repurchase	5	5
Weighted average common shares outstanding; basic	34,409	34,175
Plus: Weighted average options, restricted stock units and restricted shares used to compute diluted net income per common share	1,303	1,506
Weighted average common shares outstanding; diluted	35,712	35,681

For the three months ended March 31, 2020, an aggregate of 109,000 shares underlying performance-based restricted stock units ("PSUs") were not included in the computations of diluted and anti-dilutive shares as they are considered contingently issuable upon the satisfaction of predefined performance measures and their performance measures have not been met.

Restricted stock units ("RSUs") with an anti-dilutive effect were excluded from the calculation of weighted average number of shares used to compute diluted net income per common share and they were not material for the three months ended March 31, 2021 and 2020.

Recent Accounting Pronouncements Adopted in 2020

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which amends the current accounting guidance and requires the measurement of all expected losses based on historical experience, current conditions and reasonable and supportable forecasts. This guidance amends the accounting for credit losses for available-for-sale investment securities and purchased financial assets with credit deterioration. We adopted

ASU 2016-13 on January 1, 2020. The adoption of this guidance did not have a material impact on our financial condition, results of operations, cash flows or disclosures.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* ("ASU 2018-15"), a series of amendments which align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by these amendments. We adopted ASU 2018-15 on January 1, 2020. The adoption of this guidance did not have a material impact on our financial condition, results of operations, cash flows or disclosures.

Recent Accounting Pronouncements Adopted in 2021

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). This amendment was issued to simplify the accounting for income taxes by removing certain exceptions for recognizing deferred taxes, performing intraperiod allocation, and calculating income taxes in interim periods. Further, ASU 2019-12 adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax basis goodwill and allocating taxes to members of a consolidated group. This guidance also requires an entity to reflect the effect of an enacted change in tax laws or rates in its effective income tax rate in the first interim period that includes the enactment date of the new legislation, aligning the timing of recognition of the effects from enacted tax law changes on the effective income tax rate with the effects on deferred income tax assets and liabilities. Under existing guidance, an entity recognizes the effects of the enacted tax law change on the effective income tax rate in the period that includes the effective date of the tax law. We adopted ASU 2019-12 on January 1, 2021. The adoption of this guidance did not have a material impact on our financial condition, results of operations, cash flows or disclosures.

3. Divestitures

Divestiture of MyCase

On September 30, 2020, we completed our divestiture of 100% of our issued and outstanding equity interests of MyCase, Inc. ("MyCase"), a former wholly owned subsidiary that provided legal practice and case management software solutions to our legal customers, for $193.0 million, consisting of $192.2 million of cash proceeds, plus a $2.2 million employee retention bonus pool funded by us, less cash divested of $0.8 million and a preliminary working capital adjustment of $0.6 million (the "MyCase Transaction"). The retention bonus pool is refundable to the Company to the extent that MyCase employees are terminated prior to the retention period, which is one year from the closing date of the MyCase Transaction.

We recognized a pre-tax gain on the sale of $187.7 million on the MyCase Transaction, consisting of cash proceeds of $192.2 million, less net assets divested of $4.6 million. Net assets divested is primarily comprised of capitalized software of $3.9 million, deferred revenue of $2.8 million and goodwill allocated to MyCase of $2.3 million. The gain on the sale was recorded within *Other income, net* in our Condensed Consolidated Statements of Operations during the three months ended September 30, 2020. Income received during the three months ended March 31, 2021 in relation to the transition services provided by us to MyCase was $0.4 million and is included within *Other income (expense), net* in our Condensed Consolidated Statements of Operations.

4. Investment Securities and Fair Value Measurements

Investment Securities

Investment securities classified as available-for-sale consisted of the following as of March 31, 2021 and December 31, 2020 (in thousands):

	March 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Agency securities	$ 17,098	$ 21	$ (2)	$ 17,117
Treasury securities	97,990	43	(3)	98,030
Total available-for-sale investment securities	$ 115,088	$ 64	$ (5)	$ 115,147

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Agency securities	$ 17,104	$ 29	$ (1)	$ 17,132
Treasury securities	17,847	47	—	17,894
Total available-for-sale investment securities	$ 34,951	$ 76	$ (1)	$ 35,026

For available-for-sale debt securities in an unrealized loss position, we first assess whether we intend to sell, or whether it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If either of these criteria is met, the security's amortized cost basis is written down to fair value through income. For securities in an unrealized loss position that do not meet these criteria, we evaluate whether the decline in fair value has resulted from credit loss or other factors. If this assessment indicates a credit loss exists, the credit-related portion of the loss is recorded as an allowance for losses on the security. No allowance for credit losses for available-for-sale investment securities was recorded as of March 31, 2021 or December 31, 2020.

As of March 31, 2021 and December 31, 2020, the contractual maturities of our investments did not exceed 36 months. The fair values of available-for-sale investment securities, by remaining contractual maturity, are as follows (in thousands):

	March 31, 2021		December 31, 2020	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 103,278	$ 103,341	$ 28,197	$ 28,256
Due after one year through three years	11,810	11,806	6,754	6,770
Total available-for-sale investment securities	$ 115,088	$ 115,147	$ 34,951	$ 35,026

During the three months ended March 31, 2021 and 2020, we had sales and maturities (which include calls) of investment securities, as follows (in thousands):

	Three Months Ended March 31, 2021			
	Gross Realized Gains	Gross Realized Losses	Gross Proceeds from Sales	Gross Proceeds from Maturities
Treasury securities	$ 1	$ —	$ 17,899	$ 1,000

	Three Months Ended March 31, 2020			
	Gross Realized Gains	Gross Realized Losses	Gross Proceeds from Sales	Gross Proceeds from Maturities
Corporate bonds	$ 5	$ —	$ 4,006	$ 4,000
Agency securities	24	—	7,878	1,250
Treasury securities	4	—	2,058	2,000
Total	$ 33	$ —	$ 13,942	$ 7,250

Interest income, net of the amortization and accretion of the premium and discount, was $0.1 million for each of the three months ended March 31, 2021 and 2020, respectively.

Fair Value Measurements

Recurring Fair Value Measurements

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following tables summarize our financial assets measured at fair value on a recurring basis as of March 31, 2021 and December 31, 2020 by level within the fair value hierarchy (in thousands):

	March 31, 2021			
	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents:				
Money market funds	$ 4,764	$ —	$ —	$ 4,764
Treasury securities	12,275	—	—	12,275
Available-for-sale investment securities:				
Agency securities	—	17,117	—	17,117
Treasury securities	98,030	—	—	98,030
Total	$ 115,069	$ 17,117	$ —	$ 132,186

	December 31, 2020			
	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents:				
Money market funds	$ 4,749	$ —	$ —	$ 4,749
Treasury securities	97,433	—	—	97,433
Available-for-sale investment securities:				
Agency securities	—	17,132	—	17,132
Treasury securities	17,894	—	—	17,894
Total	$ 120,076	$ 17,132	$ —	$ 137,208

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

There were no changes to our valuation techniques used to measure financial asset and financial liability fair values on a recurring basis during the three months ended March 31, 2021. The valuation techniques for the financial assets in the tables above are as follows:

Cash Equivalents

As of March 31, 2021 and December 31, 2020, cash equivalents include cash invested in money market funds and treasury securities with a maturity of three months or less. Fair value is based on market prices for identical assets.

Available-for-Sale Investment Securities

Fair value for our Level 1 investment securities is based on market prices for identical assets. Our Level 2 securities were priced by a pricing vendor. The pricing vendor utilizes the most recent observable market information in pricing these securities or, if specific prices are not available for these securities, other observable inputs like market transactions involving comparable securities are used.

Non-Recurring Fair Value Measurements

Certain assets, including goodwill, intangible assets and our note receivable with SecureDocs, Inc., are also subject to measurement at fair value on a non-recurring basis using Level 3 measurement, but only when they are deemed to be impaired. For the three months ended March 31, 2021 and 2020, no impairments were identified on those assets required to be measured at fair value on a non-recurring basis.

5. Capitalized Software Development Costs, net

Capitalized software development costs were as follows (in thousands):

	March 31, 2021	December 31, 2020
Capitalized software development costs, gross	$ 104,069	$ 96,974
Less: Accumulated amortization	(66,515)	(61,515)
Capitalized software development costs, net	$ 37,554	$ 35,459

Capitalized software development costs were $7.1 million and $6.7 million for the three months ended March 31, 2021 and 2020, respectively. Amortization expense with respect to capitalized software development costs totaled $5.0 million and $4.2 million for the three months ended March 31, 2021 and 2020, respectively.

Future amortization expense with respect to capitalized software development costs as of March 31, 2021 is estimated as follows (in thousands):

Years Ending December 31,	
2021	$ 14,970
2022	15,147
2023	7,033
2024	404
Total amortization expense	$ 37,554

6. Intangible Assets, net

Intangible assets consisted of the following (in thousands, except years):

	March 31, 2021			
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Useful Life in Years
Customer relationships	$ 2,840	$ (1,664)	$ 1,176	5.0
Database	8,330	(1,995)	6,335	10.0
Technology	6,539	(4,033)	2,506	4.0
Trademarks and trade names	1,890	(831)	1,059	5.0
Partner relationships	680	(680)	—	3.0
Non-compete agreements	7,400	(3,334)	4,066	5.0
Domain names	90	(71)	19	5.0
Patents	252	(243)	9	5.0
	$ 28,021	$ (12,851)	$ 15,170	6.3

	December 31, 2020			
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Useful Life in Years
Customer relationships	$ 2,840	$ (1,550)	$ 1,290	5.0
Database	8,330	(1,787)	6,543	10.0
Technology	6,539	(3,641)	2,898	4.0
Trademarks and trade names	1,890	(732)	1,158	5.0
Partner relationships	680	(680)	—	3.0
Non-compete agreements	7,400	(2,964)	4,436	5.0
Domain names	90	(70)	20	5.0
Patents	252	(240)	12	5.0
	$ 28,021	$ (11,664)	$ 16,357	6.3

Amortization expense with respect to intangible assets totaled $1.2 million and $1.3 million for the three months ended March 31, 2021 and 2020, respectively. Future amortization expense with respect to intangible assets is estimated as follows (in thousands):

Years Ending December 31,	
2021	$ 3,459
2022	4,605
2023	3,060
2024	835
2025	833
Thereafter	2,378
Total amortization expense	$ 15,170

7. Accrued Employee Expenses

Accrued employee expenses consisted of the following (in thousands):

	March 31, 2021	December 31 2020
Accrued vacation	$ 9,532	$ 8,277
Accrued bonuses	3,698	5,638
Accrued commissions	1,811	1,995
Accrued payroll	4,205	1,921
Accrued payroll taxes and other	804	1,057
Total accrued employee expenses—current	$ 20,050	$ 18,888
Accrued employee expenses—noncurrent	$ 1,172	$ —

The Company has adopted several long-term executive cash incentive plans (the "Plan(s)"), which are designed to reward certain executives for their contributions toward our long-term strategic objectives (the "Performance Conditions"), which vary by Plan. We are required to estimate the probable payout under the Plans based on management's judgement using, among other things, an internally developed rolling three year plan (the "Three Year Plan"). Compensation costs are recorded on a straight-line basis over the relevant service period to the extent it is probable the Performance Conditions in an applicable Plan will be achieved. Adjustments to compensation costs are recognized on a prospective basis over the remaining service period based on changes in our estimate of the probability of achieving the various Performance Conditions.

During the three months ended March 31, 2021, the Board of Directors approved the 2021 Three Year Plan, which allowed us to assess the probability of achieving the Performance Conditions under the Plans through December 31, 2023. As of March 31, 2021, we recorded $0.3 million and $1.2 million in *Accrued employee expenses-current* and *Accrued employee expenses-noncurrent*, respectively, in the Condensed Consolidated Balance Sheet related to the Plans. There are Plans for which no accrual has been recorded as it was determined that it is not currently probable that the related Performance Condition will be achieved. Amounts recorded under the Plans are based on assumptions and estimates subject to uncertainties and may fluctuate significantly each reporting period.

8. Leases

Operating leases for our corporate offices have remaining lease terms ranging from one to eleven years, some of which include options to extend the leases for up to ten years. These options to extend have not been recognized as part of our operating lease right-of-use assets and lease liabilities as it is not reasonably certain that we will exercise these options. Our lease agreements do not contain any residual value guarantees or material restrictive covenants. We have lease agreements with lease and non-lease components, which we have elected to combine for all asset classes. Certain leases contain provisions for property-related costs that are variable in nature for which the Company is responsible, including common area maintenance, which are expensed as incurred.

The components of lease expense recognized in the Condensed Consolidated Statements of Operations were as follows (in thousands):

	March 31,	
	2021	2020
Operating lease cost	$ 1,095	$ 1,436
Variable lease cost	306	392
Total lease cost	$ 1,401	$ 1,828

Lease-related assets and liabilities were as follows as of March 31, 2021 and December 31, 2020 (in thousands):

	March 31, 2021	December 31, 2020
Assets		
Prepaid expenses and other current assets	$ 3,979	$ 3,972
Operating lease right-of-use assets	30,021	30,561
Liabilities		
Other current liabilities	$ 1,842	$ 1,845
Operating lease liabilities	39,598	40,146
Total lease liabilities	$ 41,440	$ 41,991

Future minimum lease payments under non-cancellable leases as of March 31, 2021 were as follows (in thousands):

Years ending December 31,	
2021[1]	$ (1,935)
2022	4,434
2023	4,845
2024	4,797
2025	4,671
Thereafter	32,218
Total future minimum lease payments	49,030
Less: imputed interest	(11,569)
Total[2]	$ 37,461

[1] Future minimum lease payments are presented net of tenant improvement allowances of $4.7 million.

[2] Total future minimum lease payments include the current portion of lease liabilities recorded in *Prepaid expenses and other current assets* of $4.0 million on our Condensed Consolidated Balance Sheets, which relates to certain of our leases for which the lease incentives to be received exceed the minimum lease payments to be paid over the next 12 months.

9. Commitments and Contingencies

Legal Liability to Landlord Insurance

We have a wholly owned subsidiary, Terra Mar Insurance Company, Inc., which was established to provide our customers with the option to purchase legal liability to landlord insurance. If our customers choose to use this insurance service, they are issued an insurance policy underwritten by our third-party service provider. The policy has a limit of $100,000 per incident for each insured residence. We have entered into a reinsurance agreement with our third-party service provider and, as a result, we assume a 100% quota share of the legal liability to landlord insurance provided to our customers through our third-party service provider. We accrue for reported claims, and include an estimate of losses incurred but not reported by our property manager customers, in cost of revenue because we bear the risk related to all such claims. Our liability for reported claims and incurred but not reported claims as of March 31, 2021 and December 31, 2020 was $1.8 million and $1.5 million, respectively, and is included in *Other current liabilities* on our Condensed Consolidated Balance Sheets.

Included in *Prepaid expenses and other current assets* as of March 31, 2021 and December 31, 2020 are $1.8 million and $2.7 million, respectively, of deposits held with a third party related to requirements to maintain collateral for this insurance service.

Legal Proceedings

In December 2018, we received a Civil Investigative Demand from the Federal Trade Commission ("FTC") requesting certain information relating to our compliance with the Fair Credit Reporting Act in connection with our tenant screening Value+ service (the "FTC Investigation"). In April 2020, the FTC staff informed us of its belief that there was a reasonable basis for asserting claims against us for our alleged failure to comply with certain sections of the FCRA. We disagreed with the stated belief of the FTC and vigorously defended our position; however, we entered into settlement negotiations primarily to avoid protracted litigation and potential distraction to our business.

On January 12, 2021, a Stipulated Order for Permanent Injunction and Civil Penalty Judgment (the "Stipulated Order") was finalized resolving all claims and allegations arising out of or related to the FTC Investigation. Under the Stipulated Order, we paid $4.25 million to the FTC and agreed to continue to comply with the FCRA.

In addition to the foregoing, from time to time, we are involved in various other investigatory inquiries or legal proceedings arising from or related to matters incident to the ordinary course of our business activities, including actions with respect to intellectual property, employment, regulatory and contractual issues. Although the results of such investigatory inquiries and legal proceedings cannot be predicted with certainty, we believe that we are not currently a party to any investigatory inquiries or legal proceeding(s) which, if determined adversely to us, would, individually or taken together, have a material adverse effect on our business, operating results, financial condition or cash flows. However, regardless of the merit of any matters raised or the ultimate outcome, investigatory inquiries or legal proceedings may generally have an adverse impact on us as a result of defense and settlement costs, diversion of management resources, and other factors.

Indemnification

In the ordinary course of business, we may provide indemnification of varying scope and terms to customers, investors, directors and officers with respect to certain matters, including, but not limited to, losses arising out of our breach of any applicable agreements, services to be provided by us, or intellectual property infringement claims made by third parties. These indemnification provisions may survive termination of the underlying agreement and the maximum potential amount of future payments we could be required to make under these indemnification provisions may not be subject to maximum loss clauses and is indeterminable. We have never paid a material claim, nor have any legal claims been brought against us, in connection with these indemnification arrangements. As of March 31, 2021 and December 31, 2020, we have not accrued a liability for these indemnification arrangements because we determined that the likelihood of incurring a payment obligation, if any, in connection with these indemnification arrangements is not probable or reasonably possible and the amount or range of amounts of any such liability is not reasonably estimable.

10. Share Repurchase Program

On February 20, 2019, our Board of Directors authorized a $100.0 million share repurchase program (the "Share Repurchase Program") relating to our outstanding shares of Class A common stock. Under the Share Repurchase Program, share repurchases may be made from time to time, as directed by a committee consisting of three directors, in open market purchases or privately negotiated transactions at a repurchase price that the members of the committee unanimously believe is below intrinsic value conservatively determined. The Share Repurchase Program does not obligate us to repurchase any specific dollar amount or number of shares, there is no expiration date for the Share Repurchase Program, and it may be modified, suspended or terminated at any time and for any reason.

During the three months ended March 31, 2020, we repurchased a total of 48,002 shares of our Class A common stock through open market repurchases, and recorded a $4.2 million reduction to stockholders' equity, which includes broker commissions. We have not made any repurchases under the Share Repurchase Program subsequent to the three months ended March 31, 2020.

11. Stock-Based Compensation

Stock Options

A summary of activity in connection with our stock options for the three months ended March 31, 2021, is as follows (number of shares in thousands):

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life in Years
Options outstanding as of December 31, 2020	1,168	$ 11.77	5.0
Options granted	—	—	
Options exercised	(23)	4.36	
Options cancelled/forfeited	—	—	
Options outstanding as of March 31, 2021	1,145	$ 11.92	4.7

Our stock-based compensation expense for stock options for the three months ended March 31, 2021 and 2020 was not material. As of March 31, 2021, the total estimated remaining stock-based compensation expense for unvested stock options was not material.

The fair value of stock options is estimated on their date of grant using the Black-Scholes option-pricing model. No stock options were granted during the three months ended March 31, 2021 or 2020.

Restricted Stock Units

A summary of activity in connection with our RSUs for the three months ended March 31, 2021, is as follows (number of shares in thousands):

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Unvested as of December 31, 2020	483	$ 80.20
Granted	150	143.24
Vested	(67)	54.84
Forfeited	(7)	101.76
Unvested as of March 31, 2021	559	$ 99.87

During the three months ended March 31, 2021, we granted 127,000 RSUs that are subject to time-based vesting in equal annual installments over four years, and 23,000 PSUs that are subject to vesting based on the achievement of pre-established consolidated net revenue growth targets for the years ending December 31, 2022 and 2023, assuming continued employment throughout the performance period. The number of PSUs granted, as included in the above table, assumes achievement of the performance metric at 100% of the performance target. The actual number of shares to be issued at the end of the performance period will range from 0% to 100% of the initial target awards. Achievement of the performance metric between 100% and 150% of the performance target will result in a performance-based cash bonus payment between 0% and 65% of the initial target awards.

During the three months ended March 31, 2021, 50,000 PSUs vested based on the achievement of 106% of the pre-established consolidated net revenue growth performance target for the year ended December 31, 2020 and additional performance-based cash bonuses equal to 12% of the target value of such vested PSUs were also paid.

Included in the unvested RSUs as of March 31, 2021 are 13,000, 31,000 and 35,000 PSUs granted in 2020, 2019 and 2018, respectively. Of these PSUs, 45,000 are subject to vesting based on the achievement of a pre-established consolidated net revenue growth target for the year ending December 31, 2021, and 34,000 are subject to vesting based on the achievement of a pre-established consolidated net revenue growth target for the year ending December 31, 2022. The number of PSUs granted assumes achievement of the performance metric at 100% of the performance target. The actual number of shares to be issued at the end of the performance period will range from 0% to 100% of the initial target awards. Achievement of the performance metric between 100% and 150% of the performance target will result in a performance-based cash bonus payment between 0% and 65% of the initial target awards.

We recognize expense for the PSUs based on the grant date fair value of the PSUs that we determine are probable of vesting. Adjustments to compensation expense are made each period based on changes in our estimate of the number of PSUs that are probable of vesting. Our stock-based compensation expense for the RSUs and PSUs for the three months ended March 31, 2021 and 2020 was $3.1 million and $1.2 million, respectively.

During the three months ended March 31, 2021, we granted an award of 7,688 PSUs to an executive that will vest based on achievement of certain pre-established individual performance metrics during fiscal year 2021, for which the achievement is approved on a pass/fail basis by the Board of Directors in its sole discretion after taking into account the recommendation of the President and Chief Executive Officer. The service inception date precedes the grant date for this award as the award was authorized prior to establishing an accounting grant date, the recipient began providing services prior to the grant date and there are performance conditions that, if not met by the accounting grant date, will result in the forfeiture of the award. As the service inception date precedes the grant date, we recognize stock-based compensation expense on a straight-line basis over the requisite service period based on the fair value at each reporting date. Our stock-based compensation expense for this award for the three months ended March 31, 2021 was $0.2 million.

As of March 31, 2021, the total estimated remaining stock-based compensation expense for the RSUs and PSUs was $39.6 million, which is expected to be recognized over a weighted average period of 2.6 years.

Restricted Stock Awards

A summary of activity in connection with our restricted stock awards for the three months ended March 31, 2021 is as follows (number of shares in thousands):

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Unvested as of December 31, 2020	5	$ 153.41
Granted	—	—
Vested	—	—
Forfeited	—	—
Unvested as of March 31, 2021	5	$ 153.41

We have the right to repurchase any unvested restricted stock awards subject to certain conditions. Restricted stock awards vest over a one-year period. We recognized stock-based compensation expense for restricted stock awards of $0.2 million and $0.1 million for the three months ended March 31, 2021 and 2020, respectively.

As of March 31, 2021, the total estimated remaining stock-based compensation expense for unvested restricted stock awards with a repurchase right was $0.3 million, which is expected to be recognized over a weighted average period of 0.6 years.

12. Income Taxes

We calculate our (benefit from) provision for income taxes on a quarterly basis by applying an estimated annual effective tax rate to income from operations and by calculating the tax effect of discrete items recognized during the quarter.

For the three months ended March 31, 2021 and 2020, we recorded an income tax benefit of $5.5 million and income tax expense of $0.4 million, respectively. The effective tax rate as compared to the U.S. federal statutory rate of 21% differs primarily due to the significance of the benefits associated with stock-based compensation expense and research and development tax credits in relation to the forecasted pre-tax results for the year.

There were no material changes to our unrecognized tax benefits during the three months ended March 31, 2021 and we do not expect to have any significant changes to unrecognized tax benefits through the end of the fiscal year.

13. Revenue and Other Information

The following table presents our revenue categories for the three months ended March 31, 2021 and 2020 (in thousands):

	Three Months Ended March 31,	
	2021	2020
Core solutions	$ 24,174	$ 24,902
Value+ services	51,510	44,138
Other	3,237	3,455
Total revenue	$ 78,921	$ 72,495

Our revenue is generated primarily from customers in the United States. All of our property and equipment is located in the United States.

Deferred Revenue

During the three months ended March 31, 2021 and 2020, we recognized $1.2 million and $2.3 million of revenue, respectively, which were included in the deferred revenue balances as of December 31, 2020 and 2019, respectively.

14. Subsequent Events

On April 5, 2021, we entered into a lease agreement with Sunroad Centrum Office One Partners, L.P (the "Landlord") to lease approximately 40,141 square feet of office space located at 8620 Spectrum Center Blvd, San Diego, California. The lease is for a twelve-year term ending January 31, 2033. The total commitment under this lease is $14.9 million, which is net of tenant improvement allowances of $3.7 million.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read together with our Condensed Consolidated Financial Statements and the related notes included elsewhere in this Quarterly Report and in our Annual Report. This discussion and analysis contains forward-looking statements that are based on our current expectations and reflect our plans, estimates and anticipated future financial performance. These statements involve numerous risks and uncertainties, including those related to the anticipated impact on our business from, and our response to, the COVID-19 pandemic. Our actual results may differ materially from those expressed or implied by these forward-looking statements as a result of many factors, including those set forth in the section entitled "Risk Factors" in this Quarterly Report and in our Annual Report, as well as our other public filings with the SEC. Please also refer to the section of this Quarterly Report entitled "Cautionary Note Regarding Forward-Looking Statements" for additional information.

Overview

We provide innovative software, services and data analytics to customers in the real estate industry. Our industry-specific, cloud-based solutions are used primarily by property managers, and also by numerous other constituencies in the property management business ecosystem. These other constituencies include property owners, rental prospects, tenants and service providers, whom we refer to collectively as "users". Although specific functionality varies by product, our core solutions are designed to enable our customers to digitally transform their businesses, address critical business operations and enable exceptional customer service. In addition to our core solutions, we offer an array of optional, but often business-critical, Value+ services that are designed to enhance, automate and streamline processes and workflows that are essential to our customers' businesses. Our Value+ services are generally available on an as-needed basis and enable our customers to adapt our offerings to their specific operational requirements.

Our property management solutions and services provide our customers with a system of record to automate essential business processes, a system of engagement to enhance business interactions between our customers and a variety of users and a system of intelligence designed to leverage data to predict and optimize business workflows to increase efficiency across our customers' businesses. Our mobile-optimized software solutions are designed for use across multiple devices and operating systems. Our software solutions are offered as a service, are hosted using a modern cloud-based architecture, and in part, use artificial intelligence technologies. This architecture leads to rich data sets that have a consistent schema across our customer and user base and enables us to deploy data-powered products and services for our customers and users.

In 2008, we introduced APM, a property management solution designed to address the unique operational and business requirements of property management companies and their business ecosystems. Recognizing that our customers and their business ecosystems would benefit from additional business critical services, we launched a series of Value+ services beginning in 2009. Our Value+ services are tailored to the specific workflows of property management businesses and generally fall into the categories of marketing and leasing, electronic payment services, business optimization and risk mitigation. In 2018, we introduced APM PLUS, a tier of APM designed for larger businesses with more complex needs. APM PLUS builds upon the functionality of APM and additionally offers data analytics, configurable workflows, and revenue management and optimization functionality for our customers. In April 2019, we launched AppFolio Investment Management, which is designed to enable real estate investment managers to better manage their investor relationships by increasing transparency and streamlining certain business processes. We do not separately break out customer information at this time.

APM and APM PLUS serve our property management customers, including third-party property managers and owner operators, who typically manage single- and multi-family residential, and others who manage community association, and commercial properties. Our solutions and services also serve other constituencies in the property management market, including property owners, rental prospects, tenants and service providers. Revenue generated from each customer varies based on the type of property, the number of units under management, and the level of adoption and utilization of Value+ services by the customer and users. Revenue per unit generated from each customer typically varies based on the type of property and the level of adoption and utilization of Value+ services by the customer and users. For example, revenue generated per community association unit, which represent a growing percentage of our overall units, is lower than revenue generated per residential unit given the unique and complex needs of the residential rental lifecycle and resulting impact on the adoption and utilization of V+ services.

Property management customer count and property management units under management are presented in the table below. We define property management customers as those paying for a subscription to our core solutions.

	Quarter Ended				
	March 31,	December 31,	September 30,	June 30,	March 31,
	2021	2020			
Property manager customers	16,178	15,724	15,352	15,011	14,729
Property manager units under management (in millions)	5.62	5.36	5.12	4.94	4.80

To date, we have experienced rapid revenue growth due to strong relationships with our customers, our investments in research and product development, sales and marketing, customer service and support, and infrastructure. We have invested, and intend to continue to invest, in our business to capitalize on our market opportunity by working closely with our customers, prospects, partners and other industry participants to inform our product strategy. Over the long-term, these investments are expected to continue to increase our costs and operating expenses on an absolute basis. Many of these investments will occur in advance of our realization of revenue or any other benefit, which will make it difficult to determine if we are allocating our resources effectively and efficiently. We expect our operating margins will improve over the long-term, but this trend may be interrupted from time to time as a result of accelerated investment opportunities occurring in advance of realization of revenue.

We rely heavily on our talented team of employees to execute our growth plans and achieve our long-term strategic objectives. We believe our people are at the heart of our success and our customers' success, and we have worked hard not only to attract and retain talented individuals, but also to provide a challenging and rewarding environment to motivate and develop our valuable human capital. Beginning in March 2020, in an effort to protect our employees and comply with applicable government orders, we transitioned our employees to a remote work environment and restricted non-essential employee travel. Our workforce has continued to effectively develop and support our software and services offerings notwithstanding the current environment. We expect to slowly transition employees back to the workplace throughout 2021; however, employees will have the option to work remotely for the remainder of the year. If the COVID-19 pandemic once again requires full remote working conditions or otherwise slows our return to the workplace, it could have an adverse impact on the productivity of our employees as they navigate the challenges of daily life during a pandemic, which would harm our business and impede our ability to achieve our strategic objectives. We take the health and welfare of our people very seriously. We have encouraged, and will continue to encourage, safe practices designed to stem the infection and spread of COVID-19 within our workforce and beyond and to maintain the mental health and well-being of our employees. While the COVID-19 pandemic may have long-term effects on the nature of the office environment and remote working, which may present operational and workplace culture challenges that may adversely affect our business, we are committed to our employees returning to the workplace in the long-term. We recently constructed a new office space in Santa Barbara, California, extended the lease for our office in Richardson, Texas and leased new office space in San Diego, California.

During the three months ended March 31, 2020, we also provided software solutions and services to the legal vertical. As previously disclosed, we completed our divestiture of MyCase, Inc. on September 30, 2020. In connection with the MyCase Transaction, our Credit Agreement was terminated and all obligations outstanding under the Term Loan and Revolving Facility, including all guarantees and security interests granted with respect to such obligations, were satisfied in full with proceeds from the sale and extinguished. For additional details, see Note 3, *Divestitures* of our Condensed Consolidated Financial Statements in this Quarterly Report.

Key Components of Results of Operations

Revenue

Our core solutions and certain of our Value+ services are offered on a subscription basis. Our core solutions subscription fees vary by property type and are designed to scale to the size of our customers' businesses. We recognize revenue for subscription-based services over time on a straight-line basis over the contract term beginning on the date that our service is made available. We generally invoice monthly or annually in advance of the subscription period.

We also offer Value+ services that are not covered by subscription fees on a per use basis. Usage-based fees are charged on a flat fee per transaction basis with no minimum usage commitments. We recognize revenue for usage-based services in the period the service is rendered. We generally invoice our usage-based services on a monthly basis or collect the fee at the time of service. A significant majority of our Value+ services revenue comes directly and indirectly from the use of our electronic payment services, tenant screening services, and insurance services. Usage-based fees are paid both by customers and users in our customers' business ecosystems.

We charge our customers for on-boarding assistance to our core solutions and certain other non-reoccurring services. We generally invoice for these other services in advance of the services being completed and recognize revenue upon completion of the related service. We generate revenue from RentLinx, WegoWise, and Dynasty standalone customers by providing services outside of our property management core solution platform. Revenue derived from these services is recorded in Other revenue.

Costs and Operating Expenses

Cost of Revenue. Many of our Value+ services are facilitated by third-party service providers. Cost of revenue includes the fees paid to these third-party service providers (including legal fees and costs associated with the delivery and provision of those services, as well as loss reserves and other costs associated with our legal liability to landlord insurance services), which vary both in cost and as a percent of revenue for each Value+ service offering, personnel-related costs (including salaries, performance-based compensation, benefits, and stock-based compensation) for our employees focused on customer service and the support of our operations, platform infrastructure costs (such as data center operations and hosting-related costs), payment processing fees and allocated shared costs. Cost of revenue excludes depreciation of property and equipment, and amortization of capitalized software development costs and intangible assets.

Sales and Marketing. Sales and marketing expense consists of personnel-related costs (including salaries, sales commissions, performance-based compensation, benefits, and stock-based compensation) for our employees focused on sales and marketing, costs associated with sales and marketing activities, and allocated shared and other costs. Marketing activities include advertising, online lead generation, lead nurturing, customer and industry events, and the creation of industry-related content and collateral. Sales commissions and other incremental costs to acquire customers and grow adoption and utilization of our Value+ services by our new and existing customers are deferred and then amortized on a straight-line basis over a period of benefit, which we have determined to be three years. We focus our sales and marketing efforts on generating awareness of our software solutions, creating sales leads, establishing and promoting our brands, and cultivating an educated community of successful and vocal customers.

Research and Product Development. Research and product development expense consists of personnel-related costs (including salaries, performance-based compensation, benefits, and stock-based compensation) for our employees focused on research and product development, fees for third-party development resources, and allocated shared and other costs. Our research and product development efforts are focused on enhancing functionality and the ease of use of our existing software solutions by adding new core functionality, Value+ services and other improvements, as well as developing new products and services for new and existing markets. We capitalize our software development costs which meet the criteria for capitalization. Amortization of capitalized software development costs is included in depreciation and amortization expense.

General and Administrative. General and administrative expense consists of personnel-related costs (including salaries, a majority of total performance-based compensation, benefits, and stock-based compensation) for employees in our executive, finance, information technology, human resources, legal, compliance, corporate development and administrative organizations. In addition, general and administrative expense includes fees for third-party professional services (including audit, legal, compliance, tax, and consulting services), transaction costs related to business combinations and divestitures, regulatory fines and penalties, other corporate expenses, and allocated shared costs.

Depreciation and Amortization. Depreciation and amortization expense includes depreciation of property and equipment, amortization of capitalized software development costs, and amortization of intangible assets. We depreciate or amortize property and equipment, software development costs, and intangible assets over their expected useful lives on a straight-line basis, which approximates the pattern in which the economic benefits of the assets are consumed.

Other Income, Net. Other income, net includes gains and losses associated with the sale of property and equipment and investment securities and income from certain post-closing transition services to be provided by us to MyCase in connection with the MyCase Transaction.

Interest Income (Expense), Net. Interest expense includes interest paid on any outstanding borrowings. Interest income includes interest earned on investment securities, amortization and accretion of the premium and discounts paid from the purchase of investment securities, and interest earned on notes receivable and on cash deposited in our bank accounts.

(Benefit from) Provision for Income Taxes. (Benefit from) provision for income taxes consists of federal and state income taxes in the United States.

Results of Operations

The following table sets forth our results of operations for the periods presented in dollars (in thousands) and as a percentage of revenue:

	Three Months Ended March 31,			
	2021		2020	
	Amount	%	Amount	%
Consolidated Statements of Operations Data:				
Revenue	$ 78,921	100.0 %	$ 72,495	100.0 %
Costs and operating expenses:				
Cost of revenue (exclusive of depreciation and amortization) [1]	33,298	42.2	28,961	39.9
Sales and marketing [1]	16,179	20.5	14,506	20.0
Research and product development [1]	14,383	18.2	11,212	15.5
General and administrative [1]	13,361	16.9	8,572	11.8
Depreciation and amortization	7,369	9.3	6,414	8.8
Total costs and operating expenses	84,590	107.2	69,665	96.1
(Loss) income from operations	(5,669)	(7.2)	2,830	3.9
Other income, net	562	0.7	22	—
Interest income (expense), net	53	0.1	(494)	(0.7)
(Loss) income before (benefit from) provision for income taxes	(5,054)	(6.4)	2,358	3.3
(Benefit from) provision for income taxes	(5,533)	(7.0)	375	0.5
Net income	$ 479	0.6 %	$ 1,983	2.7 %

[1] Includes stock-based compensation expense as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Stock-based compensation expense included in costs and operating expenses:		
Cost of revenue (exclusive of depreciation and amortization)	$ 471	$ 126
Sales and marketing	402	225
Research and product development	857	294
General and administrative	1,046	314
Total stock-based compensation expense	$ 2,776	$ 959

Comparison of the Three Months Ended March 31, 2021 and 2020

Revenue

	Three Months Ended March 31,		Change	
	2021	2020	Amount	%
	(dollars in thousands)			
Core solutions	$ 24,174	$ 24,902	$ (728)	(3)%
Value+ services	51,510	44,138	7,372	17 %
Other	3,237	3,455	(218)	(6)%
Total revenue	$ 78,921	$ 72,495	$ 6,426	9 %

Revenue derived from our software and solutions offered to the real estate vertical for the three months ended March 31, 2021 and 2020, was $78.9 million and $64.9 million, respectively, an increase of $14.0 million, or 22%. This increase was primarily attributable to the growth in the number of property management customers and units under management utilizing our software and services. The remaining revenue was attributed to our legacy legal vertical.

Core solutions revenue derived from our real estate vertical for the three months ended March 31, 2021 and 2020 was $24.2 million and $20.5 million, respectively, an increase of $3.7 million or 18%. Value+ services revenue derived from our real estate vertical for the three months ended March 31, 2021 and 2020 was $51.5 million and $40.9 million, respectively, an increase of $10.6 million or 26%. This increase in core solutions and Value+ services revenue was mainly attributable to growth in our base of property management customers and growth in users of our subscription and usage-based services. During this period we experienced growth of 16% in the average number of property management units under management resulting from 10% growth in the average number of property management customers during the period.

Our electronic payment services experienced increased demand during the comparative period as residents, property managers, owners and customers transacted more business online, which we attribute in part to the response to the COVID-19 pandemic. During the comparative period, we also introduced new Value+ services and expanded the functionality of others, which resulted in incremental revenue. A significant majority of our Value+ services revenue comes directly and indirectly from the use of our electronic payment services, tenant screening services, and the insurance services we make available to customers.

Cost of Revenue (Exclusive of Depreciation and Amortization)

	Three Months Ended March 31,		Change	
	2021	2020	Amount	%
	(dollars in thousands)			
Cost of revenue (exclusive of depreciation and amortization)	$ 33,298	$ 28,961	$ 4,337	15 %
Percentage of revenue	42.2 %	39.9 %		

Cost of revenue related to our software and solutions offered to the real estate vertical for the three months ended March 31, 2021 and 2020 was $33.1 million and $26.2 million, respectively, an increase of $6.9 million, or 26%. This increase was primarily attributable to increased costs associated with servicing the incremental $14.0 million in revenue over the same period. The remaining cost of revenue was attributed to our legacy legal vertical and such costs were reimbursed through our ongoing Transition Services Agreement and recorded in *other income, net*.

Expenditures to third-party service providers related to the delivery of our Value+ services to the real estate vertical increased $3.8 million, which was directly associated with the increased adoption and utilization of our Value+ services, as evidenced by the $10.6 million increase in Value+ services revenue to the real estate vertical. Personnel-related costs, including performance-based compensation, necessary to support growth and key investments, increased $2.9 million. Allocated shared and other costs increased by $0.3 million primarily driven by a $0.8 million increase in hosting-related, payment processing and other costs incurred in support of our overall growth, partially offset by a $0.5 million reduction of allocated expenses attributed to a decrease in workplace-related and other expenditures in response to the impact of the COVID-19 pandemic.

As a percentage of revenue, cost of revenue (exclusive of depreciation and amortization) fluctuates primarily based on the mix of Value+ services revenue in the period, given the varying percentage of revenue we pay to third-party service providers, and investments made in advance of expected revenue generation. For the three months ended March 31, 2021, cost of revenue (exclusive of depreciation and amortization), as a percentage of revenue, increased to 42.0% from 40.4% for the three months ended March 31, 2020. This increase in cost as a percentage of revenue was primarily driven by the mix of Value+ services revenue with varying underlying third-party costs.

Sales and Marketing

	Three Months Ended March 31,		Change	
	2021	2020	Amount	%
	(dollars in thousands)			
Sales and marketing	$ 16,179	$ 14,506	$ 1,673	12 %
Percentage of revenue	20.5 %	20.0 %		

Sales and marketing expense related to our software and solutions offered to the real estate vertical for the three months ended March 31, 2021 and 2020 was $16.1 million and $12.4 million, respectively, an increase of $3.7 million, or 30%. This increase was primarily due to a $2.7 million increase in personnel-related costs, including performance-based compensation, necessary to support growth and key investments in the business. Advertising and promotion costs increased by $1.3 million due to increased online advertising and virtual marketing events aimed at increasing revenue and supporting growth in the business. In addition, there was a decrease in allocated shared and other costs of $0.3 million primarily related to a $0.5 million decrease in costs due to the elimination of event-related travel and the reduction of workplace-related and other non-essential expenditures in response to the impact of the COVID-19 pandemic, partially offset by an increase in other costs of $0.2 million in support of our overall growth. The remaining sales and marketing expense was attributed to our legacy legal vertical and such costs were reimbursed through our ongoing Transition Services Agreement and recorded in *other income, net*.

As a percentage of revenue, sales and marketing expense increased to 20.4% from 19.1% for the three months ended March 31, 2021 compared to he three months ended March 31, 2020. This increase was primarily driven by personnel-related investments made in advance of expected revenue generation associated with growth initiatives in the business.

Research and Product Development

	Three Months Ended March 31,		Change	
	2021	2020	Amount	%
	(dollars in thousands)			
Research and product development	$ 14,383	$ 11,212	$ 3,171	28 %
Percentage of revenue	18.2 %	15.5 %		

Research and product development expense related to our software and solutions offered to the real estate vertical for the three months ended March 31, 2021 and 2020 was $14.3 million and $9.9 million, respectively, an increase of $4.4 million, or 44%. This increase was the result of an increase in personnel-related costs, net of capitalized software development costs, of $4.7 million due to investments in headcount growth within our research and product development organization. This increase was partially offset by a decrease in allocated shared and other costs of $0.3 million primarily related to the reduction of workplace-related and other non-essential expenditures in response to the impact of the COVID-19 pandemic. The remaining research and development expense was attributed to our legacy legal vertical and such costs were reimbursed through our ongoing Transition Services Agreement and recorded in *other income, net*.

General and Administrative

	Three Months Ended March 31,		Change	
	2021	2020	Amount	%
	(dollars in thousands)			
General and administrative	$ 13,361	$ 8,572	$ 4,789	56 %
Percentage of revenue	16.9 %	11.8 %		

General and administrative expense related to our software and solutions offered to the real estate vertical and general corporate overhead expenses for three months ended March 31, 2021 and 2020 was $13.4 million and $8.5 million, respectively, an increase of $4.9 million, or 58%. The increase in general and administrative expense was primarily due to a $1.2 million accrual made in connection with long-term executive cash incentive plans for certain executives and a $2.9 million increase in other personnel-related costs, including performance-based compensation, due to investments in headcount growth within our general and administrative organizations. Allocated shared and other costs increased $0.8 million primarily due to an increase in professional services fees.

Depreciation and Amortization

	Three Months Ended March 31,		Change	
	2021	2020	Amount	%
	(dollars in thousands)			
Depreciation and amortization	$ 7,369	$ 6,414	$ 955	15 %
Percentage of revenue	9.3 %	8.8 %		

Depreciation and amortization expense related to our software and solutions offered to the real estate vertical for the three months ended March 31, 2021 and 2020 was $7.4 million and $5.8 million, respectively, an increase of $1.6 million, or 28%. This increase in depreciation and amortization expense was primarily due to increased amortization expense associated with higher accumulated capitalized software development balances.

Other Income, net

	Three Months Ended March 31,		Change	
	2021	2020	Amount	%
	(dollars in thousands)			
Other income, net	$ 562	$ 22	$ 540	*
Percentage of revenue	0.7 %	— %		

*Percentage not meaningful

Other income, net related to our software and solutions offered to the real estate vertical for the three months ended March 31, 2021 and 2020 was $562 thousand and $22 thousand, respectively, an increase of $540 thousand. The increase in other income, net was primarily due to $429 thousand in other income recorded during the three months ended March 31, 2021 related to certain post-closing transition services provided to MyCase.

(Benefit from) Provision for Income Taxes

	Three Months Ended March 31,		Change	
	2021	2020	Amount	%
	(dollars in thousands)			
(Benefit from) provision for income taxes	$ (5,533)	$ 375	$ (5,908)	*
Percentage of revenue	(7.0)%	0.5 %		

*Percentage not meaningful

For the three months ended March 31, 2021 and 2020, we recorded an income tax benefit of $5.5 million and income tax expense of $0.4 million, respectively. The effective tax rate as compared to the U.S. federal statutory rate of 21% differs primarily due to the significance of the benefits associated with stock-based compensation expense and research and development tax credits in relation to the forecasted pre-tax results for the year.

Liquidity and Capital Resources

Our principal sources of liquidity continue to be comprised of our cash, cash equivalents, investment securities, as well as cash flows generated from our operations. As of March 31, 2021, our cash, cash equivalents, and investment securities had an aggregate balance of $159.9 million. We have financed our operations primarily through cash generated from operations. We believe that our existing cash and cash equivalents, investment securities, and cash generated from operating activities will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months.

Our future capital requirements will depend on many factors, including continued market acceptance of our software solutions, changes in the number of our customers, adoption and utilization of our Value+ services by new and existing customers, the timing and extent of the introduction of new core functionality, products and Value+ services, the timing and extent of our expansion into adjacent or new markets, the timing and extent of our investments across our organization, and the impact of the COVID-19 pandemic on the customers we serve and on our business. In addition, we have in the past entered into, and may in the future enter into, arrangements to acquire or invest in new technologies or markets adjacent to those we serve today or entirely new verticals. Furthermore, our Board of Directors has authorized our management to repurchase up to $100.0 million of shares of our Class A common stock from time to time. To date, we have repurchased $4.2 million of our Class A common stock under the Share Repurchase Program. For additional information regarding our share repurchase program, refer to Note 10, *Share Repurchase Program,* of our Condensed Consolidated Financial Statements.

Cash Flows

The following table summarizes our cash flows for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2021	2020
Net cash (used in) provided by operating activities	$ (4,437)	$ 3,083
Net cash (used in) provided by investing activities	(87,190)	5,729
Net cash (used in) provided by financing activities	(3,892)	32,156
Net (decrease) increase in cash, cash equivalents and restricted cash	$ (95,519)	$ 40,968

Cash (Used in) Provided by Operating Activities

Our primary source of operating cash inflows is cash collected from our customers in connection with their use of our core solutions and Value+ services. Our primary uses of cash from operating activities are for personnel-related expenditures and third-party costs incurred to support the delivery of our software solutions.

For the three months ended March 31, 2021, net cash used in operating activities was $4.4 million resulting from income of $0.5 million, non-cash charges of $4.9 million and a net decrease in our operating assets and liabilities of $9.8 million. The non-cash charges primarily consist of an increase in deferred taxes of $5.7 million, $7.4 million of depreciation and amortization costs, stock-based compensation expense of $2.8 million, and $0.7 million of amortization of operating lease right-of-use ("ROU") assets. The net decrease in our operating assets and liabilities was mostly attributable to a $6.5 million decrease in income taxes payable primarily driven by income taxes paid due to the MyCase Transaction, a $3.8 million decrease in accrued expenses which was primarily due to a $4.3 million settlement paid during the current period related to the FTC Investigation, and a $1.9 million increase in accounts receivable primarily driven by growth of our Value+ services. These decreases were partially offset by a $1.2 million increase in accrued employee expenses-noncurrent due to an increase in accrued long-term management bonuses made in connection with long-term executive cash incentive plans for certain executives, a $0.9 million increase in accounts payable, a $0.7 million increase in accrued employee expenses primarily due to an increase in other short-term accrued management bonuses, and a $0.3 million increase in deferred revenue driven by growth in the number of customers invoiced during the period.

For the three months ended March 31, 2020, net cash provided by operating activities was $3.1 million resulting from net income of $2.0 million, adjusted by non-cash charges of $8.8 million and a net decrease in our operating assets and liabilities of $7.7 million. The non-cash charges primarily consist of $6.4 million of depreciation and amortization costs, $1.1 million of amortization of operating lease ROU assets, stock-based compensation expense of $1.0 million, and a decrease in deferred taxes of $0.4 million. The net decrease in our operating assets and liabilities was mostly attributable to a $5.4 million decrease in accrued employee expenses primarily due to the payout of accrued employee bonuses and commissions, an increase of $2.8 million in prepaid expenses and other current assets, and a $1.6 million increase in accounts receivable primarily driven by growth of our Value+ services. These decreases were partially offset by a $0.8 million increase in operating lease liabilities, a $0.7 million increase in accrued expenses and a $0.7 million increase in deferred revenue.

Cash (Used in) Provided by Investing Activities

Cash (used in) provided by investing activities is generally comprised of purchases of investment securities, maturities and sales of investment securities, purchases of property and equipment, and additions to capitalized software development.

For the three months ended March 31, 2021, investing activities used $87.2 million in cash primarily due to purchases of investment securities of $99.0 million, capitalized software development costs of $6.1 million, and capital expenditures of $0.9 million to purchase property and equipment for the continued growth and expansion of our business. These uses of cash were partially offset by sales and maturities of investment securities of $17.9 million and $1.0 million, respectively.

For the three months ended March 31, 2020, investing activities provided $5.7 million in cash primarily due to sales and maturities of investment securities of $13.9 million and $7.3 million, respectively. These sources of cash were partially offset by capital expenditures of $8.0 million to purchase property and equipment for the continued growth and expansion of our business, capitalized software development costs of $6.8 million for the continued investment in our software development, and purchases of investment securities of $0.6 million.

Cash (Used in) Provided by Financing Activities

Cash (used in) provided by financing activities is generally comprised of proceeds from the exercise of stock options, net share settlements for employee tax withholdings associated with the vesting of RSUs, activities associated with our former Credit Facility, and activities related to the repurchase of our Class A common stock.

For the three months ended March 31, 2021, financing activities used $3.9 million in cash primarily as a result of net share settlements for employee tax withholdings associated with the vesting of RSUs of $4.0 million.

For the three months ended March 31, 2020, financing activities provided $32.2 million in cash primarily as a result of proceeds from the Revolving Facility of $49.4 million, partially offset by net share settlements for employee tax withholdings associated with the vesting of RSUs of $6.5 million, payment of contingent consideration related to the Dynasty acquisition of $6.0 million, and the repurchase of outstanding shares of Class A common stock in the amount of $4.2 million.

Contractual Obligations and Other Commitments

There have been no material changes to our contractual obligations and other commitments as disclosed in our Annual Report.

Off-Balance Sheet Arrangements

As of March 31, 2021, we did not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our Condensed Consolidated Financial Statements and the related notes are prepared in accordance with accounting principles generally accepted in the United States. The preparation of our Condensed Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

There have been no changes to our critical accounting policies and estimates described in our Annual Report that have had a material impact on our Condensed Consolidated Financial Statements and related notes.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, refer to Note 2, *Summary of Significant Accounting Policies*, of our Condensed Consolidated Financial Statements.

Item 3. Qualitative and Quantitative Disclosure about Market Risk

Interest Rate Risk

Investment Securities

As of March 31, 2021, we had cash and cash equivalents of $44.7 million consisting of bank deposits, money market funds, and treasury securities, and $115.1 million of investment securities consisting of United States government agency securities and treasury securities. The primary objective of investing in securities is to support our liquidity and capital needs. We did not purchase these investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure.

Our investment securities are exposed to market risk due to interest rate fluctuations. While fluctuations in interest rates do not impact our interest income from our investment securities as all of these securities have fixed interest rates, changes in interest rates may impact the fair value of the investment securities. Since our investment securities are held as available for sale, all changes in fair value impact our other comprehensive income unless an investment security is considered impaired in which case changes in fair value are reported in other expense. As of March 31, 2021, a hypothetical 100 basis point decrease in interest rates would not have resulted in a material change in the fair value of our investment securities and a hypothetical 100 basis point increase in interest rates would have resulted in a decrease in the fair value of our investment securities of approximately $0.6 million. This estimate is based on a sensitivity model which measures an instant change in interest rates by 100 basis points at March 31, 2021.

Inflation Risk

We have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in inflation rates.

Foreign Currency Risk

We have not been exposed to, nor do we anticipate being exposed to, material risks relating to foreign currency exchange rate fluctuations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the supervision and participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to provide reasonable assurance that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and other procedures designed to provide reasonable assurance that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Based on our management's evaluation, our principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Disclosure Controls

In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Control systems can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in various investigative inquiries, legal proceedings and other disputes arising from or related to matters incident to the ordinary course of our business activities, including actions with respect to intellectual property, employment, regulatory and contractual matters. Although the results of such investigative inquiries, legal proceedings and other disputes cannot be predicted with certainty, we believe that we are not currently a party to any matters which, if determined adversely to us, would, individually or taken together, have a material adverse effect on our business, operating results, financial condition or cash flows. However, regardless of the merit of any matters raised or the ultimate outcome, investigative inquiries, legal proceedings and other disputes may generally have an adverse impact on us as a result of defense and settlement costs, diversion of management resources, and other factors.

For additional information regarding investigatory inquiries and legal proceedings, refer to Note 9, *Commitments and Contingencies*, of our Condensed Consolidated Financial Statements.

Item 1A. Risk Factors

You should consider carefully the risks described below, together with all of the other information included in this Quarterly Report, as well as in our other filings with the SEC, in evaluating our business and/or an investment in our Class A common stock. If any of the following risks actually occur, our business, financial condition, operating results and future prospects could be materially and adversely affected. In that case, the trading price of our Class A common stock may decline and you might lose all or part of your investment. The risks described below are not the only ones we face. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business, financial condition, operating results and prospects.

Please be advised that certain of the risks and uncertainties described below contain "forward-looking statements." See the section of this Quarterly Report entitled "*Cautionary Note Regarding Forward-Looking Statements*" for additional information.

Risks Related to Our Business and Our Industry

Health epidemics, including the COVID-19 pandemic, have had, and could in the future have, a material adverse impact on our operations, the operations of our customers and other business partners, and the markets and communities in which we and our customers and partners operate.

In December 2019, a novel coronavirus disease, referred to as COVID-19, was reported and spread globally, including to every state in the United States. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and on March 13, 2020, the United States government declared a national emergency with respect to COVID-19. The COVID-19 pandemic has had, and another public health crisis or epidemic in the future could have repercussions across local, regional and global economies and financial markets. The outbreak of COVID-19 in many countries, including the United States, has adversely impacted global economic activity and has contributed to volatility in and negative pressure on financial markets. In response to the COVID-19 pandemic, many state, local, and foreign governments have put in place, and others in the future may put in place, travel restrictions, quarantines, shelter-in-place orders, and similar government orders and restrictions, in an attempt to control the spread of the disease. Such restrictions or orders, or the perception that such restrictions or orders could be implemented, have resulted in business closures, work stoppages, slowdowns and delays, work-from-home policies, and cancellation or postponement of events, among other effects that could negatively impact our operations, as well as the operations of our customers and business partners. These potential impacts are only amplified by the length of time they remain in place, as the cumulative effect upon our customers and their businesses may exacerbate the potential harm to our business and results of operations.

Beginning in March 2020, in an effort to protect our employees and comply with applicable government orders, we transitioned our employees to a remote work environment and restricted non-essential employee travel. Our workforce has continued to effectively develop and support our software and services offerings notwithstanding the current environment. We expect to slowly transition employees back to the workplace throughout 2021; however employees will have the option to work remotely for the remainder of the year. If the COVID-19 pandemic once again requires full remote working conditions or otherwise slows our return to the workplace, it could have an adverse impact on the productivity of our employees as they navigate the challenges of daily life during a pandemic, which would harm our business and impede our ability to achieve our strategic objectives. Furthermore, the COVID-19 pandemic may have long-term effects on the nature of the office environment and remote working, which may present operational and workplace culture challenges that may adversely affect our business.

The COVID-19 pandemic has resulted in a rapid rise in unemployment and a sudden decrease in global economic activity, and many businesses have experienced, or are anticipating that they may experience, a significant negative impact on their operating results. Our inability to meet in-person with current or prospective customers, or the cancellation or postponement of company-sponsored events or third-party events at which our products are featured, could have a negative impact on our customer engagement efforts, which could further impact demand in future periods. Furthermore, the demand for our products and services, as well as our operating results, could be adversely impacted due to a number of other factors, including the following:

- customers delaying decisions to adopt our core products, or expand the use of our Value+ services, as they seek to reduce or delay spending in response to the impacts of COVID-19 on their own businesses;
- a complete or partial closure of, or other operational issues at, properties owned by our customers resulting from government restrictions or orders;
- a deterioration in our ability, or the ability of our customers, to operate in affected geographic areas;
- bankruptcies or other financial difficulties facing our customers, which could cause them to delay making payments to us, or result in them terminating or reducing their use of our core products or Value+ services;
- the inability of tenants to meet their obligations to our customers, resulting in tenant evictions or the sale of properties;
- the failure of key business partners to provide services needed for our efficient operations, including with respect to electronic payments and tenant screening;
- a decrease in the reliability or availability of our core products or Value+ services as a result of errors, defects or service interruptions caused by the remote work environment;
- an increase in risks related to cyber-attacks or fraud designed to exploit perceived or actual gaps in security as a result of the remote work environment; and
- a decrease in the availability or utility of our customer service organization caused by the remote work environment.

Any of the factors described above, or any number of other risks related to the COVID-19 pandemic, could disrupt our business, which could have a material adverse impact on our business, operations and financial results. Despite recent approval and initial distribution of vaccines, both the pandemic and the containment and mitigation measures have had and are likely to continue to have an adverse impact on the global and U.S. economies, the severity and duration of which are uncertain. It is likely that government stabilization efforts will only partially mitigate the consequences to the economy. As such, both the pandemic and containment and mitigation measures may adversely affect our business, operations and financial condition by, among other things, reducing demand for our core solutions and/or Value+ services, impairing the productivity of our workforce, and reducing our access to capital. The extent to which the COVID-19 pandemic will impact our business, financial conditions, and results of operations in the future is highly uncertain and will be affected by a number of factors. These include the duration and extent of the pandemic, the duration and extent of imposed or recommended containment and mitigation measures, the extent, duration, and effective execution of government stabilization and recovery efforts, including those from the successful distribution of effective vaccines.

We manage our business to achieve long-term growth, which may not be consistent with the short-term expectations of some investors.

We plan to continue to manage our business towards the achievement of long-term growth to positively impact long-term value, and not towards the realization of short-term metrics or short-term value. We will make product decisions and pursue opportunities that may reduce our short-term operating results if we believe that these decisions are consistent with our strategic objective to achieve long-term growth. These decisions may not be consistent with the short-term expectations of some investors, and may cause significant fluctuations in our operating results and our stock price from period to period. In addition, notwithstanding our intention to make strategic decisions that positively impact long-term value, the decisions we make may not produce the long-term benefits we expect. Our principal stockholders, some of whom also serve as our directors and executive officers, control a majority of the combined voting power of our outstanding capital stock. As a result, they control the election of a majority of our directors and thereby have the power to control our affairs and policies, including the appointment of management and strategic decisions, as well as matters that are submitted to a vote by our holders of our common stock. The interests of our principal stockholders may be inconsistent with or adverse to those of holders our Class A common stock.

Failure to manage our growth effectively could adversely affect our operating results and preclude our achievement of our strategic plans.

We anticipate that we will continue to experience growth and expansion of our operations. This growth in the size, complexity and diversity of our business has placed, and we expect it will continue to place, a significant strain on our management, administrative, operational and financial resources, as well as our company culture. Our future success will depend, in part, on our ability to manage this growth effectively, which we expect to be more challenging in the current environment as we seek to continue to respond to the uncertainty and disruption caused by the COVID-19 pandemic. To manage the expected growth of our operations, we will need to continue to develop and improve our operational and financial controls and our reporting systems and procedures, attract and retain highly qualified and motivated personnel across our organization, and nurture and build on our company culture. Failure to effectively manage growth could adversely impact our business, including by resulting in errors or delays in deploying new core functionality to our customers, delays or difficulties in introducing new Value+ services or other products, declines in the quality or responsiveness of our customer service organization, exposure to legal, regulatory and operational risks inherent in our business and resulting from any new products or services we provide to our customers or to our customers' customers, increases in costs and operating expenses, and other operational difficulties. If any of these risks actually occur, it could adversely affect our operating results, and preclude us from achieving our strategic objectives.

We expect to make substantial investments across our organization to grow our business and may not sustain profitability.

In order to implement our business and growth strategy, we have made and will continue to make substantial investments across our organization and, as a result, we expect our expenses to increase significantly and we may not be consistently profitable. For example, we intend to continue to make substantial investments in, among other things: our research and product development organization to enhance the ease of use and functionality of our software solutions and develop new products; our continued efforts to identify acquisition targets that enhance the depth and/or functionality of our software solutions or Value+ services; our customer service organization to deepen our relationships with our customers and promote customer retention; our sales and marketing organization, including expansion of our direct sales organization and marketing programs, to increase the size of our customer base and increase adoption and utilization of new and existing Value+ services by our new and existing customers; maintaining and expanding our technology infrastructure and operational support to promote the security and availability of our software solutions; our general and administrative functions, to support our growth and assist us in maintaining compliance with legal, regulatory and other compliance-related obligations; and the expansion of our existing facilities, including leasing and building out additional office space, to support our growth and strategic development. Even if we are successful in growing our customer base and increasing revenue from new and existing customers, we may not be able to generate additional revenue in an amount that is sufficient to cover our expenses. We cannot assure you that we will continue to achieve profitability in the near term or that we will sustain profitability on a sequential quarterly basis or over any particular period of time.

Our quarterly results may fluctuate significantly and period-to-period comparisons of our results may not be meaningful.

Our quarterly results, including the levels of our revenue, costs, operating expenses, and operating margins, may fluctuate significantly in the future, and period-to-period comparisons of our results may not be meaningful. Accordingly, the results of any one quarter should not be relied upon as an indication of our future performance. Our focus on managing our business towards the achievement of long-term growth, rather than the realization of short-term metrics, may also exacerbate fluctuations in our quarterly results, which could negatively impact the value of our Class A common stock. We may incur significant losses in a particular period for a number of reasons, and may experience significant fluctuations in our operating results from period to period. These and other factors, including the significant disruption and uncertainty caused by the COVID-19 pandemic, combine to make it difficult for us to accurately forecast our future operating results, which in turn makes it difficult for us to prepare accurate budgets and implement strategic plans. Furthermore, if our quarterly results fall below the expectations of investors or any securities analysts who follow our stock, or below any financial guidance we may provide, the price of our Class A common stock could decline substantially.

Our estimates of market opportunity are subject to significant uncertainty and, even if the markets in which we compete meet or exceed our size estimates, we could fail to increase our revenue or market share.

We determine the level of our investment in various aspects of the business, in part, based on our market opportunity estimates. Market opportunity estimates are subject to significant uncertainty and are based on assumptions and estimates, including our internal analysis and industry experience. Assessing the market for industry-specific, cloud-based business management software is particularly difficult due to a number of factors, including limited available information and rapid evolution of the market. Further, market opportunity estimates sometimes change based on relevant macro-trends and market conditions, or evolving assessment methodologies. The disruptions and impacts caused by the COVID-19 pandemic may ultimately require us to significantly reduce our estimates of the market opportunities in certain markets or industry verticals, which could negatively impact our long-term growth prospects.

Our acquisition of other companies or technologies would subject us to integration risks, as well as risks related to the financing of such acquisitions.

We have acquired, and may in the future acquire, other companies or technologies to complement or expand our software solutions, optimize our technical capabilities, enhance our ability to compete in our targeted vertical, provide an opportunity to expand into an adjacent market or new vertical, or otherwise offer growth or strategic opportunities. For example, in the real estate vertical, we acquired substantially all of the assets of WegoWise in 2018 and completed the acquisition of Dynasty in 2019. The identification, investigation and negotiation of acquisitions may divert the attention of management and cause us to incur various expenses, whether or not they are consummated. We have limited experience acquiring other businesses and we may not be able to effectively integrate acquired assets, technologies, personnel and operations or achieve the anticipated synergies or other benefits from the acquired business due to the inherent risks associated with acquisitions. If an acquisition fails to meet our expectations in terms of its contribution to our overall business strategy or operating results, or if the costs of acquiring or integrating the acquired business exceed our estimates, our business, operating results and financial condition may suffer.

Acquisitions could also subject us to related financing risks. We cannot guarantee that additional financing will be available to us on favorable terms when required, or at all. Acquisitions could result in the issuance of equity securities, which would result in immediate dilution to our stockholders and those securities may have powers, preferences or rights senior to the rights of our Class A common stock. We may incur debt to finance acquisitions, which could impose debt service obligations and restrictions on our ability to operate our business. Our ability to obtain additional capital for acquisitions will depend on numerous factors, including investor and lender demand, our compliance with debt obligations, our historical and forecasted financial and operating performance, our liquidity position, the overall condition of the capital markets, and the global economy as a whole. If we raise funds in the form of debt, we may incur interest expense or other costs to service the debt, we may be required to encumber certain assets, and we may become subject to restrictions on our ability to conduct business, any of which could negatively impact our operating results. Furthermore, a significant portion of the purchase price of companies we may acquire could be allocated to goodwill and other intangible assets, which must be assessed for impairment. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our operating results based on this impairment assessment process, which could adversely affect our operating results.

Security vulnerabilities in our software solutions or a breach of our security controls could result in the loss, theft, misuse, unauthorized disclosure, or unauthorized access to customer or employee data, or other confidential or sensitive information, which could harm our customer and/or employee relationships, expose us to litigation or harm our reputation.

Our business involves the storage and transmission of a significant amount of confidential and sensitive information, including the personal information of our employees and other individuals, customer data, and our proprietary financial, operational and strategic information. In providing our software solutions, we store and transmit large amounts of our customers' data, including sensitive and proprietary data and personal information collected by or on behalf of our customers. Our software solutions are typically the system of record, system of engagement and, increasingly, the system of intelligence for all or a portion of our customers' businesses, and the data processed through our software solutions is critical to their businesses. Like many other businesses, we have experienced, and are continually at risk of being subject to, cyber attacks and data security incidents. As our business grows, the number of users of our software solutions, as well as the amount of information we collect and store, is increasing, and our brands are becoming more widely recognized which makes us an even greater target for malicious activity. There can be no assurance that the security measures we employ will prevent malicious or unauthorized access to our systems and information. Furthermore, no security program can entirely eliminate the risk of human error, such as an employee or contractor's failure to follow one or more security protocols. Therefore, despite our significant efforts to keep our systems, products and networks protected and up to date, we may be unable to anticipate cyber attacks, detect security incidents or react to them in a timely manner, or implement adequate preventive measures, any of which may expose us to a risk of loss, litigation and potential liability. In addition, some of our third-party service providers also collect and/or store our sensitive information and our customers' data on our behalf, and these service providers are subject to similar threats of cyber attacks and other malicious Internet-based activities.

If our security measures, or the security measures of our third-party service providers, are breached as a result of wrongdoing or malicious activity on the part of our employees, our partners' employees, our customers' employees, or any third party, or as a result of any human error or neglect, product defect or otherwise, and this results in the loss, theft, misuse, unauthorized disclosure, or unauthorized access to customer data or other sensitive information, we could incur liability to our customers and to individuals or organizations whose information was being stored by us or our customers, as well as fines from payment processing networks and regulatory action by governmental bodies. If we experience a widespread security breach, we cannot be certain that our insurance coverage will be sufficient to compensate us for liabilities actually incurred or that insurance will continue to be available to us on reasonable terms, or at all. In addition, security breaches could result in reputational damage, adversely affect our ability to attract new customers and cause existing customers to reduce or discontinue the use of our software solutions. Furthermore, the perception by our current or potential customers that our software solutions could be vulnerable to exploitation or that our security measures are inadequate, even in the absence of a particular problem or threat, could reduce market acceptance of our software solutions and cause us to lose customers. The legal and regulatory environment around data security and governance is significantly evolving, and both regulators and consumers are increasingly taking action on data-related matters, which may contribute to increased reputational, economic and other harm in the event of a data security incident.

Service outages and other infrastructure performance problems could harm our reputation and adversely affect our ability to attract and retain customers.

We seek to maintain sufficient excess capacity in our technology infrastructure to meet the needs of all of our customers, including facilitating the expansion of existing customer deployments and the provisioning of new customer deployments. We have experienced, and may in the future experience, website disruptions, service outages and other performance problems with our technology infrastructure. These problems may be caused by a variety of factors, including infrastructure changes, power or network outages, fire, flood or other natural disasters affecting our cloud computing platform providers, human or software errors, viruses, security breaches, fraud or other malicious activity, spikes in customer usage and distributed denial of service attacks. If our technology infrastructure fails to keep pace with the increased number of users and amount of data, or if we are unable to avoid service outages and performance problems, or to resolve them quickly, this could adversely affect our ability to attract new customers, result in the loss of existing customers and harm our reputation, any or all of which could adversely affect our business and operating results.

Errors, defects or other disruptions in our software solutions could harm our reputation, cause us to lose customers, and result in significant expenditures to correct the problem.

Our customers use our software solutions to manage critical aspects of their businesses, and any errors, defects or other disruptions in the performance of our software solutions, including with respect to third party partners upon which certain of our software solutions are dependent, may result in loss of or damage to our customers' data and disruption to our customers' businesses, which could harm our reputation. We provide continuous updates to our software solutions and these updates may contain undetected errors when first introduced. In the past, we have discovered errors, failures, vulnerabilities and bugs in our software updates after they have been released, and similar problems may arise in the future. Real or perceived errors, failures, vulnerabilities or bugs in our software solutions could result in negative publicity, reputational harm, loss of customers, delay in market acceptance of our software solutions, loss of competitive position, withholding or delay of payment to us, claims by customers for losses sustained by them and potential litigation or regulatory action. In any such event, we may be required to expend additional resources in order to help correct the problem or we may choose to expend additional resources to take corrective action even where not required. The costs incurred in correcting any material errors, defects or other disruptions could be substantial and there may not be any corresponding increase in revenue to offset these costs. In addition, we may not carry insurance sufficient to compensate us for any losses that may result from claims arising from errors, defects or other disruptions in our software solutions.

Privacy and data security laws and regulations could impose additional costs and reduce demand for our software solutions.

We store and transmit personal information relating to our employees and other individuals, and our customers use our technology platform to store and transmit a significant amount of personal information relating to their customers, vendors, employees and other industry participants. Federal, state and foreign government bodies and agencies have in the past adopted, and may in the future adopt, laws and regulations regarding the collection, use, processing, storage and disclosure of personal or identifying information obtained from customers and other individuals. For instance, the California Consumer Privacy Act created new data privacy and security rights for California residents and the Virginia Consumer Data Protection Act creates new data privacy and security rights for Virginia residents. Similarly, there are a number of existing and proposed laws and regulations in the European Union and the United States at both the federal and state level, as well as other jurisdictions that could impose new obligations in areas affecting our business. These new obligations could increase the cost and complexity of delivering our services, and divert our managements' attention from pursuing strategic objectives.

In addition to government regulation, privacy advocates and industry groups may propose various self-regulatory standards that may legally or contractually apply to our business. As new laws, regulations and industry standards take effect, and as we expand into new jurisdictions, adjacent markets or, potentially, verticals consistent with our strategic plan, we will need to understand and comply with various new requirements, which may result in significant additional costs. These laws, regulations and industry standards could have negative effects on our business, including by increasing our costs and operating expenses, and/or delaying or impeding our deployment of new or existing core functionality or Value+ services. Failure to comply with these laws, regulations and industry standards could result in negative publicity, subject us to fines or penalties, expose us to litigation, or result in demands that we modify or cease existing business practices. In addition, the costs of compliance with, and other burdens imposed by, such laws, regulations and industry standards may adversely affect our customers' ability or desire to collect, use, process and store personal information using our software solutions, which could reduce overall demand for them. Furthermore, privacy and data security concerns may cause our customers' clients, vendors, employees and other industry participants to resist providing the personal information necessary to allow our customers to use our applications effectively. Any of these outcomes could adversely affect our business and operating results.

We face risks in our electronic payment services business that could adversely affect our business and/or operating results.

In our electronic payments services business, we facilitate the processing of both inbound and outbound payments for our customers. These payments are settled through our sponsoring clearing bank, card payment processors, and other third-party electronic payment services providers that we may contract with from time to time. Our electronic payment services subject us to a number of risks, including, but not limited to, liability for customer costs related to disputed or fraudulent transactions and other incidences of fraud in our electronic payment services ecosystem. In the event that we are found to be in violation of our legal, regulatory or contractual requirements, we may be subject to monetary fines or penalties, cease-and-desist orders, mandatory product changes, or other liabilities that could have an adverse effect on our operating results. Additionally, with respect to the processing of electronic payment transactions by our third-party electronic payment services providers, we are exposed to financial risk. Electronic payment transactions between our customer and another user may be returned for various reasons such as insufficient funds, fraud or stop payment orders. If we or our electronic payment services provider is unable to collect such amounts from the customer's account, we bear the ultimate risk of loss for the transaction amount. Further, there is an overarching risk stemming from the potential widespread adoption of quickly evolving financial technology products, including, for example, blockchain or other distributed ledger technologies, that could materially impact the manner in which payments are processed, the mix of payment methodologies conventionally utilized by payors and payees, and the regulatory framework applicable to such payments. The adoption of disruptive financial technologies could significantly reduce the volume of our electronic payment services business and/or change the transaction costs associated with those payments, thereby reducing our revenue and increasing our associated expenses, which could materially impact our business, financial condition, and operating results.

Evolution and expansion of our electronic payment services may subject us to additional risks and regulatory requirements.

The evolution and expansion of our electronic payment services may subject us to additional risks and regulatory requirements, including, without limitation, laws and regulations governing money transmission and anti-money laundering. These requirements vary throughout the markets in which we operate, and several jurisdictions lack clarity with respect to the application and interpretation of these rules. Our efforts to comply with these rules could require significant management time and effort, as well as significant expenditures, and will not guarantee our compliance with all regulatory requirements, especially given that the applicable regulatory frameworks are constantly changing and subject to evolving interpretation. While we maintain a compliance program focused on applicable laws and regulations throughout our applicable industries, there is no guarantee that we will not be subject to fines, penalties or other regulatory actions in one or more jurisdictions, or be required to adjust our business practices to accommodate future regulatory requirements.

We face risks in our tenant screening services business that could adversely affect our business and/or operating results.

Our tenant screening services business is subject to a number of complex laws that are subject to varying interpretations, including the FCRA and related regulations. The FCRA has recently been the subject of multiple class-based litigation proceedings, as well as numerous regulatory inquiries and enforcement actions. In addition, entities such as the FTC and the Consumer Financial Protection Bureau have the authority to promulgate rules and regulations that may impact our customers and our business, and have made various public statements that tenant screening is an area of focus for such agencies. Although we attempt to structure our tenant screening services to comply with the relevant laws and regulations, we may be found to be in violation of them and we may be subject to routine regulatory inquiries, enforcement actions, class-based litigation or indemnity demands.

As previously disclosed, we received a Civil Investigative Demand from the FTC in December 2018 requesting certain information relating to our compliance with the FCRA in connection with our tenant screening services business (the "FTC Investigation"). On April 30, 2020, the FTC staff informed us of its belief that there was a reasonable basis for asserting claims against us for our alleged failure to comply with certain sections of the FCRA. Notwithstanding our disagreement with the FTC's position and vigorous defense of our position, primarily in an effort to avoid protracted litigation and potential distraction to our business, we entered into settlement negotiations with the FTC in an effort to resolve all claims and allegations arising out of or relating to the FTC Investigation. Those settlement negotiations resulted in a final agreement between the parties that is memorialized in a Stipulated Order for Permanent Injunction and Civil Penalty Judgment filed in the United States District Court for the District of Columbia on January 12, 2021. We admitted no wrongdoing in connection with the settlement, but paid $4.25 million to the FTC in connection therewith.

Due to the large number of tenant screening transactions in which we participate, our potential liability in any enforcement action or a class action lawsuit could have a material impact on our business, especially given that certain applicable laws and regulations provide for fines or penalties on a per occurrence basis. The existence of any such enforcement action or class action lawsuit, whether meritorious or not, may adversely affect our ability to attract customers, result in the loss of existing customers, harm our reputation and cause us to incur defense costs or other expenses.

We use third-party service providers for electronic payment and tenant screening services, and their failure to fulfill their contractual obligations could harm our reputation, disrupt our business and adversely affect our operating results.

We use third-party electronic payment services providers to enable us to provide electronic payment services, and third-party tenant screening services providers to enable us to provide tenant screening services such as background and credit checks to our customers. In some cases, functions necessary to our business are performed on proprietary third-party systems and software to which we have no access. The failure of these service providers to provide us with accurate and timely information, to fulfill their contractual obligations to us, or to renew their contracts with us, could result in direct liability to us, harm our reputation, result in significant disruptions to our business, and adversely affect our operating results.

Our corporate culture has contributed to our success and, if we cannot continue to foster this culture as we grow, we could lose the passion, creativity, teamwork, focus and innovation fostered by our culture.

We believe that our culture has been and will continue to be a key contributor to our success. If we do not continue to develop our corporate culture or maintain our core values as we grow and evolve, we may be unable to foster the passion, creativity, teamwork, focus and innovation we believe we need to support our growth. Any failure to preserve our culture could negatively affect our ability to recruit and retain personnel and to effectively focus on and pursue our strategic objectives. Moreover, liquidity available to our employee security holders could lead to disparities of wealth among our employees, which could adversely impact relations among employees and our culture in general. As we grow and mature as a public company, we may find it difficult to maintain our corporate culture. This difficulty will only be exacerbated by the COVID-19 pandemic, which has resulted in travel restrictions, quarantines, shelter-in-place orders and similar government orders and restrictions that collectively make it more difficult for employees to interact, communicate and innovate.

We depend on highly skilled personnel and, if we are unable to retain or hire additional qualified personnel or if we lose key members of our management team, we may not be able to achieve our strategic objectives and our business may be harmed.

Our success and future growth depend, in part, upon the continued services of our executive officers and other key employees. There may be changes in our executive officers or other key employees resulting from the hiring or departure of these personnel, which may disrupt our business. The loss of one or more of our executive officers or other key employees could have an adverse effect on our business. In addition, to execute our growth plan and achieve our strategic objectives, we must continue to attract and retain highly qualified and motivated personnel across our organization. In particular, in order to continue to enhance our software solutions, add new and innovative core functionality and/or Value+ services, as well as develop new products, it will be critical for us to increase the size of our research and product development organization, including hiring highly skilled software engineers. Competition for software engineers is intense within our industry and there continues to be upward pressure on the compensation paid to these professionals. Further, in order for us to achieve broader market acceptance of our software solutions, grow our customer base, and pursue adjacent markets and, potentially, new verticals consistent with our strategic plan, we will need to continue to increase the size of our sales and marketing and customer service and support organizations. Identifying, recruiting, training and retaining qualified personnel is difficult and requires a significant investment of time and resources.

Many of the companies with which we compete for experienced personnel have greater name recognition and financial resources than we have. In addition, our headquarters are located in Santa Barbara, California, which is not generally recognized as a prominent commercial center, and it is challenging to attract qualified professionals due to our geographic location. As a result, we may have even greater difficulty hiring and retaining skilled personnel than our competitors. If we hire employees from other companies, their former employers may attempt to assert that we or these employees have breached their legal obligations, resulting in a diversion of our time and resources. In addition, prospective and existing employees often consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity awards declines, or if the price of our Class A common stock experiences significant volatility, this may adversely affect our ability to recruit and retain highly skilled employees. If we are unable to attract and retain the personnel necessary to execute our growth plan, we may be unable to achieve our strategic objectives and our operating results may suffer.

The vertical market in which we participate is intensely competitive and our business could be harmed if we do not compete effectively.

The overall market for cloud-based business management software is global, highly competitive and continually evolving in response to a number of factors, including changes in technology, operational requirements, and laws and regulations. While we focus on providing industry-specific, cloud-based business management software solutions to the real estate vertical, we compete with other vertical cloud-based solution providers, as well as with horizontal cloud-based solution providers that provide broad cloud-based solutions across multiple verticals. Our competitors include established vertical software vendors, as well as newer entrants in the market. We also face competition from numerous cloud-based solution providers that focus almost exclusively on one or more point solutions. Continued consolidation among cloud-based providers could lead to significantly increased competition. Many of our competitors and potential competitors are larger and have greater name recognition, longer operating histories, and significantly greater resources. As a result, our competitors may be able to respond more quickly and effectively to new or changing opportunities, technologies, operational requirements and industry standards, as well as to new challenges such as those resulting from the COVID-19 pandemic. In addition, our current and potential competitors may develop, market and sell new technologies with comparable functionality to our software solutions, which could cause us to lose customers, slow the rate of growth of new customers and/or cause us to decrease our prices in order to remain competitive. For all of these reasons, we may not be able to compete effectively against our current and future competitors, which could harm our business.

As the markets for our existing software solutions mature, or as current and future competitors introduce new products or services that compete with ours, we may experience pricing pressure and be unable to renew our subscription agreements with existing customers or increase adoption and usage of our Value+ services, or attract new customers at prices that are consistent with our current pricing model and operating budget. We may ultimately have to change our pricing model or offer pricing incentives which may adversely affect our revenue even if adoption and utilization remain constant. Changes to our pricing model could harm our customer retention rates and our ability to attract new customers, whether in connection with our core solutions or our Value+ services, which could adversely affect our operating results.

Business management software for small and medium-sized businesses ("SMBs") is an evolving market. If the market is smaller than estimated or the transition to or between cloud-based business management software slows, our operating results could be adversely affected.

We provide cloud-based business management software for SMBs in the real estate vertical and will assess entry into new or adjacent markets consistent with our strategic plan. Our success will depend, in part, on the continued widespread adoption by SMBs of cloud-based business management software. The market for industry-specific, cloud-based business management software for SMBs, both generally, and specifically within the real estate market, is evolving and is relatively small. The continued expansion of this market depends on numerous factors, including the cost and perceived value associated with cloud-based business management software relative to disparate point solutions, the willingness of SMBs to transition from their existing software systems or otherwise alter their existing businesses practices, and the ability of cloud-based solution providers to address security, privacy, availability and other concerns. If the widespread adoption of cloud-based business management software by SMBs does not continue, our revenue may increase at a slower rate than we expect and may even decline, which could adversely affect our operating results. In addition, it is difficult to estimate the rate at which SMBs will be willing to transition to or between vertical cloud-based business management software in any particular period, which makes it difficult to estimate the overall size and growth rate of the market for cloud-based business management software at any point in time or to forecast revenue growth or market share. This transition rate may be negatively impacted by the COVID-19 pandemic as customers may delay decisions to adopt our core products, or expand the use of our Value+ services, as they seek to reduce or delay spending within their businesses.

If we are unable to increase sales of our software solutions to larger customers while mitigating the risks associated with serving such customers, our business and operating results may suffer.

While we plan to continue to market and sell our software solutions to smaller companies or firms, our growth strategy is dependent, in part, upon increasing sales of our software solutions to larger customers within the real estate vertical. Sales to larger customers may involve risks that are not present, or are present to a lesser extent, in sales to smaller businesses. As we seek to increase our sales to larger customers, we may invest considerably greater amounts of time and financial resources in our sales and marketing efforts. In addition, we may face longer sales cycles and experience less predictability and greater competition in completing some of our sales. Our ability to sell our software solutions to larger customers may be dependent, in part, on our ability to develop functionality, or to implement pricing policies, that are unique to particular customers or are necessary for success in a market segment dominated by larger customers. Also, because security breaches or other performance problems with respect to larger customers may result in greater economic harm to these customers and more adverse publicity, there is increased financial and reputational risk associated with serving such customers. If we are unable to increase sales of our software solutions to larger customers, while mitigating the risks associated with serving such customers, our business and operating results may suffer.

If we are unable to introduce successful enhancements, including new and innovative core functionality and/or Value+ services, or new products for adjacent markets or additional verticals, our operating results could be adversely affected.

The software industry is characterized by rapid technological advances, changing industry standards, evolving customer requirements and intense competition. Our ability to attract new customers, increase revenue from our existing customers, and expand into adjacent markets or, potentially, new verticals depends, in part, on our ability to enhance the functionality of our existing software solutions by introducing new and innovative core functionality and/or Value+ services that keep pace with technological developments and address the evolving business needs of our customers. In addition, our growth over the long-term depends, in part, on our ability to introduce new products for adjacent markets and, potentially, additional verticals that we identify through our market validation process consistent with our strategic plan. Market acceptance of our current and future software solutions will depend on numerous factors, including the pricing of our software solutions relative to competitive products, perceptions about the security, privacy and availability of our software solutions relative to competitive products, and the time-to-market of our updates and enhancements to our core functionality, Value+ services and products. If we are unable to successfully enhance the functionality of our existing software solutions and timely develop or acquire new products that gain market acceptance in adjacent markets and additional verticals consistent with our strategic plan, our revenue may increase at a slower rate than we expect and may even decline, which could adversely affect our operating results.

Our business depends substantially on existing customers renewing their subscriptions with us and expanding their use of our Value+ services, and a decline in either could adversely impact our operating results.

In order for us to maintain or increase our revenue and improve our operating results, it is important that our existing customers continue to pay subscription fees for the use of our core solutions, which tend to incrementally rise over time, as well as increase their adoption and utilization of our Value+ services. We cannot assure you that our customers will renew their subscriptions with us, that our existing customers will continue to broaden their adoption and utilization of our Value+ services, or that they will use our Value+ services at all. If our existing customers do not renew their subscriptions and increase their adoption and utilization of our existing or newly developed Value+ services, our revenue may increase at a slower rate than we expect and may even decline, which could adversely impact our financial condition and operating results. The loss of our existing customers could have a significant impact on our reputation and our ability to acquire new customers cost-effectively via word-of-mouth. A reduction in the number of our existing customers, even if offset by an increase in new customers, could reduce our revenue and operating margins. We may need to employ increasingly costly sales and marketing efforts and make significant investments in research and product development to introduce Value+ services that ultimately are not broadly adopted by our customers. In either of those cases, we could incur significantly increased costs without a corresponding increase in revenue. Furthermore, we may fail to identify Value+ services that our customers need for their businesses, in which case we could miss opportunities to increase our revenue. We may experience lower rates of subscription renewals, as well as lower rates of adoption and utilization of Value+ services, as a result of the COVID-19 pandemic as customers may seek to reduce or delay spending within their businesses.

All of our revenues are presently generated by sales to customers and users in the real estate vertical, and factors that adversely affect that vertical, or our customers or users within it, could also adversely affect us.

We expect that our real estate customers and users will continue to account for a significant portion or all of our revenue for the foreseeable future. Demand for our software solutions and services could be affected by factors that are unique to and adversely affect the real estate vertical and our customers and users within it. If the vertical itself declines, our customers may decide not to renew their subscriptions or they may cease using our Value+ services in order to reduce costs to remain competitive. Further, we could lose real estate customers as a result of acquisitions or consolidations within the real estate vertical, bankruptcies or other financial difficulties facing our real estate customers, new or enhanced legal or regulatory regimes that negatively impact the real estate vertical, and conditions or trends specific to the real estate vertical such as the economic factors that impact the rental market. It is possible that the significant increase in unemployment rates, regulation and financial uncertainty caused by the COVID-19 pandemic could have a disproportionate impact on businesses within the real estate vertical, which may, in turn, disproportionately affect our customers and users and, therefore, our business, financial condition and operating results. In addition to the foregoing risks, there is an overarching risk stemming from potential widespread adoption of quickly evolving financial or other disruptive technology products that could significantly impact the real estate vertical, even if the disruptive technology is not specifically designed to apply directly to it. The adoption of these new technologies could significantly reduce the volume or demand of our customers and users, thereby reducing our revenue, which could materially impact our business, financial condition and operating results.

Our growth depends in part on our strategic relationships with third parties and, if we are unsuccessful in establishing or maintaining these relationships, our ability to compete in our targeted markets or grow our revenue could be impaired.

In order to grow our business, we anticipate that we will continue to depend on our relationships with third parties, including cloud computing service providers, electronic payment, tenant screening and insurance services providers, and other third parties that support delivery of our software solutions. Identifying partners, negotiating agreements and maintaining relationships requires significant time and resources. Our competitors may be more effective than us in cost-effectively building relationships with third parties that enhance their products and services, allow them to provide more competitive pricing, or offer other benefits to their customers. In addition, acquisitions of our partners by our competitors or others could result in a decrease in the number of current and potential strategic partners willing to establish or maintain relationships with us, and could increase the price at which products or services are available to us. If we are unsuccessful in establishing or maintaining our relationships with third parties, our ability to compete in the marketplace or to grow our revenue could be impaired, which could negatively impact our operating results.

We depend on cloud computing platforms and computing infrastructure operated by third parties and any disruption in these operations could adversely affect our operating results.

We currently rely on cloud computing resources operated by Amazon Web Services and other third party cloud computing service providers to power the products and services that we provide to our customers. These cloud computing service providers may experience service interruptions that are outside of our control, possibly even across multiple regions, which could adversely affect our business. Furthermore, they may not be able to provide us with additional computing resources needed to scale our infrastructure ahead of our growing customer base. If any of these issues arise, we may be required to migrate our cloud computing resources, or add new computing resources, to other cloud computing service providers. It may require significant effort to migrate all of our services to a different region if we are forced to recover from a regional, or multi-regional, outage by any of our cloud computing service providers. Problems faced by any of these service providers with whom we contract, or changes in service levels provided by them, could adversely affect the experience of our customers, result in loss of or damage to our customers’ stored information, which could harm our reputation, impair our ability to attract and retain customers, and subject us to potential liability, any of which could adversely affect our operating results.

Our platform must integrate with a variety of devices, operating systems and browsers that are developed by others, and if we are unable to ensure that our software solutions interoperate with such devices, operating systems and browsers, our software solutions may become less competitive and our operating results may be harmed.

We offer our software solutions across a variety of operating systems and through the Internet. We depend on the interoperability of our platform with third party devices, desktop and mobile operating systems, as well as web browsers that we do not control. Any changes in such devices, systems or web browsers that degrade the functionality of our software solutions or give preferential treatment to competitive services could adversely affect the adoption and usage of our software solutions. In addition, in order to deliver high quality software solutions, we will need to continuously enhance and modify our functionality to keep pace with changes in Internet-related hardware, mobile operating systems such as iOS and Android, browsers and other software, communication, network and database technologies. We may not be successful in developing enhancements and modifications that operate effectively with these devices, operating systems, web browsers and other technologies or in bringing them to market in a timely manner. Furthermore, uncertainties regarding the timing or nature of new network platforms or technologies, and modifications to existing platforms or technologies, could increase our research and product development expenses. In the event that it is difficult for our customers to access and use our software solutions, our software solutions may become less competitive, and our operating results could be adversely affected.

If our property management customers stop requiring residents to provide proof of legal liability to landlord insurance, if insurance premiums decline or if insureds experience greater than expected losses, our operating results could be harmed.

We generate revenue by offering legal liability to landlord insurance through a wholly owned subsidiary. Some of our property management customers require residents to provide proof of legal liability to landlord insurance and offer to enroll residents in their legal liability to landlord insurance policy. If demand for rental housing declines, or if our property management customers believe that it may decline, these customers may reduce their rental rates and stop requiring residents to provide proof of legal liability to landlord insurance in order to reduce the overall cost of renting and make their rental offerings more competitive. If our property management customers stop requiring residents to provide proof of legal liability to landlord insurance or elect to enroll residents in insurance programs offered by competing providers, or if insurance premiums otherwise decline, our revenues from insurance services could be adversely affected. Additionally, we underwrite our legal liability to landlord insurance policies, and we are required by our insurance partner to maintain a reserve to cover potential claims under the policies. While our policies have per-occurrence limits, there is no limit on the dollar amount of claims that could be made against us in any particular period or in the aggregate. In the event that claims by the insureds increase unexpectedly, our reserve may not be sufficient to cover our resulting liability under the policies. If we are required to pay out significantly higher amounts to insureds than our current reserves, this could have a material adverse impact on our operating results.

Our insurance business is subject to state governmental regulation, which could limit the growth of our insurance business and impose additional costs on us.

Our insurance-related wholly owned subsidiaries and third-party service providers maintain licenses with a number of individual state departments of insurance. Collectively, we are subject to state governmental regulation and supervision in connection with the operation of our insurance business, which includes both our legal liability to landlord insurance and renters insurance businesses. Such supervision could limit the growth of our insurance business by increasing the costs of regulatory compliance, limiting or restricting the products or services we provide or the methods by which we provide them, and subjecting us to regulatory actions or proceedings. Our continued ability to maintain these insurance licenses in the jurisdictions in which we are licensed depends on our compliance with the rules and regulations promulgated from time to time by the regulatory authorities in each of these jurisdictions. Furthermore, we are routinely subject to periodic state examinations, audits and investigations of the affairs of insurance companies and agencies, any of which could result in the expenditure of significant management time or financial resources. Generally, such authorities are vested with relatively broad discretion to grant, renew and revoke licenses and approvals and to implement and interpret rules and regulations. Accordingly, we may be precluded or temporarily suspended from carrying on some or all of the activities of our insurance business or otherwise be fined or penalized. No assurances can be given that our insurance business can continue to be conducted in any given jurisdiction as it has been conducted in the past or that we will be able to expand our insurance business in the future.

If we are unable to deliver effective customer service and/or effectively maintain and promote our brands, it could harm our relationships with our existing customers and adversely affect our ability to attract new customers and our operating results.

Our business depends, in part, on our ability to satisfy our customers, both by providing software solutions that address their business needs, and by providing onboarding services and ongoing customer service. Once our software solutions are deployed, our customers depend on our customer service organization to resolve technical issues relating to their use of our solutions. As we do not separately charge our customers for support services, increased demand for our support services would increase costs without corresponding revenue, which could adversely affect our operating results. Further, our sales process is highly dependent on the ease of use of our software solutions, our reputation and positive recommendations from our existing customers. Any failure to maintain high-quality or responsive customer service, or a market perception that we do not maintain high-quality or responsive customer service, could harm our reputation, cause us to lose customers and adversely impact our ability to sell our software solutions to prospective customers.

We believe that maintaining and promoting our brands is critical to achieving widespread awareness and acceptance of our software solutions, and maintaining and expanding our customer base. We also believe that the importance of brand recognition will increase as competition in the real estate vertical increases. If we do not continue to build awareness of our brands, we could be placed at a competitive disadvantage as compared to companies whose brands are, or become, more recognizable than ours. Maintaining and promoting our brands will depend, in part, on our ability to continue to provide new and innovative core functionality and Value+ services and best-in-class customer service, as well as the effectiveness of our sales and marketing efforts. If we fail to deliver products and functionality that address our customers' business needs, or if we fail to meet our customers' expectations for customer service, it could weaken our brands and harm our reputation. Maintaining and enhancing our brands may require us to make substantial investments, and these investments may not result in commensurate increases in our revenue. If we fail to successfully maintain and promote our brands, or if we make investments that are not offset by increased revenue, our operating results could be adversely affected.

Failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brands, which could harm our business.

We currently rely on patent, trademark, copyright and trade secret laws, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to protect our intellectual property rights. Our success and ability to compete depend, in part, on our ability to continue to protect our intellectual property, including our proprietary technology and our brands. If we are unable to protect our proprietary rights adequately, our competitors could use the intellectual property we have developed to enhance their own products and services, which could harm our business. In order to monitor and protect our intellectual property rights, we may be required to expend significant resources. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management, and could result in the impairment or loss of portions of our intellectual property or require us to pay costly royalties. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Accordingly, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property. Our failure to secure, protect and enforce our intellectual property rights could adversely affect our business and operating results.

We may be sued by third parties for alleged infringement of their proprietary rights, which could cause us to incur significant expenses and require us to pay substantial damages.

Our success depends, in part, on our not infringing upon the intellectual property rights of others. Our competitors, as well as a number of other entities and individuals, may legally own or claim to own intellectual property relating to our technology or software solutions, including without limitation technology we develop and build internally and/or acquire. From time to time, our competitors or other third parties may claim that we are infringing upon their intellectual property rights. Any claims or litigation, regardless of merit, could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages, settlement costs or ongoing royalty payments, require that we comply with other unfavorable license and other terms, or prevent us from offering our software solutions in their current form. Even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the attention of our management and key personnel from our business operations and harm our operating results.

Our software solutions contain both third-party and open source software, which may pose risks to our proprietary source code and/or introduce security vulnerabilities, and could have a negative impact on our business and operating results.

We use open source software in our software solutions and expect to continue to do so in the future. The terms of many open source licenses to which we are subject have not been interpreted by United States or foreign courts, and there is a risk that open source licenses could be construed in a manner that imposes unanticipated conditions, restrictions or costs on our ability to provide or distribute our software solutions. Additionally, we may from time to time face claims from third parties alleging ownership of, or demanding release of, the open source software or of derivative works that we developed using such software, which could include our proprietary source code, or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation, which could be costly for us to defend, and could require us to make our source code freely available, purchase a costly license or cease offering the implicated functionality unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional research and product development resources, and we may not be able to complete it successfully or in a timely manner. In addition to risks related to license requirements, usage of certain open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of software. We also use third-party commercial software in our software solutions and expect to continue to do so in the future. Third-party commercial software is developed outside of our direct control and may introduce security vulnerabilities that may be difficult to anticipate or mitigate. Further, there is no guarantee that third-party software developers or open source software providers will continue active work on the third-party software that we use. Should development of in-use third-party software cease, significant engineering effort may be required to create an in-house solution. These risks could also be difficult to eliminate or manage, and could have a negative impact on our business and operating results.

There are risks associated with potential future indebtedness that may adversely affect our financial condition and future financing agreements may contain restrictive operating and financial covenants.

We may incur additional indebtedness in the future and/or enter into new financing arrangements. Our ability to meet expenses, to remain in compliance with the covenants under any future debt instruments, and to pay fees, interest and principal on our indebtedness will depend on, among other things, our operating performance and market conditions. Accordingly, our cash flow may not be sufficient to allow us to pay principal and interest on future indebtedness and meet our other business and customer obligations.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

Under Section 382 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes, such as research tax credits, to offset its post-change income and taxes may be limited. In general, an “ownership change” occurs if there is a cumulative change in our ownership by “5% shareholders” that exceeds 50% over a rolling three-year period. Similar rules may apply under state tax laws. It is possible that our existing net operating loss and/or credit carryforwards may be subject to limitations arising from previous ownership changes, and future issuances of our stock could cause an ownership change. Furthermore, our ability to utilize net operating loss and/or credit carryforwards of companies that we have acquired or may acquire in the future may be subject to limitations. There is also a risk that due to legislative changes, such as suspensions on the use of net operating loss carryforwards, or other unforeseen reasons, our existing net operating loss carryforwards could expire or otherwise be unavailable to offset future income tax liabilities.

Our business may be adversely affected by developments in the global economy, including if we seek to expand our sales to customers outside of the United States.

To date, we have realized an immaterial amount of revenue from customers outside the United States. We may nonetheless be affected by economic, regulatory or other developments in the global economy or particular countries, such as China, because certain of our customers' businesses may be based in or have significant ties to international jurisdictions. This may, for example, affect our ability to meet customer requirements in a cost-effective manner or the ability of our customers to expand their relationships with us. Furthermore, to the extent that we seek to expand our operations to international markets, such expansion will require significant resources and management attention and will subject us to additional regulatory, economic, geographic and political risks. Because of our limited experience with international operations and significant differences between the United States and international markets, any international expansion efforts may not be successful in creating demand for our software solutions outside of the United States or in effectively selling our software solutions in any international markets we may enter. The significant disruptions caused by the COVID-19 pandemic, especially in certain countries in the European Union and Asia, could have a prolonged negative impact on our ability to expand our sales to customers outside the United States. If we invest substantial time and resources to expand our international operations and are unable to do so successfully, our business and operating results could suffer.

Risks Related to Our Class A Common Stock

The market price of our Class A common stock may be volatile or may decline regardless of our operating performance, which could result in substantial losses for our stockholders.

The market price of our Class A common stock has been, and is likely to continue to be, highly volatile, and fluctuations in the price of our Class A common stock could cause you to lose all or part of your investment. There are a wide variety of factors, many of which are outside our control, that could cause fluctuations in the market price of our Class A common stock and, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. If instituted against us, any such litigation, regardless of its merit or final outcome, could result in substantial costs and a diversion of our management's attention, thereby adversely affecting our operating results and/or the price of our Class A common stock.

The dual class structure of our common stock concentrates voting control with a limited number of stockholders, including our executive officers, directors and principal stockholders, effectively limiting your ability to influence corporate matters.

Our Class B common stock has 10 votes per share, and our Class A common stock has one vote per share. As of March 31, 2021, the holders of the outstanding shares of our Class B common stock, including our executive officers, directors, and principal stockholders, collectively held approximately 89% of the combined voting power of our outstanding capital stock. Because of the 10-to-1 voting ratio between our Class B common stock and Class A common stock, the holders of our Class B common stock collectively control a majority of the combined voting power of our outstanding capital stock and therefore control the election of a majority of our directors and thereby have the power to control our affairs and policies, including the appointment of management and strategic decisions, as well as matters that are submitted to a vote by our holders of our common stock. The interests of our principal stockholders may be inconsistent with or adverse to those of holders our Class A common stock. This concentrated control may also have the effect of delaying, deterring or preventing a change-in-control transaction, depriving our stockholders of an opportunity to receive a premium for their capital stock or negatively affecting the market price of our Class A common stock. In addition, transfers by holders of our Class B common stock will generally result in those shares converting to Class A common stock, subject to limited exceptions. The conversion of our Class B common stock to Class A common stock will have the effect, over time, of increasing the relative voting power of the holders of our Class B common stock who retain their shares over the long term.

We cannot predict the impact that our capital structure may have on our stock price.

S&P Dow Jones, a provider of widely followed stock indices, has announced that companies with multiple classes of stock will not be eligible for inclusion in certain of their indices. As a result, our Class A common stock will not be eligible for those stock indices. Additionally, FTSE Russell, another provider of widely followed stock indices, requires new constituents of its indices to have at least five percent of their voting rights in the hands of public stockholders. Many investment funds are precluded from investing in companies that are not included in such indices, and these funds would be unable to purchase our Class A common stock. Exclusion from these and other indices could make our Class A common stock less attractive to investors and, as a result, the market price of our Class A common stock could be adversely affected. In addition, several shareholder advisory firms have announced their opposition to the use of multiple class structures. As a result, shareholder advisory firms may publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure. Any actions or publications by shareholder advisory firms critical of our corporate governance practices or capital structure could also adversely affect the value of our Class A common stock.

Future sales of shares of our Class A common stock, or the perception that these sales could occur, could depress the market price of our Class A common stock.

Sales of a substantial number of shares of our Class A common stock in the public market, or the perception that these sales might occur, could cause the market price of our Class A common stock to decline or make it more difficult for you to sell your Class A common stock at a time and price that you deem appropriate, and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that sales, or the perception that our shares may be available for sale, will have on the prevailing market price of our Class A common stock. As of March 31, 2021, we had an aggregate of 1.1 million options outstanding that, if fully exercised, would result in the issuance of additional shares of Class A common stock or Class B common stock, as applicable. Our Class B common stock converts into Class A common stock on a one-for-one basis. In addition, as of March 31, 2021, we had 0.6 million RSUs, outstanding which, if fully vested and settled in shares, would result in the issuance of additional shares of Class A common stock. All of the shares of Class A common stock issuable upon the exercise of options (or upon conversion of shares of Class B common stock issued upon the exercise of options), or upon the vesting and settlement of RSUs, have been registered for public resale under the Securities Act. Accordingly, these shares will be able to be freely sold in the public market upon issuance. In addition, certain holders of our Class A common stock and Class B common stock have rights, subject to certain conditions, to require us to file registration statements for the public resale of such shares (in the case of Class B common stock, the Class A common stock issuable upon conversion of such shares) or to include such shares in registration statements that we may file for us or other stockholders. Any sales of securities by these stockholders could have a material adverse effect on the market price of our Class A common stock.

We do not expect to declare any dividends in the foreseeable future and may repurchase stock in accordance with our Share Repurchase Program.

We have never declared, and we do not anticipate declaring or paying, any cash dividends to holders of our Class A common stock in the foreseeable future. In addition, the terms of our future borrowing arrangements we may enter into from time to time may restrict our ability to pay dividends. Consequently, investors may need to rely on sales of our Class A common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

Price appreciation, which may never occur, may be further impacted by repurchases of our shares in accordance with our Share Repurchase Program. Repurchases of our shares could increase the volatility of the trading price of our shares, which could have a negative impact on the trading price of our shares. Similarly, the future announcement of the termination or suspension of the Share Repurchase Program, or our decision not to utilize the full authorized repurchase amount under the Share Repurchase Program, could result in a decrease in the trading price of our shares. In addition, the Share Repurchase Program could have the impact of diminishing our cash reserves, which may impact our ability to finance our growth, complete acquisitions and execute our strategic plan. For additional information regarding our Share Repurchase Program, refer to Note 10, *Share Repurchase Program*, of our Condensed Consolidated Financial Statements.

General Risk Factors

Anti-takeover provisions contained in our amended and restated certificate of incorporation and amended and restated bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our amended and restated certificate of incorporation and our amended and restated bylaws contain provisions that could have the effect of rendering more difficult hostile takeovers, change-in-control transactions or changes in our Board of Directors or management. Among other things, these provisions authorize the issuance of preferred stock with powers, preferences and rights that may be senior to our common stock, provide for the adoption of a staggered three-class Board of Directors, prohibit our stockholders from filling vacancies on our Board of Directors or calling special stockholder meetings, require the vote of at least two-thirds of the combined voting power of our outstanding capital stock to approve amendments to our certificate of incorporation or bylaws, and require the approval of the holders of at least a majority of the outstanding shares of our Class B common stock voting as a separate class prior to consummating a change-in-control transaction. As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which may delay, deter or prevent a change-in-control transaction. Section 203 imposes certain restrictions on mergers, business combinations and other transactions between us and holders of 15% or more of our common stock. Any provision of Delaware law, our amended and restated certificate of incorporation, or our amended and restated bylaws that has the effect of rendering more difficult, delaying, deterring or preventing a change-in-control transaction could limit the opportunity for our stockholders to receive a premium for their shares of our capital stock and could also affect the price that some investors are willing to pay for our Class A common stock.

Government regulations and laws are continuously evolving and unfavorable changes could adversely affect our operating results, subject us to litigation or governmental investigation, or otherwise harm our business.

We are subject to general business regulations and laws, as well as regulations and laws specifically governing the highly regulated real estate market, electronic payment, background screening and insurance services markets, the Internet itself, the use of mobile devices to conduct business and communicate, and many other products and services we provide. It is not clear how existing laws governing issues such as property ownership, management, rental and investment, data protection, and personal privacy apply to the Internet, digital content, communication services, web services, and artificial intelligence technologies and services. Unfavorable regulations, laws, and administrative or judicial decisions interpreting or applying those laws and regulations could diminish the demand for, or availability of, our products and services, subject us to litigation or governmental investigation and increase our cost of doing business, any of which may adversely affect our operating results. In addition, the application of federal, state, local and foreign tax laws to services provided electronically is continuously evolving. New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted or amended at any time, possibly with retroactive effect, and could be applied solely or disproportionately to services provided over the Internet. These enactments or amendments could adversely affect our sales activity due to the inherent cost increase such taxes would represent and could ultimately result in a negative impact on our operating results. In addition, existing tax laws, statutes, rules, regulations or ordinances could be interpreted, modified or applied adversely to us, possibly with retroactive effect, which could require us or our customers to pay additional tax amounts, as well as require us or our customers to pay fines or penalties, as well as interest on past amounts. If we are unsuccessful in collecting such taxes due from our customers, we could be held liable for such costs, thereby adversely impacting our operating results.

Item 6. Exhibits

Exhibit Number	Description of Document
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

†	Schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The registrant agrees to furnish supplementally a copy of any omitted schedule or exhibit to the U.S. Securities and Exchange Commission upon request.
*	The certifications attached as Exhibit 32.1 accompany this Quarterly Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed “filed” by the registrant for purposes of Section 18 of the Exchange Act, and are not to be incorporated by reference into any of the registrant’s filings under the Securities Act or the Exchange Act, whether made before or after the date of this Quarterly Report, irrespective of any general incorporation language contained in any such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AppFolio, Inc.

Date:	May 10, 2021	By:	/s/ Ida Kane
			Ida Kane
			Chief Financial Officer
			(Principal Financial and Accounting Officer)

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jason Randall, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AppFolio, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 10, 2021

/s/ Jason Randall
Jason Randall
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ida Kane, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AppFolio, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 10, 2021

/s/ Ida Kane
Ida Kane
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The following certifications are hereby made in connection with the Quarterly Report on Form 10-Q of AppFolio, Inc. (the “Company”) for the period ended March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”):

I, Jason Randall, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, (i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented.

Date:	May 10, 2021	By:	/s/ Jason Randall
			Jason Randall
			President and Chief Executive Officer

I, Ida Kane, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, (i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented.

Date:	May 10, 2021	By:	/s/ Ida Kane
			Ida Kane
			Chief Financial Officer