

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 September 30, 2023.

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)

70 Castilian Drive
Santa Barbara, California
(Address of principal executive offices)

26-0359894
(I.R.S. Employer Identification No.)

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 October 19, 2023, the number of shares of the registrant's Class A common stock outstanding was 21,645,690 and the number of shares of the registrant's Class B common stock outstanding was 14,116,418

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2023 (this "Quarterly Report"), contains forward-looking statements within the meaning of federal securities laws, which statements involve substantial risks and uncertainties. The forward-looking statements made in this Quarterly Report are based primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, operating results, and prospects and relate only to events as of the date on which the statements are made. In some cases, you can identify forward-looking statements because they contain words such as "may," "will," "should," "might," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential," or "continue," or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report and "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 (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. As such, you should not rely upon forward-looking statements as predictions of future events. Examples of forward-looking statements include, among others, statements made regarding changes in the competitive environment, responding to customer needs, research and product development plans, future products and services, growth in the size of our business and number of customers, strategic plans and objectives, business forecasts and plans, our future or assumed financial condition, results of operations and liquidity, trends affecting our business and industry, capital needs and financing plans, capital resource allocation plans, share repurchase plans, and commitments and contingencies, including with respect to the outcome of legal proceedings or regulatory matters. Any forward-looking statement made by us in this Quarterly Report is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report to reflect events or circumstances after the date of this Quarterly Report or to reflect new information or the occurrence of unanticipated events, except as required by law.

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

	September 30, 2023	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	\$ 59,937	\$ 70,769
Investment securities—current	131,589	89,297
Accounts receivable, net	20,359	16,503
Prepaid expenses and other current assets	27,992	24,899
Total current assets	239,877	201,468
Investment securities—noncurrent	—	25,161
Property and equipment, net	27,132	26,110
Operating lease right-of-use assets	19,799	23,485
Capitalized software development costs, net	24,021	35,315
Goodwill	56,060	56,060
Intangible assets, net	2,976	4,833
Other long-term assets	8,735	8,785
Total assets	\$ 378,600	\$ 381,217
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 1,350	\$ 2,473
Accrued employee expenses	42,093	34,376
Accrued expenses	19,979	15,601
Other current liabilities	10,725	8,893
Total current liabilities	74,147	61,343
Operating lease liabilities	41,108	50,237
Other liabilities	689	4,091
Total liabilities	115,944	115,671
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Class A common stock	2	2
Class B common stock	2	2
Additional paid-in capital	232,705	209,704
Accumulated other comprehensive loss	(9)	(1,684)
Treasury stock	(25,756)	(25,756)
Retained earnings	55,712	83,278
Total stockholders' equity	262,656	265,546
Total liabilities and stockholders' equity	\$ 378,600	\$ 381,217

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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue	\$ 165,440	\$ 125,079	\$ 448,615	\$ 347,825
Costs and operating expenses:				
Cost of revenue (exclusive of depreciation and amortization) ⁽¹⁾	62,739	50,707	176,801	141,484
Sales and marketing ⁽¹⁾	29,701	25,644	86,101	77,558
Research and product development ⁽¹⁾	41,592	28,959	116,517	79,966
General and administrative ⁽¹⁾	23,907	19,347	74,417	76,258
Depreciation and amortization	7,568	8,241	22,055	24,977
Total costs and operating expenses	165,507	132,898	475,891	400,243
Loss from operations	(67)	(7,819)	(27,276)	(52,418)
Other (loss) income, net	(249)	4,221	(283)	4,256
Interest income, net	1,788	374	4,627	632
Income (loss) before provision for income taxes	1,472	(3,224)	(22,932)	(47,530)
(Benefit from) provision for income taxes	(24,973)	938	4,634	889
Net income (loss)	\$ 26,445	\$ (4,162)	\$ (27,566)	\$ (48,419)
Net income (loss) per common share:				
Basic	\$ 0.74	\$ (0.12)	\$ (0.78)	\$ (1.39)
Diluted	\$ 0.72	\$ (0.12)	\$ (0.78)	\$ (1.39)
Weighted average common shares outstanding:				
Basic	35,691	35,043	35,567	34,936
Diluted	36,482	35,043	35,567	34,936

⁽¹⁾ Includes stock-based compensation expense as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Stock-based compensation expense included in costs and operating expenses:				
Cost of revenue (exclusive of depreciation and amortization)	\$ 1,149	\$ 789	\$ 2,905	\$ 1,873
Sales and marketing	2,041	2,023	4,902	5,496
Research and product development	6,064	4,330	15,851	11,160
General and administrative	6,003	3,688	16,274	9,680
Total stock-based compensation expense	\$ 15,257	\$ 10,830	\$ 39,932	\$ 28,209

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income (loss)	\$ 26,445	\$ (4,162)	\$ (27,566)	\$ (48,419)
Other comprehensive income (loss):				
Changes in unrealized gains (losses) on investment securities	578	(614)	1,675	(2,359)
Comprehensive income (loss)	<u>\$ 27,023</u>	<u>\$ (4,776)</u>	<u>\$ (25,891)</u>	<u>\$ (50,778)</u>

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 Loss	Treasury Stock	Retained Earnings	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2022	20,569	\$ 2	14,746	\$ 2	\$ 209,704	\$ (1,684)	\$ (25,756)	\$ 83,278	\$ 265,546
Exercise of stock options	64	—	—	—	834	—	—	—	834
Stock-based compensation	—	—	—	—	14,075	—	—	—	14,075
Vesting of restricted stock units, net of shares withheld for taxes	79	—	—	—	(5,539)	—	—	—	(5,539)
Conversion of Class B common stock to Class A common stock	27	—	(27)	—	—	—	—	—	—
Issuance of restricted stock awards	2	—	—	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	763	—	—	763
Net loss	—	—	—	—	—	—	—	(35,110)	(35,110)
Balance at March 31, 2023	20,741	\$ 2	14,719	\$ 2	\$ 219,074	\$ (921)	\$ (25,756)	\$ 48,168	\$ 240,569
Exercise of stock options	95	—	—	—	668	—	—	—	668
Stock-based compensation	—	—	—	—	11,000	—	—	—	11,000
Vesting of restricted stock units, net of shares withheld for taxes	82	—	—	—	(7,717)	—	—	—	(7,717)
Issuance of restricted stock awards	4	—	—	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	334	—	—	334
Net loss	—	—	—	—	—	—	—	(18,901)	(18,901)
Balance at June 30, 2023	20,922	\$ 2	14,719	\$ 2	\$ 223,025	\$ (587)	\$ (25,756)	\$ 29,267	\$ 225,953
Exercise of stock options	59	—	—	—	683	—	—	—	683
Stock-based compensation	—	—	—	—	15,508	—	—	—	15,508
Vesting of restricted stock units, net of shares withheld for taxes	61	—	—	—	(6,511)	—	—	—	(6,511)
Conversion of Class B common stock to Class A common stock	602	—	(602)	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	578	—	—	578
Net income	—	—	—	—	—	—	—	26,445	26,445
Balance at September 30, 2023	21,644	\$ 2	14,117	\$ 2	\$ 232,705	\$ (9)	\$ (25,756)	\$ 55,712	\$ 262,656

	Common Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Treasury Stock	Retained Earnings	Total
	Class A		Class B						
	Shares	Amount	Shares	Amount					
Balance at December 31, 2021	19,417	\$ 2	15,408	\$ 2	\$ 171,930	\$ (194)	\$ (25,756)	\$ 151,397	\$ 297,381
Exercise of stock options	17	—	—	—	100	—	—	—	100
Stock-based compensation	—	—	—	—	7,967	—	—	—	7,967
Vesting of restricted stock units, net of shares withheld for taxes	17	—	—	—	(1,073)	—	—	—	(1,073)
Conversion of Class B common stock to Class A common stock	572	—	(572)	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	(1,345)	—	—	(1,345)
Net loss	—	—	—	—	—	—	—	(14,287)	(14,287)
Balance at March 31, 2022	20,023	\$ 2	14,836	\$ 2	\$ 178,924	\$ (1,539)	\$ (25,756)	\$ 137,110	\$ 288,743
Exercise of stock options	41	—	27	—	503	—	—	—	503
Stock-based compensation	—	—	—	—	10,639	—	—	—	10,639
Vesting of restricted stock units, net of shares withheld for taxes	66	—	—	—	(4,524)	—	—	—	(4,524)
Conversion of Class B common stock to Class A common stock	37	—	(37)	—	—	—	—	—	—
Issuance of restricted stock awards	6	—	—	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	(400)	—	—	(400)
Net loss	—	—	—	—	—	—	—	(29,970)	(29,970)
Balance at June 30, 2022	20,173	\$ 2	14,826	\$ 2	\$ 185,542	\$ (1,939)	\$ (25,756)	\$ 107,140	\$ 264,991
Exercise of stock options	102	—	—	—	1,976	—	—	—	1,976
Stock-based compensation	—	—	—	—	11,665	—	—	—	11,665
Vesting of restricted stock units, net of shares withheld for taxes	32	—	—	—	(1,984)	—	—	—	(1,984)
Conversion of Class B stock to Class A stock	80	—	(80)	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	(614)	—	—	(614)
Net loss	—	—	—	—	—	—	—	(4,162)	(4,162)
Balance as of September 30, 2022	20,387	\$ 2	14,746	\$ 2	\$ 197,199	\$ (2,553)	\$ (25,756)	\$ 102,978	\$ 271,872

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)

	Nine Months Ended September 30,	
	2023	2022
Cash from operating activities		
Net loss	\$ (27,566)	\$ (48,419)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	20,115	23,295
Amortization of operating lease right-of-use assets	1,618	2,498
Impairment, net	—	19,792
Gain on lease modification	(4,281)	—
Deferred income taxes	4	(1,392)
Stock-based compensation, including as amortized	41,872	29,891
Gain on sale of business	—	(4,156)
Other	(1,518)	(86)
Changes in operating assets and liabilities:		
Accounts receivable	(3,857)	(2,579)
Prepaid expenses and other current assets	(763)	(3,159)
Other assets	51	(1,629)
Accounts payable	(1,485)	231
Accrued employee expenses	7,815	(822)
Accrued expenses	4,407	3,991
Taxes payable	(2,960)	(136)
Operating lease liabilities	(3,080)	(1,748)
Other liabilities	(1,272)	3,712
Net cash provided by operating activities	29,100	19,284
Cash from investing activities		
Purchases of available-for-sale investments	(108,919)	(70,394)
Proceeds from sales of available-for-sale investments	1,013	—
Proceeds from maturities of available-for-sale investments	94,252	76,598
Purchases of property and equipment	(5,932)	(5,943)
Capitalization of software development costs	(3,394)	(10,468)
Proceeds from sale of equity-method investment	629	—
Proceeds from sale of business, net of cash divested	—	5,124
Net cash used in investing activities	(22,351)	(5,083)
Cash from financing activities		
Proceeds from stock option exercises	2,185	2,579
Tax withholding for net share settlement	(19,766)	(7,581)
Net cash used in financing activities	(17,581)	(5,002)
Net (decrease) increase in cash, cash equivalents and restricted cash	(10,832)	9,199
Cash, cash equivalents and restricted cash		
Beginning of period	71,019	58,283
End of period	\$ 60,187	\$ 67,482

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):

	September 30,	
	2023	2022
Cash and cash equivalents	\$ 59,937	\$ 67,232
Restricted cash included in other assets	250	250
Total cash, cash equivalents and restricted cash	<u>\$ 60,187</u>	<u>\$ 67,482</u>

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. ("we," "us" or "our") is a leading provider of cloud business management solutions for the real estate industry. Our solutions are designed to enable our customers to digitally transform their businesses, address critical business operations and deliver a better customer experience. Digital transformation is effectively a requirement for business success in the modern world, and the way we work and live requires powerful software solutions.

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 February 9, 2023. 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 nine months ended September 30, 2023 are not necessarily indicative of the results expected for the full year ending December 31, 2023.

Reclassification

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires us 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 financial instruments, capitalized software development 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 (whether cash or stock-based), and assumptions underlying stock-based compensation. Actual results could differ from those estimates and any such differences may have a material impact on our Condensed Consolidated Financial Statements.

Net Income (Loss) per Common Share

Net income (loss) 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 sets forth the computation of basic and diluted net income (loss) per common share (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Basic net income (loss) per share:				
Numerator				
Net income (loss)	\$ 26,445	\$ (4,162)	\$ (27,566)	\$ (48,419)
Less: undistributed earnings to participating securities	5	—	—	—
Net income (loss) attributable to common stockholders	\$ 26,440	\$ (4,162)	\$ (27,566)	\$ (48,419)
Denominator				
Weighted average common shares outstanding	35,697	35,049	35,574	34,941
Less: Weighted average unvested restricted shares subject to repurchase	6	6	7	5
Weighted average common shares outstanding; basic	35,691	35,043	35,567	34,936
Net income (loss) per common share; basic	\$ 0.74	\$ (0.12)	\$ (0.78)	\$ (1.39)
Diluted net income (loss) per share:				
Numerator				
Net income (loss) attributable to common stockholders	\$ 26,440	\$ (4,162)	\$ (27,566)	\$ (48,419)
Denominator				
Weighted average common shares outstanding; basic	35,691	35,043	35,567	34,936
Add: Weighted average dilutive options outstanding	306	—	—	—
Add: Weighted average dilutive RSUs outstanding	485	—	—	—
Weighted average common shares outstanding; diluted	36,482	35,043	35,567	34,936
Net income (loss) per common share; diluted	\$ 0.72	\$ (0.12)	\$ (0.78)	\$ (1.39)

Potentially dilutive securities that are not included in the calculation of diluted net income (loss) per share because doing so would be antidilutive are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Unvested Restricted Stock Awards	6	6	6	6
Options	120	659	418	659
Restricted Stock Units	—	1,187	1,214	1,187
Total potentially dilutive securities	126	1,852	1,638	1,852

Recent Accounting Pronouncements Adopted

In October 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2021-08, "Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers," which requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with ASC 606, "Revenue from Contracts with Customers," as if the acquirer had originated the contracts. ASU 2021-08 is effective for fiscal years beginning after December 15, 2022, with early adoption permitted. We adopted ASU 2021-08 on January 1, 2023. Adoption did not have an impact on our Condensed Consolidated Financial Statements.

3. Investment Securities and Fair Value Measurements

Investment Securities

Investment securities classified as available-for-sale consisted of the following as of September 30, 2023 and December 31, 2022 (in thousands):

	September 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Agency securities	\$ 11,264	\$ —	\$ (90)	\$ 11,174
Treasury securities	120,801	2	(388)	120,415
Total available-for-sale investment securities	<u>\$ 132,065</u>	<u>\$ 2</u>	<u>\$ (478)</u>	<u>\$ 131,589</u>

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	\$ 17,497	\$ 2	\$ (112)	\$ 17,387
Agency securities	17,507	—	(484)	17,023
Treasury securities	81,605	—	(1,557)	80,048
Total available-for-sale investment securities	<u>\$ 116,609</u>	<u>\$ 2</u>	<u>\$ (2,153)</u>	<u>\$ 114,458</u>

As of September 30, 2023, the decline in fair value below amortized cost basis was not considered other than temporary as it is more likely than not we will hold the securities until maturity or recovery of the cost basis. No allowance for credit losses for available-for-sale investment securities was recorded as of September 30, 2023 or December 31, 2022.

The fair values of available-for-sale investment securities, by remaining contractual maturity, are as follows (in thousands):

	September 30, 2023		December 31, 2022	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 132,065	\$ 131,589	\$ 90,822	\$ 89,297
Due after one year through three years	—	—	25,787	25,161
Total available-for-sale investment securities	<u>\$ 132,065</u>	<u>\$ 131,589</u>	<u>\$ 116,609</u>	<u>\$ 114,458</u>

During the nine months ended September 30, 2023 and 2022, we had sales and maturities of investment securities, as follows (in thousands):

	Nine Months Ended September 30, 2023			
	Gross Realized Gains	Gross Realized Losses	Gross Proceeds from Sales	Gross Proceeds from Maturities
Corporate bonds	\$ 3	\$ —	\$ 1,013	\$ 16,497
Agency securities	—	—	—	6,250
Treasury securities	—	—	—	71,505
Total	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ 1,013</u>	<u>\$ 94,252</u>

	Nine Months Ended September 30, 2022			
	Gross Realized Gains	Gross Realized Losses	Gross Proceeds from Sales	Gross Proceeds from Maturities
Corporate bonds	\$ —	\$ —	\$ —	\$ 28,998
Agency securities	—	—	—	2,250
Treasury securities	—	—	—	45,350
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 76,598</u>

Fair Value Measurements

Recurring Fair Value Measurements

The following tables present our financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2023 and December 31, 2022 by level within the fair value hierarchy (in thousands):

	September 30, 2023		
	Level 1	Level 2	Total Fair Value
Cash equivalents:			
Money market funds	\$ 34,825	\$ —	\$ 34,825
Treasury securities	9,928	—	9,928
Available-for-sale investment securities:			
Agency securities	—	11,174	11,174
Treasury securities	120,415	—	120,415
Total	<u>\$ 165,168</u>	<u>\$ 11,174</u>	<u>\$ 176,342</u>

	December 31, 2022		
	Level 1	Level 2	Total Fair Value
Cash equivalents:			
Money market funds	\$ 41,973	\$ —	\$ 41,973
Treasury securities	1,287	—	1,287
Available-for-sale investment securities:			
Corporate bonds	—	17,387	17,387
Agency securities	—	17,023	17,023
Treasury securities	80,048	—	80,048
Total	<u>\$ 123,308</u>	<u>\$ 34,410</u>	<u>\$ 157,718</u>

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

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.

4. Capitalized Software Development Costs, net

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

	September 30, 2023	December 31, 2022
Capitalized software development costs, gross	\$ 126,979	\$ 129,749
Less: Accumulated amortization	(102,958)	(94,434)
Capitalized software development costs, net	<u>\$ 24,021</u>	<u>\$ 35,315</u>

Capitalized software development costs were \$1.6 million and \$4.5 million for the three months ended September 30, 2023 and 2022, respectively, and \$3.9 million and \$12.8 million for the nine months ended September 30, 2023 and 2022, respectively. Amortization expense with respect to capitalized software development costs totaled \$4.4 million and \$5.9 million for the three months ended September 30, 2023 and 2022, respectively, and \$15.2 million and \$18.0 million for the nine months ended September 30, 2023 and 2022, respectively. During the three and nine months ended September 30, 2023, we disposed of \$2.8 million and \$6.3 million, respectively, of fully amortized capitalized software development costs.

Future amortization expense with respect to capitalized software development costs as of September 30, 2023 is estimated as follows (in thousands):

Years Ending December 31,	
2023	\$ 4,116
2024	12,500
2025	5,547
2026	1,781
2027	77
Total amortization expense	<u>\$ 24,021</u>

5. Intangible Assets, net

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

	September 30, 2023			
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Useful Life in Years
Customer relationships	\$ 1,670	\$ (1,615)	\$ 55	5.0
Database	4,710	(2,237)	2,473	10.0
Technology	6,539	(6,539)	—	4.0
Trademarks and trade names	1,520	(1,443)	77	5.0
Partner relationships	680	(680)	—	3.0
Non-compete agreements	7,340	(6,973)	367	5.0
Domain names	90	(86)	4	5.0
Patents	252	(252)	—	5.0
Total intangible assets, net	\$ 22,801	\$ (19,825)	\$ 2,976	5.8

	December 31, 2022			
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Useful Life in Years
Customer relationships	\$ 1,670	\$ (1,448)	\$ 222	5.0
Database	4,710	(1,884)	2,826	10.0
Technology	6,539	(6,539)	—	4.0
Trademarks and trade names	1,520	(1,211)	309	5.0
Partner relationships	680	(680)	—	3.0
Non-compete agreements	7,340	(5,872)	1,468	5.0
Domain names	90	(82)	8	5.0
Patents	252	(252)	—	5.0
Total intangible assets, net	\$ 22,801	\$ (17,968)	\$ 4,833	4.7

Amortization expense with respect to intangible assets totaled \$0.6 million and \$1.1 million for the three months ended September 30, 2023 and 2022, respectively, and \$1.9 million and \$3.4 million for the nine months ended September 30, 2023 and 2022, respectively. Future amortization expense with respect to intangible assets as of September 30, 2023 is estimated as follows (in thousands):

Years Ending December 31,	
2023	\$ 619
2024	473
2025	471
2026	471
2027	471
Thereafter	471
Total amortization expense	\$ 2,976

6. Accrued Employee Expenses

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

	September 30, 2023	December 31, 2022
Accrued vacation	\$ 13,576	\$ 12,067
Accrued bonuses	9,113	13,806
Accrued severance and related personnel cost	8,722	496
Accrued payroll and other	10,682	8,007
Total accrued employee expenses	\$ 42,093	\$ 34,376

In the nine months ended September 30, 2023, we expensed and paid \$14.9 million of severance related to separation costs associated with our former Chief Executive Officer's Transition and Separation Agreement, dated March 1, 2023 ("Separation Agreement").

In the third quarter of 2023, we accrued \$10.3 million of severance and related personnel costs associated with our workforce reduction. We expect the associated liabilities to be substantially paid out in cash by the end of the fourth quarter of 2023. Refer to Note 12, *Workforce Reduction* for additional information.

7. Leases

Operating leases for our corporate offices have remaining lease terms ranging from one to ten 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. Certain leases contain provisions for property-related costs that are variable in nature for which we are 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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating lease cost	\$ 1,027	\$ 1,254	\$ 3,303	\$ 4,169
Variable lease cost	372	308	1,393	683
Total lease cost	\$ 1,399	\$ 1,562	\$ 4,696	\$ 4,852

Lease-related assets and liabilities were as follows (in thousands):

	September 30, 2023	December 31, 2022
Assets		
Operating lease right-of-use assets	\$ 19,799	\$ 23,485
Liabilities		
Other current liabilities	\$ 3,056	\$ 3,357
Operating lease liabilities	41,108	50,237
Total lease liabilities	\$ 44,164	\$ 53,594

During the second quarter of 2022, we decided to exit and make available for sublease certain leased office spaces. As a result, we recorded an impairment of \$19.4 million consisting of \$15.7 million related to the right-of-use assets and \$3.7 million related to property and equipment associated with our leased office spaces. These charges were recorded in the Condensed Consolidated Statements of Operations.

In January 2023, we entered into an amendment to the lease agreement for our San Diego facility (the "San Diego Lease"). We remeasured the lease liability and recorded a reduction to the lease liability and right-of-use asset using the discount rate at the modification date, which resulted in a gain of \$2.4 million in the Condensed Consolidated Statements of Operations.

In June 2023, we entered into a second amendment to reduce the rentable square footage and our future rental payment obligations under the San Diego Lease pursuant to which we made a one-time payment of \$2.9 million. We again remeasured the lease liability and recorded a reduction to the lease liability using the discount rate at the modification date. As a result, we recorded a gain of \$1.9 million in the Condensed Consolidated Statements of Operations.

In July 2023, we entered into an agreement to sublet one of our office spaces in Santa Barbara through December 31, 2031 (the "Santa Barbara 90 Sublease"). The total rental commitment over the term of the Santa Barbara 90 Sublease is \$6.1 million. We performed impairment testing in accordance with ASC 360, and no impairment related to the right-of-use assets was recorded for the three months ended September 30, 2023.

Future minimum lease payments under non-cancellable leases as of September 30, 2023 were as follows (in thousands):

Years ending December 31,		
2023 ⁽¹⁾	\$	(33)
2024 ⁽¹⁾		5,349
2025		6,168
2026		6,346
2027		6,528
Thereafter		31,090
Total future minimum lease payments		55,448
Less: imputed interest		(11,284)
Total	\$	44,164

⁽¹⁾ Future minimum lease payments for the years ending December 31, 2023 and 2024 are presented net of tenant improvement allowances of \$1.5 million and \$0.5 million respectively.

8. Commitments and Contingencies

Legal Liability to Landlord Insurance

We have a wholly owned subsidiary, Terra Mar Insurance Company, Inc., which was established in connection with reinsuring liability to landlord insurance policies offered to our customers by our third-party service provider. Each policy has a limit of \$100 thousand per incident. We assume a 100% quota share of the liability to landlord insurance policies placed with our customers by 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 estimated liability for reported claims and incurred but not reported claims as of September 30, 2023 and December 31, 2022 was \$3.8 million and \$2.7 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 September 30, 2023 and December 31, 2022 are \$3.1 million and \$4.5 million, respectively, of deposits held with a third party related to requirements to maintain collateral for this insurance service.

Legal Proceedings

From time to time we may become involved in various legal proceedings, investigative inquiries, and other disputes arising from or related to matters incident to the ordinary course of our business activities. We are not currently a party to any matters, nor are we aware of any pending or threatened matters, that we believe would have a material adverse effect on our business, operating results, cash flows or financial condition should such proceedings be resolved unfavorably.

Indemnification

In the ordinary course of business, we may provide indemnification of varying scope and terms to customers, business partners, investors, directors, officers, and other parties with respect to certain matters, including, but not limited to, losses arising out of our breach of any applicable agreements, intellectual property infringement claims made by third parties, and other liabilities relating to or arising from our services or our acts or omissions. 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 not incurred any costs as a result of such indemnification obligations and have not recorded any liabilities related to such obligations in the Condensed Consolidated Financial Statements.

9. Stock-Based Compensation**Stock Options**

A summary of activity in connection with our stock options for the nine months ended September 30, 2023, 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, 2022	516	\$ 12.90	2.7
Options granted	120	129.74	
Options exercised	(218)	9.74	
Options outstanding as of September 30, 2023	<u>418</u>	<u>\$ 47.89</u>	3.4

During the nine months ended September 30, 2023, we granted our Chief Executive Officer 120,000 stock options of our Class A common stock. These stock options vest based on service conditions with one-third vesting at the end of each of the years ending December 31, 2025, 2026 and 2027. No stock options were granted during the nine months ended September 30, 2022.

Our stock-based compensation expense for stock options was \$0.4 million and \$1.0 million for the three and nine months ended September 30, 2023, respectively. There was no stock-based compensation expense for stock options in the same periods in the prior year.

The fair value of stock options granted is estimated on the date of grant using the Black-Scholes option-pricing model. The following table summarizes information relating to our stock options granted during nine months ended September 30, 2023:

Weighted average grant-date fair value per share	\$ 67.23
Weighted average Black-Scholes model assumptions:	
Risk-free interest rate	4.06 %
Expected term (in years)	6.92
Expected volatility	44 %
Expected dividend yield	—

As of September 30, 2023, the total estimated remaining stock-based compensation expense for the aforementioned stock options was \$7.1 million, which is expected to be recognized over a weighted average period of 4.3 years.

Restricted Stock Units

A summary of activity in connection with our RSUs for the nine months ended September 30, 2023, is as follows (number of shares in thousands):

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Unvested as of December 31, 2022	1,162	\$ 116.88
Granted	639	123.25
Vested	(360)	117.04
Forfeited	(227)	115.86
Unvested as of September 30, 2023	<u>1,214</u>	<u>\$ 120.38</u>

Unvested RSUs as of September 30, 2023 were composed of 1.0 million RSUs with only service conditions and 0.2 million PSUs with both service conditions and performance conditions. RSUs granted with only service conditions generally vest over a four-year period. The number of PSUs granted, as included in the above table, assumes achievement of the performance metric at 100% of the performance target. Of the unvested PSUs as of September 30, 2023, 0.1 million are subject to vesting based on the achievement of pre-established performance metrics for the year ending December 31, 2023 and will vest over a three year period, assuming continued employment through each vesting date. The actual number of shares to be issued at the end of the performance period will range from 0% to 142% of the target number of shares depending on achievement relative to the performance metric over the applicable period. The remaining unvested PSUs as of September 30, 2023 are primarily subject to vesting based on the achievement of pre-established performance metrics for three year measurement periods ending December 31, 2023, assuming continued employment throughout the performance period. 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 recognized stock-based compensation expense for the RSUs and PSUs of \$14.8 million and \$11.5 million for the three months ended September 30, 2023 and 2022, respectively, and \$39.0 million and \$29.8 million for the nine months ended September 30, 2023 and 2022, respectively. Excluded from stock-based compensation expense is capitalized software development costs of \$0.3 million and \$0.8 million for the three months ended September 30, 2023 and 2022, respectively, and \$0.6 million and \$2.1 million for the nine months ended September 30, 2023 and 2022, respectively. As of September 30, 2023, the total estimated remaining stock-based compensation expense for the aforementioned RSUs and PSUs was \$103.8 million, which is expected to be recognized over a weighted average period of 2.5 years.

Restricted Stock Awards

A summary of activity in connection with our restricted stock awards ("RSAs") for the nine months ended September 30, 2023 is as follows (number of shares in thousands):

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Unvested as of December 31, 2022	6	\$ 96.33
Granted	6	151.83
Vested	(6)	96.33
Unvested as of September 30, 2023	<u>6</u>	<u>\$ 151.83</u>

We have the right to repurchase any unvested RSAs subject to certain conditions. RSAs vest over a one-year period. Our stock-based compensation expense for RSAs was not material for the periods presented.

As of September 30, 2023, the total estimated remaining stock-based compensation expense for unvested RSAs with a repurchase right was \$0.7 million, which is expected to be recognized over a weighted average period of 0.7 years.

10. Income Taxes

For the three and nine months ended September 30, 2023, we applied the discrete effective tax rate method, as allowed by ASC 740-270-30-18, "Income Taxes—Interim Reporting," to calculate our interim income tax provision. The discrete method is applied when the application of the estimated annual effective tax rate yields an estimate that is not reliable and the

actual effective rate for the year-to-date results represents the best estimate of the annual effective tax rate. We believe that the use of the estimated annual effective tax rate method is not reliable because small changes in the projected ordinary annual income would result in significant variability in the estimated annual effective tax rate. As a result of applying the discrete method approach, we recorded a year-to-date tax expense on our year-to-date pre-tax losses as of September 30, 2023. The income tax expense is predominantly driven by the estimated tax liabilities attributable to certain permanent and temporary tax differences, most notably the capitalization of research and development expenses, without a corresponding deferred tax benefit due to our full valuation allowance position.

For the three and nine months ended September 30, 2023, we recorded income tax benefit of \$(25.0) million and income tax expense of \$4.6 million, respectively, representing an effective tax rate of (1697)% and (20)%, respectively. The effective tax rate as compared to the U.S. federal statutory rate of 21% differs primarily due to the change in valuation allowance against deferred tax assets, non-deductible officers' compensation and state income taxes, partially offset by tax benefits from stock-based compensation and research and development tax credits.

We assess our ability to realize our deferred tax assets on a quarterly basis and we establish a valuation allowance if it is more-likely-than-not that some portion of the deferred tax assets will not be realized. We weigh all available positive and negative evidence, including our earnings history and results of recent operations, scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies.

There were no material changes to our unrecognized tax benefits during the nine months ended September 30, 2023, and we do not expect to have any significant changes to unrecognized tax benefits through the remainder of the year.

11. Revenue and Other Information

The following table presents our revenue categories for the three and nine months ended September 30, 2023 and 2022 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Core solutions	\$ 39,756	\$ 33,940	\$ 115,440	\$ 97,163
Value Added Services	123,188	88,399	326,108	241,349
Other	2,496	2,740	7,067	9,313
Total revenue	\$ 165,440	\$ 125,079	\$ 448,615	\$ 347,825

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

Deferred revenue as of September 30, 2023 and December 31, 2022 was \$1.0 million and \$0.9 million, respectively, and is included in *Other current liabilities* on our Condensed Consolidated Balance Sheets. During the nine months ended September 30, 2023 and 2022, we recognized \$0.8 million and \$2.3 million of revenue, respectively, which were included in the deferred revenue balances as of December 31, 2022 and 2021, respectively.

Remaining Performance Obligations

As of September 30, 2023, the total non-cancelable remaining performance obligations ("RPO") under our contracts with customers was \$30 million, and we expect to recognize revenue on approximately 51% of these RPO over the following 12 months, with the balance to be recognized thereafter.

12. Workforce Reduction

During the three months ended September 30, 2023, we announced a plan to reduce our workforce by 149 employees in order to scale the business more efficiently. Impacted employees were notified in August 2023. There were no workforce reductions during the three and nine months ended September 30, 2022.

The following table presents the total severance and related personnel costs by function, for the three and nine months ended September 30, 2023 (in thousands):

	Severance and Related Personnel Cost
Cost of revenue	\$ 2,367
Sales and marketing	3,795
Research and product development	3,407
General and administrative	2,514
Total ⁽¹⁾	<u>\$ 12,083</u>

⁽¹⁾ Total severance and related personnel costs include \$1.8 million of accelerated stock-based compensation expense recognized during the three months ended September 30, 2023.

The following is a summary of changes in the accrued severance and related personnel cost, within Accrued Employee Expenses on the Condensed Consolidated Balance Sheets (in thousands):

	Accrued Severance and Related Personnel Cost
Balance as of December 31, 2022	\$ —
Severance and related personnel cost	10,278
Cash Payments	<u>(1,801)</u>
Balance as of September 30, 2023	<u>\$ 8,477</u>

The remaining accrued severance will be substantially paid out in cash by the end of the fourth quarter of 2023.

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. 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 our Annual Report, as well as our other public filings with the SEC. Please also refer to the section of this Quarterly Report entitled "Forward-Looking Statements" for additional information.

Overview

We are a leading provider of cloud business management solutions for the real estate industry. Our solutions are designed to enable our property manager customers to digitally transform their businesses, address critical business operations and deliver a better customer experience. Our products assist our customers with an interconnected and growing network of stakeholders in their business ecosystems, including property owners, real estate investment managers, rental prospects, residents, and service providers, and provide key functionality related to critical transactions across the real estate lifecycle, including screening potential tenants, sending and receiving payments and risk mitigation services. AppFolio's intuitive interface, coupled with streamlined and automated workflows, make it easier for our customers to eliminate redundant and manual processes so they can deliver a great experience for their network of stakeholders while improving financial and operational performance.

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 work environment to motivate and develop our valuable human capital. As we navigate the challenges of increased competition for talent, we continue to evolve our compensation and employee reward practices.

Property management units under management. We believe that our ability to increase our number of property management units under management is an indicator of our market penetration, growth, and potential future business opportunities. We define property management units under management as active or committed units under management at the period end date. We had 7.8 million and 7.1 million property management units under management as of September 30, 2023 and 2022, respectively.

Key Components of Results of Operations

Revenue

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

We also offer certain Value Added Services, which are not covered by our subscription fees, on a per-use basis. Usage-based fees are charged either as a percentage of the transaction amount (e.g., for certain of our payment services) or on a flat fee per transaction basis with no minimum usage commitments (e.g., for our tenant screening and risk mitigation services). We recognize revenue for usage-based services in the period the service is rendered. Our payments services fees are recorded gross of the interchange and payment processing related fees. 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 Added Services revenue comes from the use of our payment services, tenant screening services, and risk mitigation services.

We charge our customers for assistance onboarding onto our core solutions and for certain other non-recurring services. We generally invoice for these other services in advance of the services being completed and recognize revenue in the period the service is rendered. We generate revenue from the legacy customers of previously acquired businesses by providing services outside of our property management core solution platform. Revenue derived from these services is recorded in *Other revenue*. As of September 30, 2023 and 2022, we had 19,418 and 18,109 property management customers, respectively.

Costs and Operating Expenses

Cost of Revenue (Exclusive of Depreciation and Amortization). Many of our Value Added Services are facilitated by third-party service providers. Cost of revenue paid to these third-party service providers includes the cost of electronic interchange and payment processing-related services to support our payments services, the cost of credit reporting services for our tenant screening services, and various costs associated with our risk mitigation service providers. These third-party costs vary both in amount and as a percent of revenue for each Value Added Service offering. Cost of revenue also consists of personnel-related costs for our employees focused on customer service and the support of our operations (including salaries, performance-based compensation, benefits, and stock-based compensation), platform infrastructure costs (such as data center operations and hosting-related costs), and allocated shared and other costs. Cost of revenue excludes depreciation of property and equipment, amortization of capitalized software development costs and amortization of intangible assets.

Sales and Marketing. Sales and marketing expense consists of personnel-related costs for our employees focused on sales and marketing (including salaries, sales commissions, performance-based compensation, benefits, and stock-based compensation), 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. 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 for our employees focused on research and product development (including salaries, performance-based compensation, benefits, and stock-based compensation), fees for third-party development resources, and allocated shared and other costs. Our research and product development efforts are focused on expanding functionality and the ease of use of our existing software solutions by adding new core functionality, Value Added Services and other improvements, as well as developing new products and services. We capitalize our software development costs that 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 for employees in our executive, finance, information technology, human resources, legal, compliance, corporate development and administrative organizations (including salaries, performance-based cash compensation, benefits, and stock-based compensation). In addition, general and administrative expense includes fees for third-party professional services (including audit, legal, compliance, and tax services), transaction costs related to sales of subsidiary businesses, regulatory fees, other corporate expenses, impairment of long-lived assets, gains on lease modifications, and allocated shared and other 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 (Loss), Net. Other income (loss), net includes gains and losses associated with the sale of businesses and property and equipment.

Interest Income, Net. Interest income, net 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 cash deposited in our bank accounts.

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

Results of Operations

Revenue

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2023	2022	Amount	%	2023	2022	Amount	%
	(dollars in thousands)							
Core solutions	\$ 39,756	\$ 33,940	\$ 5,816	17 %	\$ 115,440	\$ 97,163	\$ 18,277	19 %
Value Added Services	123,188	88,399	34,789	39 %	326,108	241,349	84,759	35 %
Other	2,496	2,740	(244)	(9)%	7,067	9,313	(2,246)	(24)%
Total revenue	\$ 165,440	\$ 125,079	\$ 40,361	32 %	\$ 448,615	\$ 347,825	\$ 100,790	29 %

The increase in revenue for the three and nine months ended September 30, 2023, compared to the same periods in the prior year, was primarily attributable to an increase in the usage of our payments, tenant screening, and risk mitigation services. During the three and nine month period ended September 30, 2023, we also experienced growth of 10% in the number of property management units under management compared to the same periods in the prior year, which drove growth in users of our subscription and usage-based services.

We expect total revenue for the year ending December 31, 2023 to increase compared to the year ended December 31, 2022 as we continue to add new customers and property management units under management, along with increased adoption and utilization of our Value Added Services.

Cost of Revenue (Exclusive of Depreciation and Amortization)

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2023	2022	Amount	%	2023	2022	Amount	%
	(dollars in thousands)							
Cost of revenue (exclusive of depreciation and amortization)	\$62,739	\$ 50,707	\$ 12,032	24 %	\$ 176,801	\$ 141,484	\$ 35,317	25 %
Percentage of revenue	37.9 %	40.5 %			39.4 %	40.7 %		
Stock-based compensation, included above	\$ 1,149	\$ 789	\$ 360	46 %	\$ 2,905	\$ 1,873	\$ 1,032	55 %
Percentage of revenue	0.7 %	0.6 %			0.6 %	0.5 %		

For the three and nine months ended September 30, 2023, expenditures to third-party service providers related to the delivery of our Value Added Services increased \$8.2 million and \$23.4 million, respectively, compared to the same periods in the prior year. This increase was directly associated with the increased adoption and utilization of our Value Added Services. Personnel-related costs, including stock-based and performance-based compensation, necessary to support growth and key investments, increased \$3.6 million and \$9.8 million for the three and nine months ended September 30, 2023, respectively, compared to the same periods in the prior year. Included in the increase in personnel-related costs was \$2.4 million of severance and related personnel costs associated with the workforce reduction in the third quarter of 2023. Allocated shared and other costs increased by \$2.1 million for the nine months ended September 30, 2023 compared to the same period in the prior year, primarily related to platform infrastructure, software and other costs incurred in support of our overall growth.

As a percentage of revenue, cost of revenue (exclusive of depreciation and amortization) fluctuates primarily based on the mix of Value Added Services revenue in the period, given the varying percentage of revenue we pay to third-party service providers. We expect cost of revenue (exclusive of depreciation and amortization) for the year ending December 31, 2023, to decrease as a percentage of revenue compared to the year ended December 31, 2022, primarily due to changes in product mix.

Sales and Marketing

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2023	2022	Amount	%	2023	2022	Amount	%
	(dollars in thousands)							
Sales and marketing	\$ 29,701	\$ 25,644	\$ 4,057	16 %	\$ 86,101	\$ 77,558	\$ 8,543	11 %
Percentage of revenue	18.0 %	20.5 %			19.2 %	22.3 %		
Stock-based compensation, included above	\$ 2,041	\$ 2,023	\$ 18	1 %	\$ 4,902	\$ 5,496	\$ (594)	(11)%
Percentage of revenue	1.2 %	1.6 %			1.1 %	1.6 %		

Sales and marketing expense for the three and nine months ended September 30, 2023 increased primarily due to increases in personnel-related costs, including stock-based and performance-based compensation, necessary to support growth in the business of \$4.0 million and \$7.4 million compared to the same period in the prior year. Included in the increase in personnel-related costs was \$3.8 million of severance and related personnel costs associated with the workforce reduction in the third quarter of 2023. Advertising costs increased by \$2.1 million for the nine months ended September 30, 2023 compared to the same period in the prior year due to increased promotional activities, which was partially offset by lower allocated shared and other costs.

The decrease in stock-based compensation for the three and nine months ended September 30, 2023 was primarily due to the reversal of expense for unvested equity awards as a result of changes in our leadership team.

We expect sales and marketing expense for the year ending December 31, 2023 to decrease as a percentage of revenue compared to the year ended December 31, 2022, as we continue to leverage headcount efficiencies.

Research and Product Development

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2023	2022	Amount	%	2023	2022	Amount	%
	(dollars in thousands)							
Research and product development	\$ 41,592	\$ 28,959	\$ 12,633	44 %	\$ 116,517	\$ 79,966	\$ 36,551	46 %
Percentage of revenue	25.1 %	23.2 %			26.0 %	23.0 %		
Stock-based compensation, included above	\$ 6,064	\$ 4,330	\$ 1,734	40 %	\$ 15,851	\$ 11,160	\$ 4,691	42 %
Percentage of revenue	3.7 %	3.5 %			3.5 %	3.2 %		

Research and product development expense for the three and nine months ended September 30, 2023 increased primarily due to an increase in personnel-related costs, including stock-based and performance-based compensation, net of capitalized software development costs, of \$11.8 million and \$34.8 million, respectively, compared to the same periods in the prior year. The increase in personnel-related costs was primarily due to headcount growth within our research and product development organization, higher salaries, and \$3.4 million of severance and related personnel costs associated with the workforce reduction in the third quarter of 2023. Allocated shared and other costs also increased by \$1.7 million for the nine months ended September 30, 2023 compared to the same period in the prior year, driven by expenses supporting our growth.

We expect research and product development expenses for the year ending December 31, 2023 to increase as a percentage of revenue compared to the year ended December 31, 2022, as we continue to invest in our research and product development organization to support our strategy to expand the use cases of our product capabilities to the larger customer segment.

General and Administrative

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2023	2022	Amount	%	2023	2022	Amount	%
	(dollars in thousands)							
General and administrative	\$ 23,907	\$ 19,347	\$ 4,560	24 %	\$ 74,417	\$ 76,258	\$ (1,841)	(2)%
Percentage of revenue	14.5 %	15.5 %			16.6 %	21.9 %		
Stock-based compensation, included above	\$ 6,003	\$ 3,688	\$ 2,315	63 %	\$ 16,274	\$ 9,680	\$ 6,594	68 %
Percentage of revenue	3.6 %	2.9 %			3.6 %	2.8 %		

General and administrative expense for the three months ended September 30, 2023 increased compared to the same period in the prior year primarily due to an increase in personnel-related costs, including stock-based and performance-based compensation of \$3.5 million and an increase in allocated shared and other costs of \$1.1 million. The increase in personnel-related costs was primarily due to severance and related personnel costs associated with the workforce reduction in the third quarter of 2023.

General and administrative expense for the nine months ended September 30, 2023 decreased compared to the same period in the prior year primarily due to lease-related asset impairment charges of \$19.8 million recognized in the nine months ended September 30, 2022 that did not recur in 2023. In addition, there was a decrease of \$4.3 million due to gains related to lease modifications for the nine months ended September 30, 2023, compared to the same period in the prior year. This was partially offset by an increase in personnel-related costs, including stock-based and performance-based compensation, in the nine months ended September 30, 2023 of \$21.0 million compared to the same period in the prior year. The increase in personnel-related costs for the nine months ended September 30, 2023 was driven primarily by the separation costs associated with our former Chief Executive Officer's Separation Agreement and the severance related costs associated with the workforce reduction in the third quarter of 2023. For further information see Note 6, *Accrued Employee Expenses*, and Note 12, *Workforce Reduction*, of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

For the three and nine months ended September 30, 2023, stock-based compensation increased due to additional grants to current and new employees and incremental expense associated with the workforce reduction in the third quarter of 2023.

We expect general and administrative expenses for the year ending December 31, 2023 to decrease as a percentage of revenue compared to the year ended December 31, 2022, as we continue to leverage headcount efficiencies.

Depreciation and Amortization

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2023	2022	Amount	%	2023	2022	Amount	%
	(dollars in thousands)							
Depreciation and amortization	\$ 7,568	\$ 8,241	\$ (673)	(8)%	\$ 22,055	\$ 24,977	\$ (2,922)	(12)%
Percentage of revenue	4.6 %	6.6 %			4.9 %	7.2 %		

Depreciation and amortization expense for the three and nine months ended September 30, 2023 decreased, compared to the same periods in the prior year, primarily due to decreased amortization expense associated with capitalized software development and intangible balances.

We expect depreciation and amortization expenses for the year ending December 31, 2023 to decrease as a percentage of revenue compared to the year ended December 31, 2022 due to a decrease in amortization of accumulated capitalized software development balances.

Interest Income, Net

	Three Months Ended September 30, 2023		Change		Nine Months Ended September 30, 2023		Change	
	2023	2022	Amount	%	2023	2022	Amount	%
	(dollars in thousands)							
Interest income, net	\$ 1,788	\$ 374	\$ 1,414	378 %	\$ 4,627	\$ 632	\$ 3,995	632 %
Percentage of revenue	1.1 %	— %			1.0 %	0.2 %		

Interest income for the three and nine months ended September 30, 2023 increased, compared to the same periods in the prior year, primarily due to higher interest rates.

(Benefit from) Provision for Income Taxes

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2023	2022	Amount	%	2023	2022	Amount	%
	(dollars in thousands)							
Income (loss) before provision for income taxes	\$ 1,472	\$ (3,224)	\$ 4,696	(146)%	\$ (22,932)	\$ (47,530)	\$ 24,598	(52)%
(Benefit from) provision for income taxes	\$ (24,973)	\$ 938	\$ (25,911)	*	\$ 4,634	\$ 889	\$ 3,745	*
Effective tax rate	(1,697)%	(29)%			(20)%	(2)%		

*Percentage not meaningful

Our effective tax rates for the three and nine months ended September 30, 2023 differ from the U.S. federal statutory rate of 21% primarily due to the change in valuation allowance against deferred tax assets, non-deductible officers' compensation and state income taxes, partially offset by tax benefits from stock-based compensation and research and development tax credits. Our effective tax rates for the three and nine months ended September 30, 2022 differ from the U.S. federal statutory rate of 21% primarily due to the significance of the benefits associated with stock-based compensation expense, research and development tax credits, offset by the change in the valuation allowance against deferred taxes.

Prior to the three and nine months ended September 30, 2023, we have been calculating our provision for (benefit from) income taxes on a quarterly basis by applying an estimated annual effective tax rate to income/loss from operations adjusted for the tax effect of discrete items recognized during the quarter.

For the three and nine months ended September 30, 2023, we applied the discrete effective tax rate method to calculate our interim income tax provision. The discrete method is applied when the application of the estimate annual effective tax rate yields an estimate that is not reliable and the actual effective rate for the year-to-date results represents the best estimate of the annual effective tax rate. We believe that the use of the estimated annual effective tax rate method is not reliable because small changes in the projected ordinary annual income would result in significant variability in the estimated annual effective tax rate. As a result of applying the discrete method approach, we recorded a year-to-date tax expense on our year-to-date pre-tax losses as of September 30, 2023. The income tax expense is predominantly driven by the estimated tax liabilities attributable to certain permanent and temporary tax differences, most notably the capitalization of research and development expenses, without a corresponding deferred tax benefit due to our full valuation allowance position.

The decrease in our effective tax rate for the three and nine months ended September 30, 2023, as compared to the same period in 2022, is primarily due to the significant increase in our pre-tax income and increase in tax expense attributable to the change in valuation allowance against deferred tax assets, higher non-deductible officers' compensation, state income taxes, and capitalized research and development expenses as required by a change in U.S. tax law effective January 1, 2022.

Liquidity and Capital Resources

Our principal sources of liquidity continue to be cash, cash equivalents, and investment securities totaling \$191.5 million, as well as cash flows generated from our operations. 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 twelve months.

Capital Requirements

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 Added Services by new and existing customers, the timing and extent of the introduction of new core functionality, products and Value Added Services, and the timing and extent of our investments across our organization. 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. Furthermore, our Board of Directors has authorized the repurchase of 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.

Cash Flows

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

	Nine Months Ended September 30,	
	2023	2022
Net cash provided by operating activities	\$ 29,100	\$ 19,284
Net cash used in investing activities	(22,351)	(5,083)
Net cash used in financing activities	(17,581)	(5,002)
Net (decrease) increase in cash, cash equivalents and restricted cash	<u>\$ (10,832)</u>	<u>\$ 9,199</u>

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 Added 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.

The net increase in cash provided by operating activities for the nine months ended September 30, 2023, compared to the same period in the prior year, was primarily due to an increase in cash collections from customers, partially offset by the payment of separation costs in the second quarter of 2023 related to our former Chief Executive Officer's Separation Agreement.

Investing Activities

Cash used in investing activities is generally composed of purchases of investment securities, maturities and sales of investment securities, purchases of property and equipment, and additions to capitalized software development.

The net increase in cash used in investing activities for the nine months ended September 30, 2023, compared to the same period in the prior year, was primarily due to higher purchases of available-for-sale investment securities.

Financing Activities

Cash used in financing activities is generally composed of net share settlements for employee tax withholdings associated with the vesting of equity awards offset by proceeds from the exercise of stock options.

The net increase in cash used in financing activities for the nine months ended September 30, 2023, compared to the same period in the prior year, was primarily due to an increase in net share settlements for employee tax withholdings associated with the vesting of equity awards.

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, 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.

Item 3. Qualitative and Quantitative Disclosure about Market Risk

Interest Rate Risk

Investment Securities

As of September 30, 2023, we had \$131.6 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 (loss) income unless an investment security is considered impaired in which case changes in fair value are reported in other expense. As of September 30, 2023, a hypothetical 100 basis point decrease in interest rates would have resulted in an increase in the fair value of our investment securities of approximately \$0.5 million 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 \$0.5 million. This estimate is based on a sensitivity model which measures an instant change in interest rates by 100 basis points at September 30, 2023.

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 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.

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, labor, 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.

Item 1A. Risk Factors

An investment in our Class A common stock involves risks. Before making an investment decision, you should carefully consider all of the information in this Quarterly Report, including in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Condensed Consolidated Financial Statements and related notes. In addition, you should carefully consider the risks and uncertainties described in the section entitled “Risk Factors” in our Annual Report, which was filed with the SEC on February 9, 2023, as well as in our other public filings with the SEC. If any of the identified risks are realized, our business, financial condition, operating results and prospects could be materially and adversely affected. In that case, the trading price of our Class A common stock may decline, and you could lose all or part of your investment. In addition, other risks of which we are currently unaware, or which we do not currently view as material, could have a material adverse effect on our business, financial condition, operating results and prospects. As of the date of this report, there have been no material changes to the risk factors previously disclosed in the Annual Report. We may, however, disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC.

Item 5. Other Information

On May 5, 2023, Janet Kerr, a member of our Board of Directors, entered into a prearranged stock selling plan for the sale of up to 1,000 shares of the Company's Class A common stock between August 4, 2023 and December 31, 2023. Ms. Kerr's trading plan was entered into during an open insider trading window and was intended to satisfy the affirmative defense of Rule 10b5-1(c) under the Exchange Act of 1934, as amended, and the Company's policies regarding insider transactions. On August 21, 2023, Ms. Kerr's trading plan automatically terminated and expired pursuant to its terms in connection with the completed sale of all 1,000 shares subject to the trading plan.

Item 6. Exhibits

Exhibit Number	Description of Document
10.3	Sublease, by and between the registrant and Google LLC, effective July 10, 2023 (50 Castilian Drive, Goleta, CA 93117).
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 Principal 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 Principal 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)

* 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: October 26, 2023

By: /s/ Shane Trigg
Shane Trigg
Chief Executive Officer
(Principal Executive Officer)

Date: October 26, 2023

By: /s/ Fay Sien Goon
Fay Sien Goon
Chief Financial Officer
(Principal Financial and Accounting Officer)

SUBLEASE

THIS SUBLEASE ("Sublease") dated as of July 10, 2023, is entered into by and between **APPFOLIO, INC.**, a Delaware corporation ("**Sublandlord**"), and **GOOGLE LLC**, a Delaware limited liability company ("**Subtenant**").

WITNESSETH:

WHEREAS, 50 Castilian Drive, LLC, a Delaware limited liability company ("**Original Landlord**") and Sublandlord entered into that certain Industrial Lease dated December 6, 2019 (the "**Lease**"), whereby Landlord leased to Sublandlord certain premises consisting of approximately 35,960 rentable square feet (the "**Leased Premises**") in the building commonly known as 90 Castilian Drive, located in the Castilian Technical Center situated at 90 Castilian Drive, in the City of Goleta, County of Santa Barbara, California, 93117 (the "**Building**");

WHEREAS, Castilian 90, LLC, a Delaware limited liability company (as successor-in-interest to Original Landlord) (herein, "**Landlord**"), and Sublandlord subsequently entered into that certain First Amendment to Industrial Lease on February 10, 2022;

WHEREAS, a true and complete copy of the Lease, as amended, has been delivered to Subtenant, and Subtenant, by its execution hereof, acknowledges receipt of the same; and

WHEREAS, Subtenant desires to sublease from Sublandlord and Sublandlord desires to sublease to Subtenant the entirety of the Leased Premises for a term, at a rent, and upon and subject to the covenants, agreements, terms, conditions, limitations, exceptions and reservations herein contained.

NOW, THEREFORE, in consideration of the foregoing promises, covenants and agreements hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Sublandlord and Subtenant hereby covenant and agree as follows:

1. Sublandlord hereby subleases to Subtenant, and Subtenant hereby hires from Sublandlord, the Leased Premises, for a term (the "**Sublease Term**") commencing thirty (30) days following the later of (i) the mutual execution of this Sublease, and (ii) the date Landlord has executed and delivered the Landlord Form of Consent (defined in Section 41 below) (the "**Sublease Commencement Date**") and ending at 11:59 p.m. on December 31, 2031 (the "**Expiration Date**"), or on such earlier date upon which said term may be canceled or terminated pursuant to any of the provisions of this Sublease, upon and subject to the covenants, agreements, limitations, reservations, exceptions, terms and conditions herein contained. Notwithstanding the foregoing, in the event that Subtenant exercises a renewal option, enters into a direct lease with Landlord, or

otherwise extends its occupancy rights directly with Landlord beyond the Expiration Date, then the Expiration Date shall be automatically extended to February 29, 2032, and notwithstanding anything to the contrary herein or in the Lease, Subtenant shall not be required to surrender the Leased Premises, or deliver the Leased Premises in the surrender condition required herein or under the Lease, on the Expiration Date; provided that Subtenant is not in breach of this Sublease, continues in possession of the Leased Premises and is bound to either Landlord or Sublandlord for its continued occupancy of the Leased Premises, from and after such extended Expiration Date. As of the Sublease Commencement Date, the personal property, fixtures and equipment listed on Exhibit A attached hereto (collectively, the "**Sublandlord FF&E**") are hereby transferred to Subtenant pursuant to the terms of a Bill of Sale in the form attached hereto as Exhibit B, and all other personal property, fixtures and equipment of Sublandlord shall be removed from the Leased Premises prior to the Sublease Commencement Date. The Leased Premises are subleased, together with the appurtenances to the Leased Premises, including, without limitation, the right to use in common with others the lobbies, elevators and other public portions and common areas of the Building, the Parking Lot and all other common areas of the Project to the extent permitted under the Lease. Sublandlord shall deliver the Leased Premises in as-is condition with all personal property removed, specified, and, with Sublandlord FF&E left in place, and in broom clean condition and with the Building and its systems in good working order. Upon request, Sublandlord shall make available to Subtenant all historical construction drawings in Sublandlord's possession in such format as maintained by Sublandlord.

2. Subtenant's obligation to pay the Base Subrent (as hereafter defined) shall commence upon the Sublease Commencement Date; provided that Sublandlord agrees that Base Subrent shall be abated during the first full six (6) calendar months of Sublease Term following the Sublease Commencement Date. If the Sublease Commencement Date occurs on any day other than the first day of a month, then Subtenant shall pay the Base Subrent on a prorated basis as shown on Schedule "A" at the starting rate of One Dollar and Sixty Cents (\$1.60) per rentable square foot per month. Initially, the monthly Base Subrent shall be Fifty-Seven Thousand Five Hundred Thirty-Six and 00/100 Dollars (\$57,536.00). The Base Subrent is subject to annual increases during the Sublease Term of three percent (3%) per annum, and said annual increases shall occur on each anniversary of the Sublease Commencement Date as more specifically set forth on Schedule A (the "**Base Subrent**"). Additionally, the Subtenant shall pay all Operating Expenses as due and payable as defined by Article 7 of the Lease. Said Operating Expenses shall be paid to Sublandlord at the time and in the manner required by Article 7 of the Lease. For all purposes under this Sublease, the rentable square footage of the Subleased Premises is conclusively deemed to be 35,960 rentable square feet, and such square footage shall not be subject to remeasurement or modification. If the term shall end on a day other than the last day of a calendar month, all amounts hereunder owed for that month shall be apportioned based on a thirty (30) day month. Subtenant shall use and occupy the Leased Premises for the uses permitted under the Lease. The Base Subrent, additional rent, and other payments herein reserved or payable shall be paid to Sublandlord at the address set forth herein, or, at Sublandlord's election, to such other payee and at such other place as Sublandlord may designate from time to time in writing, in lawful money of the United States of America, as and when the same become due and payable, without demand therefor except as otherwise provided under this Sublease, and

without any deduction, set-off, or abatement whatsoever, except as permitted by this Sublease or the incorporated provisions of the Lease and applicable to the Leased Premises. Notwithstanding the foregoing, Subtenant shall be permitted to make all payments of rent via ACH/Wire with instructions to be provided by Sublandlord to Subtenant at least forty-five (45) days before any such payment is to take effect.

3. Notwithstanding the foregoing, but subject to Force Majeure (as applicable to Landlord and defined in Section 14.5 of the Lease) and delays caused by Subtenant, Subtenant shall be entitled to an abatement of Rent on a "2-day-for-1-day" basis for each day that delivery of the Leased Premises occurs after the Sublease Commencement Date. Any such abatement shall be applied to the Rent following the abatement period described in Section 2 of this Sublease. In addition, if delivery of the Leased Premises has not occurred within ninety (90) days after the Sublease Commencement Date (which outside date shall only be extended with written approval from Subtenant, herein, the "**Termination Date**"), Subtenant shall also be entitled to terminate the Sublease, provided that such delay was not caused by Subtenant or Subtenant's breach of this Sublease, and Subtenant shall receive reimbursement of Subtenant's out-of-pocket costs and expenses directly incurred in connection with the negotiation of this transaction. Notwithstanding anything to the contrary herein, the Termination Date shall in no event be subject to extension for Force Majeure, and in the event of Force Majeure, Subtenant shall not be entitled to reimbursement of Subtenant's out-of-pocket costs and expenses incurred in connection with the negotiation of this transaction.
4. In addition to the Base Subrent set forth in Section 2, Subtenant shall pay, as additional rent hereunder,
 - a. the Operating Expenses as defined in Article 7 of the Lease; and
 - b. all adjustments of rent, fees, costs, charges, and expenses which Subtenant expressly assumes, agrees, or is obligated to pay to Sublandlord pursuant to this Sublease, which shall be deemed additional rent, and in the event of nonpayment, Sublandlord shall have all the rights and remedies with respect thereto as are herein provided for in case of nonpayment of the Base Subrent reserved hereunder.

With respect to Operating Expenses, Subtenant shall have the same rights given to Sublandlord under the Lease to audit such Operating Expenses, as such rights are incorporated into this Sublease pursuant to the provisions of Section 29 hereof, including, without limitation, the right to audit Landlord's Operating Expenses and be reimbursed audit costs as provided in Section 7.4 of the Lease. The Base Subrent and the additional rent described above shall be collectively referred to herein as the "**Rent**".

5. In addition to all rent and all other charges hereunder, Subtenant shall pay to Sublandlord, as additional rent hereunder, within forty-five (45) days after notice and demand (which shall include invoices substantiating the costs), any other payments for which Sublandlord shall become responsible to Landlord under the Lease arising (i) by reason of Subtenant's request for services or utilities to be provided from Landlord, (ii) by reason of any act or omission of Subtenant, including, without being limited to, reasonable

payments accruing as a result of any preparation of, or alterations to, the Leased Premises undertaken by Subtenant, or (iii) as a result of an Event of Default by Subtenant hereunder. Any delay by Sublandlord in billing any sum shall not constitute a waiver of, or in any way impair, Subtenant's obligation to pay the same in accordance with the terms of this Sublease so long as all such invoices are delivered to Subtenant within one (1) year of Landlord incurring the expense.

6. (a) Sublandlord hereby represents and warrants to Subtenant, that as of the date hereof, and to the actual knowledge of the Sublandlord and without any duty of further investigation:
- i. Sublandlord has not received any written or oral notice or communication from any person relating to any violation of applicable statutes, regulations and codes (including the Americans with Disabilities Act, as amended) relating to its use of the Building, and to Sublandlord's knowledge, the Building does comply with all applicable laws, statutes, rules, regulations and codes (including ADA);
 - ii. Sublandlord knows of no requirements, nor has reason to know of any requirements, of any jurisdictional or environmental agency or department of any kind which may require any modifications to be done to the Building or prohibit Subtenant's intended use;
 - iii. Sublandlord has full power and authority and has taken all action necessary to execute this Sublease and to fulfill all of its obligations herein, subject to any consent requirement of Landlord pursuant to the Lease;
 - iv. Sublandlord has not received any written or oral notices of violation, claims, disputes, or litigation of any kind, pending or threatened, with respect to the Building;
 - v. Sublandlord has provided Tenant with a true, accurate and complete
 - 1. copy of the Lease;
 - vi. Sublandlord has not previously assigned the Lease, or sublet the
 - 1. Leased Premises, and Sublandlord has not granted any right of occupancy of the Leased Premises to another party;
 - vii. Sublandlord is not aware of any Hazardous Materials on, in, or under the Premises as of the date hereof, and in no event shall Subtenant have any liabilities or obligations in connection with any Hazardous Materials existing on, in or under the Premises prior to the date hereof.
- (b) Subtenant agrees that it enters into this Sublease without any representations, warranties or promises by Sublandlord, its agents, representatives, employees, servants or any other person with respect to the Building or the Leased Premises, except as otherwise set forth herein; and no rights, easements or licenses are acquired by Subtenant by implication or otherwise, except as expressly set forth herein.

(c) Subtenant further represents that it has made a thorough examination of the Lease and that Subtenant is familiar with all the terms, conditions and covenants contained therein. Subtenant agrees that it enters into this Sublease without any representations or warranties by Sublandlord, its agents, officers, representatives, employees, servants or any other person as to the condition of the Leased Premises, except as herein expressly set forth, and provided that Sublandlord delivers the Leased Premises to Subtenant in the same "as is" condition as such space was in on the date Subtenant executes this Sublease and otherwise in the delivery condition required in this Sublease; neither Sublandlord, nor its agents, officers, employees or servants, shall be liable for the defects, latent or otherwise, in the Leased Premises, except in connection with any express covenant set forth in this Sublease.

(d) Subject to the terms of the Lease, other than as expressly set forth herein, Sublandlord shall not be required to make any alterations, installations, additions, decorations, repairs or improvements to the Leased Premises. Subtenant and Sublandlord hereby waive the provisions of California Civil Code Sections 1932, 1941 and 1942 and of any similar law, statute or ordinance now or hereafter in effect.

(e) Other than as expressly set forth herein, in no event shall Sublandlord be required to repair any damage to any equipment, furniture, furnishings, partitioning, carpeting, wallpapering or other decorative finishing, unless such damage is due to Sublandlord or Sublandlord's employees or agents.

7. Subtenant shall be entitled to submit and to be reimbursed for invoices associated with its tenant improvements made to the Leased Premises as further defined below. Landlord may elect to disburse said reimbursement directly to Subtenant or to Sublandlord for Sublandlord's disbursement to Subtenant of the same. If Sublandlord receives any such reimbursements from Landlord, Sublandlord shall promptly remit same to Subtenant. Said tenant improvement allowance shall equal Four Hundred and Seventy-Four Thousand Five Hundred and Ninety-Five Dollars and Sixty-One Cents (\$474,595.61), which amount shall be available until December 1, 2023 and represents the balance of Sublandlord's tenant improvement allowance under the Lease as of the date hereof (the "**Tenant Improvement Allowance**"), and which shall be used in accordance with the provisions of the Lease as incorporated herein. Subtenant shall have the right to select the contractor to perform the work, as well as all architects and engineers as Subtenant determines to be necessary. Sublandlord shall have the right to approve such parties, which approval shall not be unreasonably withheld, conditioned or delayed. Subtenant shall not be entitled to any other tenant improvement allowance, including without limitation any tenant improvement allowance granted to Sublandlord under the Lease. Subtenant shall use such Tenant Improvement Allowance in accordance with the terms of the Lease, as such terms are incorporated into this Sublease pursuant to Section 29. Sublandlord shall use its best efforts to ensure that Landlord pays the Tenant Improvement Allowance. Subtenant shall not be charged any rent or other costs to use the freight elevator (if any) and the loading docks during the design, construction, build-out and move-in of the Leased Premises.

a. Other than as expressly set forth herein, Subtenant may not make any alterations unless Subtenant first obtains the written consent of both Landlord (pursuant to

the Lease) and Sublandlord (pursuant to this Sublease, which Sublandlord consent shall not be unreasonably withheld, conditioned or delayed). Subtenant, in making any alterations in or to the Leased Premises, shall comply with all of the terms, covenants and conditions of the Lease and with all requirements of governmental bodies having jurisdiction thereover.

- b. Sublandlord shall (i) within five (5) business days of receipt from Subtenant submit to Landlord any extra copy or copies of plans, specifications and other items submitted by Subtenant for consent and approval, and (ii) within five (5) business days of receipt of same from Subtenant submit to Subtenant all responses or inquiries from Landlord with respect to the foregoing.
- c. Except as otherwise set forth in this Sublease that removal or restoration is not required, on the Expiration Date, or the sooner termination or cancelation of this Sublease, all alterations made by Subtenant ("**Subtenant Alterations**"), and all personal property left by Subtenant, shall, unless Sublandlord elects otherwise at the time Sublandlord consents to the Subtenant Alteration, become the property of Sublandlord and shall remain upon and be surrendered with the Leased Premises as a part thereof; provided however if Landlord requires such Subtenant Alterations to be removed pursuant to the terms of the Lease, then Subtenant shall remove the same. In the event that Sublandlord or Landlord (pursuant to the Lease) shall elect to require the removal of the foregoing Subtenant Alterations, Sublandlord shall give Subtenant prompt notice of such election at the time Sublandlord gives its consent to the Subtenant Alteration(s) or receives notice from Landlord concerning such removal, and such Subtenant Alterations as Sublandlord shall designate shall be removed by Subtenant and Subtenant shall restore the Leased Premises affected by such removal to substantially their original condition, reasonable wear and tear excepted (i.e., substantially the condition existing immediately prior to the date of installation), at Subtenant's sole cost and expense, prior to the expiration of the term of this Sublease to the extent such restoration is required under the Lease or is expressly not required under other provisions of this Sublease. Subtenant shall also pay the cost of repairing all damage to the Leased Premises, the Building and the Land occasioned by any such removal of Subtenant Alterations. If Subtenant shall not have removed any Subtenant Alterations or personal property (or both) which it is required to remove prior to the expiration of this Sublease, then Sublandlord shall have the right to remove the same at the sole and reasonable cost and expense of Subtenant. The provisions of this Subsection (c) shall survive the expiration or sooner termination of this Sublease. Further, Sublandlord hereby warrants and represents to Subtenant that (i) there are no alterations existing in the Leased Premises that Sublandlord did not receive Landlord's prior written consent prior to performing, if such consent was required under the Lease, (ii) Subtenant shall have no removal obligation as to any alterations or existing improvements in the Subleased Premises prior to the Sublease Commencement Date, and (iii) Sublandlord shall indemnify Subtenant for any and all liability incurred by Subtenant (including due to the holdover provisions of the Lease) as a result of Sublandlord's failure to remove any improvements or personal property from the Leased Premises that is not the responsibility of Subtenant pursuant to this

Subsection(c). Such obligations shall survive the expiration or termination of this Sublease.

8. Subtenant shall use and occupy the Leased Premises in a manner as described in Article 8 of the Lease. Subtenant's use shall be subject to the provisions of the Lease (including, without limitation, Exhibit N thereof).
 - a. If any governmental license or permit shall be required for the proper and lawful conduct of Subtenant's business in the Leased Premises or any part thereof, and if failure to secure such license or permit would in any way affect Landlord, Sublandlord or the Building or any part thereof or create a default under the Lease, then Subtenant shall, at Subtenant's expense, promptly procure and thereafter maintain such license or permit. Subtenant shall at all times during the term of this Sublease comply with the terms and conditions of each such license or permit.
9. Sublandlord hereby expressly agrees that Subtenant shall have the right to 116 parking spaces as shown on Exhibit C. Parking shall be free for employees and visitors during the Sublease Term, including, without limitation, Subtenant's contractors, subcontractors and vendors during any construction and/or move-in period to the Leased Premises, which parking shall be provided at no cost.
10. Subtenant shall be entitled to install, at Subtenant's sole cost and expense, signage pursuant to the terms of the Lease and in compliance with applicable codes and approvals. All specifications for such signage shall be subject to the prior written approval of the Sublandlord, which approval shall not be unreasonably withheld, conditioned or delayed, and Landlord, which Sublandlord shall use its best efforts to assist Subtenant in obtaining.
11. Subtenant shall be permitted to assign or sublet all or any portion of the Leased Premises to the same extent and subject to the same terms and provisions that apply to Sublandlord pursuant to the Lease. For purposes of this Sublease and the Lease, an "Affiliate" of Subtenant (as such term is defined and used in Section 16.3.4 of the Lease with the term "Tenant" being modified to refer to Subtenant) shall not require the consent of Landlord or Sublandlord. The parties agree to use good faith efforts to cause Landlord to include an acknowledgement of this provision in the Form of Landlord Consent.
12. Profits from assignment and subletting will be split evenly between Sublandlord and Subtenant as set forth in the Lease, as such provisions are incorporated into this Sublease under Section 29 hereof. "**Profits**" are defined as additional rent that Subtenant receives after deducting any attorneys' fees, tenant improvement costs, approval costs and leasing commissions incurred by Subtenant in connection with any sublease or assignment.
13. Subtenant shall not, directly, indirectly, by operation of law or otherwise, assign, mortgage, pledge, encumber or in any manner transfer this Sublease, or any part thereof, or any interest of Subtenant hereunder, nor sublet or permit the Leased Premises or any part thereof to be used or occupied by others, except as otherwise provided herein or as otherwise provided in the Lease.

14. Subtenant shall be permitted to install a new monument sign at the location set forth on the site plan attached hereto as Exhibit C, at Subtenant's cost, and in compliance with applicable codes and approvals, including without limitation any approvals of Landlord that may be required pursuant to the Lease, as such provisions are incorporated into this Sublease under Section 29 hereof.
15. Subtenant will be responsible for its own security of the Building and the Leased Premises, and Sublandlord shall have no approval rights over the type of security utilized by Subtenant, except to the extent that such security gives rise to approval rights of the Landlord under the Lease. Sublandlord and Subtenant shall work together in good faith to obtain the approval of the foregoing from Landlord in the "Landlord Form of Consent".
16. Subject to Landlord approval and other rights, as and to the extent required under the Lease, Subtenant shall have the right to install, at Subtenant's cost, satellite dishes, communications and other equipment as needed, consisting of outdoor and indoor components, at a location to be approved by Sublandlord, such approval not to be unreasonably withheld or delayed. No rent shall be charged for roof top usage. Any installations that Subtenant elects to make must comply with all applicable building codes, governmental approvals (including FAA, FCC, etc.) and are further conditioned upon such installations not voiding manufacturer's or installer's warranties for the roof. Subtenant shall not be obligated to remove any such equipment upon the expiration or termination of this Sublease, unless such equipment is required to be removed under the Lease. Sublandlord and Subtenant shall work together in good faith to obtain the approval of the foregoing from Landlord in the "Landlord Form of Consent".
17. Subject to Landlord approval and other rights, as and to the extent required under the Lease, Subtenant shall have the right (at no additional cost) to use the Building's shaft, risers or conduits for the installation and maintenance of conduits, cables, ducts, flues, data processing devices, supplemental HVAC, and other facilities consistent with Subtenant's use of the Leased Premises. In the event the vertical spaces are insufficient to accommodate Subtenant's needs, Sublandlord shall permit Subtenant to install additional vertical spaces at Subtenant's expense. Subtenant shall not be obligated to remove any such installations upon the expiration or termination of this Sublease, unless such equipment is required to be removed under the Lease. Sublandlord and Subtenant shall work together in good faith to obtain the approval of the foregoing from Landlord in the "Landlord Form of Consent".
18. Subject to Landlord approval and other rights, as and to the extent required under the Lease, Sublandlord shall allow Subtenant to install interconnecting staircases between floors with no restoration obligations imposed upon Subtenant.
19. Subject to Landlord approval and other rights, as and to the extent required under the Lease, and provided that Subtenant complies with all legal and Sublandlord requirements, in connection therewith, Subtenant shall have the right to use all of the Building's egress towers (i.e., fire stairs) as Subtenant's internal communicating stairs, including the right to incorporate Subtenant's security system, at Subtenant's sole cost, and to prohibit anyone from entering into Subtenant's space without proper access authority. Subtenant shall

have the right to upgrade the finishes in such egress stairs at its sole cost, subject to compliance with all legal and Sublandlord requirements. Subtenant shall have no obligation to remove any such improvements upon the expiration or termination of this Sublease, unless such equipment is required to be removed under the Lease. Sublandlord and Subtenant shall work together in good faith to obtain the approval of the foregoing from Landlord in the "Landlord Form of Consent".

20. Subject to Landlord approval and other rights, as and to the extent required under the Lease, and with appropriate permits from all applicable government agencies, Subtenant shall have the right to install an emergency generator, related switchgear and related wiring such that the Leased Premises shall have adequate back-up electrical power plus a certain amount of base Building air conditioning (through the Building HVAC system) in order that during times of loss of power from the public utility serving the Building, Subtenant shall be able to continue its business operations, albeit on a reduced scale. Both parties shall work together to facilitate Subtenant in accomplishing this goal. Accordingly, Subtenant shall have the right to have adequate space, at no cost to Subtenant for any rent or other costs related to the occupancy of such space, to: (a) locate its emergency generator and fuel tank for the emergency generator(s) within the loading dock area or some other mutually agreed area of the Building; (b) run its necessary fuel lines from the location of the fill and vent box at the street level to Subtenant's fuel tank and from Subtenant's fuel tank to the location of its emergency generator; (c) install its emergency generator and related electrical equipment and wiring, including its automatic transfer switches on (i) a lower level of the Building; or (ii) on the rooftop of the Building; and (d) utilize appropriate and adequate risers, shafts, and conduits such that the electrical power generated by such emergency generator shall be distributed throughout the Building to the Leased Premises.
21. Subject to Landlord approval and other rights, as and to the extent required under the Lease, Sublandlord will provide Subtenant unrestricted access to (and if specifically requested by Subtenant, the right to operate) the building control and monitoring system(s) and provide Subtenant access to all control system(s) data for real time monitoring and archiving purposes. Subtenant will be allowed to store any data collected by Subtenant on one or more servers which are owned or controlled by Subtenant. Sublandlord acknowledges that any data collected as it relates to Subtenant's use is the property of Subtenant. Sublandlord will maintain Subtenant's right to anonymity with regard to the data produced by the Sublandlord building control and monitoring system(s) by excluding or removing any information in the control system and its associated database that could specifically identify Subtenant. Sublandlord shall use all reasonable endeavors to follow best practice cyber security requirements for the design and management of the Sublandlord building control and monitoring system(s) in its control.
22. If requested by Subtenant, Subtenant and Sublandlord shall work together to mutually agree on a commercial and technical approach to jointly execute a cyber-security audit of the building control and monitoring system(s) owned and operated by Sublandlord. Upon execution of the audit, any recommendations to improve/remedy the cyber security status of the control and monitoring system(s) shall be considered by Sublandlord, and where any serious vulnerabilities are identified, the parties will agree on reasonable rectification measures required and allocation of costs.

23. Subject to Landlord approval and other rights, as and to the extent required under the Lease, Subtenant shall have the right, at Subtenant's sole cost and expense, to provide food service to its employees, visitors and guests. Subtenant, at no extra cost will have access to all existing loading and un-loading functions in the Building and to the Leased Premises for said use, including access to shaftways and other infrastructure requirements for ventilation.
24. Subject to Landlord approval, as and to the extent required under the Lease, Subtenant shall be permitted, during the Sublease Term, to bring fully domesticated and trained dogs, kept by Subtenant's employees as pets, into and around the Leased Premises provided that Subtenant and Subtenant's insurance are fully liable for any damage, injury or other casualty resulting from dogs in the Building or the Leased Premises. In addition, subject to Landlord approval, Subtenant shall be permitted to install bike racks and/or two (2) custom decorative conex (or similar) bike storage containers in locations mutually determined by Landlord, Subtenant and the applicable governmental agencies.
25. Wherever in this Sublease (whether by the express terms hereof, by incorporation by reference of the terms of the Lease or otherwise) Sublandlord is granted the right to prescribe, approve or require certain acts, standards or performances by Subtenant, Landlord shall also be deemed to have such right. Whenever under the Lease, Sublandlord must comply with particular requirements (such as obtaining insurance) or act or perform (such as to indemnify, hold harmless or reimburse) for the benefit of Landlord, Subtenant shall also comply or act for the benefit of Sublandlord and Landlord to the extent that obligation is attributable to the Leased Premises. Wherever in this Sublease (whether by the express terms of this Sublease, by incorporation by reference of the terms of the Lease or otherwise) the consent or approval of Sublandlord is required for any act or thing, which consent or approval Sublandlord has agreed not to unreasonably withhold or delay, and the consent or approval of Landlord either is required under the Lease for the same act or thing or would be required under the Lease for the same act or thing if performed or desired by Sublandlord (as Tenant under the Lease), then (i) Sublandlord's refusal to give such approval or consent shall be deemed reasonable if, inter alia, Landlord shall have refused to give such approval or consent, whether or not Landlord shall be obligated to act reasonably and whether or not Landlord shall be acting reasonably, it being understood and agreed that Sublandlord shall have no obligation or liability for Landlord's failure to act reasonably or as otherwise as required under the Lease; (ii) if Subtenant requests such consent or approval from Sublandlord, Sublandlord shall promptly forward a copy of any request of Subtenant for consent or approval from Subtenant to Landlord; and (iii) if Landlord grants, denies or conditions its consent or approval, Sublandlord shall promptly notify Subtenant of such fact and forward to Subtenant a copy of any such grant, denial or condition if the same shall be in writing. Nothing contained herein shall be deemed to require Sublandlord to give any consent or approval because Landlord has given such consent or approval, provided, however, if Landlord withholds consent or approval, and if Subtenant believes such refusal to consent or approve is in violation of the Lease, then upon request from Subtenant, and at Subtenant's sole cost and expense, Sublandlord will follow Subtenant's commercially reasonable instructions to seek to require Landlord's consent or approval upon receipt from Subtenant of an advance deposit equal to Sublandlord's reasonable

estimate of the costs of Sublandlord to carry out Subtenant's commercially reasonable instructions and, if Sublandlord fails to do so, Subtenant may exercise the Qualified Right To Proceed Against Landlord, as described hereafter.

26. All references in this Sublease (whether in the text itself or by incorporation from the Lease) to the consent or approval of Landlord or Sublandlord shall be deemed to mean the written consent or approval of Landlord or Sublandlord, as the case may be, and no consent or approval of Landlord or Sublandlord, as the case may be, shall be effective for any purpose unless such consent or approval set forth in a written instrument executed by Landlord or Sublandlord, as the case may be. If any request or demand is made by Landlord (whether requiring an act, restraint or payment) directly to Subtenant pursuant to the Lease in respect of a corresponding obligation under the Lease, then such request or demand shall be honored and performed or adhered to as if the request or demand was made directly by Sublandlord, but Sublandlord shall have no responsibility for unlawful, illegal or otherwise unwarranted requests or demands by Landlord. In all provisions of this Sublease requiring the satisfactory approval or consent of Sublandlord, Subtenant first shall be required, if Sublandlord under similar circumstances would be required under the terms of the Lease, to obtain the approval or consent of Landlord and then to obtain the like approval or consent of Sublandlord. Sublandlord shall forward to Landlord such requests as Subtenant may submit for approval or consent from Landlord. Whenever, pursuant to this Sublease, Landlord or Sublandlord's consent or approval, or the review or consideration by Landlord or Sublandlord of any matter, is permitted, solicited or required prior to or in connection with any activity planned or undertaken on behalf of Subtenant, Subtenant shall reimburse Landlord and Sublandlord, as applicable, for all expenses incurred by Landlord and payable by Sublandlord in accordance with the terms of the Lease and (ii) all actual and reasonable expenses (including, without limitation, the reasonable fees and disbursements of attorneys and other professional consultants) incurred by Sublandlord in connection with such consideration, review, consent or approval. Such reimbursement shall be made by Subtenant within forty-five (45) days of demand. Expenses incurred by Sublandlord shall be deemed to include any expenses payable to Landlord under the Lease and shall be deemed "reasonable" for the purposes above.
27. (a) This Sublease is subject and subordinate to all of the terms, covenants, provisions, conditions and agreements contained in the Lease and in any amendments or supplements thereto and the matters to which the Lease is subject and subordinate. Subtenant covenants and agrees (i) to perform and to observe all of the terms, covenants, provisions, conditions and agreements of the Lease on Sublandlord's part to be performed and observed to the extent the same are attributable to the Leased Premises; (ii) that Subtenant will not do or cause to be done or suffer or permit any act or thing to be done which would or might cause the Lease or the rights of Sublandlord as Tenant thereunder to be canceled, terminated or forfeited or which would make Sublandlord liable for any damages, claims or penalties; and (iii) to indemnify and hold harmless Sublandlord from and against any and all liability, loss, damage, suits, penalties, claims and demands of every kind or nature (including, without being limited to, reasonable attorneys' fees and expenses of defense) by reason of Subtenant's failure to comply with the foregoing or arising from the use, occupancy or manner of use or occupancy of the Leased Premises or of any business conducted therein, or from any work or thing whatsoever done or any

condition created by or any other act or omission of Subtenant, its assignees or subtenants, or their respective employees, agents, servants, contractors, invitees, visitors or licensees, in or about the Leased Premises or any other part of the Building, but in no event shall Subtenant be liable to Sublandlord for damage to Sublandlord's property which is covered by Sublandlord's insurance or to the extent caused by the negligence or willful misconduct of Sublandlord or such damage which existed prior to Sublease Commencement Date. In no event shall Sublandlord or Landlord be liable to Subtenant for damage to Subtenant's property which is covered by Subtenant's insurance. Sublandlord shall cause its insurance carrier to extend its waiver of subrogation to Subtenant and Subtenant shall cause its insurance carrier to extend its waiver of subrogation to Sublandlord as well as Landlord. Sublandlord represents and warrants to Subtenant that to its actual knowledge the Lease is in full force and effect, that neither Landlord or Sublandlord are in breach under the Lease and Sublandlord has neither given nor received a notice of default pursuant to the Lease. So long as Subtenant is not in breach of the Sublease, and so long as the Sublease is in full force and effect, Sublandlord (I) will not do or cause to be done or suffer or permit any act or thing to be done which would or might cause the Lease to be cancelled, terminated or forfeited or impose liability on Subtenant; (II) will not amend, modify, encumber, terminate or supplement the Lease during the term of this Sublease; and (III) will indemnify and hold harmless Subtenant from and against any and all liability, loss, damage, suits, penalties, claims and demands of every kind or nature (including, without being limited to, reasonable attorneys' fees and expenses of defense) by reason of Sublandlord's failure to comply with the Lease prior to the Sublease Commencement Date or arising from the use, occupancy or manner of use or occupancy of the Leased Premises by Sublandlord or of any business conducted therein by Sublandlord prior to the Sublease Commencement Date; and (IV) will not exercise its right to extend the term of the Lease as provided in Exhibit G of the Lease. The provisions of this Section 27 shall survive the expiration or earlier termination of the Lease and/or this Sublease.

(b) In the event of, and upon the termination or cancellation of the Lease pursuant to the terms and provisions thereof, this Sublease shall automatically cease and terminate, subject to any recognition rights provided by Landlord to Subtenant pursuant to the terms of the Landlord Form of Consent. Sublandlord represents that the Lease is in full force and effect and that, to Sublandlord's actual knowledge, Sublandlord is not in material default with respect to any obligation of Sublandlord under the Lease and that Sublandlord will not voluntarily terminate its Lease to the extent it applies to the Leased Premises without the consent of Subtenant. Notwithstanding the foregoing, so long as Subtenant is not in default under this Sublease beyond any applicable notice and cure period(s), Sublandlord shall perform its obligations under and maintain the Lease in full force and effect during the Sublease Term provided Sublandlord shall not be liable to Subtenant for any early termination of or default under the Lease, unless and to the extent such early termination results from a voluntary termination of the lease by Sublandlord, any default under the Lease by Sublandlord, or the active negligence or willful misconduct of Sublandlord.

(c) In the event of any default on the part of either Sublandlord or Subtenant under any of the terms, covenants, conditions, provisions or agreements of the Lease or of this Sublease, Sublandlord shall have the same rights and remedies against Subtenant under

this Sublease as are available to Landlord against Sublandlord under the provisions of the Lease, and Subtenant shall have the same rights and remedies against Sublandlord under this Sublease as are available to Sublandlord against Landlord under the provisions of the Lease.

(d) Notwithstanding anything to the contrary in this Sublease and the Lease, Sublandlord and Subtenant agree that: (i) in no event shall Subtenant be required to provide a security deposit, (ii) in no event shall Landlord and Sublandlord be permitted to access the Leased Premises without being accompanied by a representative of Subtenant, and (iii) in no event shall Sections 31 (Attorney's Fees), and 42 (Arbitration) be binding on Subtenant. The parties agree to use good faith efforts to cause Landlord to include an acknowledgement of this provision in the form of Landlord Consent.

(e) All provisions of this Sublease shall survive the expiration or sooner termination or cancellation of this Sublease to the extent necessary to allow Subtenant and Sublandlord to exercise and enforce their rights under this Sublease.

28. If the Leased Premises or the Building shall be partially or totally damaged by fire or other cause, the consequences thereof shall be governed by Article 13 of the Lease. Subtenant's right to an apportionment or abatement of rent and to repairs shall be dependent upon whether or not Sublandlord has a right to apportionment or abatement of rents or repairs or both under said Article 13 in respect of the Leased Premises. Except as such rights are provided to Sublandlord by Landlord in the Lease, no damage, compensation or claims shall be payable by Sublandlord for inconvenience, loss of business or annoyance arising from any repair or restoration of any portion of the Leased Premises or of the Building.
29. Except as otherwise provided herein and the Excluded Provisions (defined below), the provisions of the Lease are hereby incorporated by reference with the same force and effect as if set forth in length herein and shall apply to the Leased Premises and to the Building to the extent that the same are applicable, except as modified and amended by this Sublease. References in the Lease to "Landlord", "Tenant", "Premises", "Lease", "Base Rent" and "Additional Rent" shall be deemed to refer to Sublandlord, Subtenant, Leased Premises, this Sublease, monthly Base Subrent hereunder, and additional rent hereunder, respectively. To the extent that any provisions of the Lease may conflict or be inconsistent with the provisions of this Sublease, whether or not such inconsistency is expressly noted herein, the provisions of this Sublease shall govern. Sublandlord agrees not to modify the Lease in any manner which increases Subtenant's liability or obligations or reduces Subtenant's rights under this Sublease, so long as Subtenant is not in default under this Sublease beyond any applicable notice and cure period(s). For the avoidance of doubt, nothing contained in this Sublease shall grant to the Subtenant, and the Subtenant shall not have the right to exercise, any "Option to Renew" as set forth on Exhibit G of the Lease. The following provisions of the Lease are "excluded provisions" and shall not be incorporated into this Sublease pursuant to this Section 29 (the "**Excluded Provisions**"): Exhibit G of the Lease which grants two five (5)-year options to renew the term; Section B of the Lease to the extent such Section grants a tenant improvement allowance greater than the allowance set forth in Section 7. Except for such provisions and the amount of Base Rent which Subtenant is obligated to pay under

Section 2 of this Sublease, none of the provisions of this Sublease are in conflict with the provisions of the Lease as such provisions are incorporated into this Sublease pursuant to Section 29 hereof.

30. Notwithstanding the foregoing, it is understood and agreed by Subtenant that all services, repairs, restorations, consents, equipment and access which are required or authorized to be provided and made by Sublandlord or its agents hereunder or in accordance with the provisions of the Lease, will, in fact, be provided by Landlord, and Sublandlord shall have no obligation or liability during the term of this Sublease (a) to provide any such services, equipment or access, or make any such repairs or restorations or (b) for the manner in which the same are provided, other than to reasonably and in good faith enforce its rights (if any) against Landlord under the Lease as provided in this Section 30. If Landlord shall be entitled to any payment or remuneration by reason of additional services provided at the request of Subtenant with respect to the Leased Premises, Subtenant shall pay the same within forty-five (45) business days following demand as additional rent hereunder. Subtenant agrees to look solely to Landlord for the furnishing of such services, equipment and access and the making of such repairs and restorations in accordance with the terms of the Lease and for any indemnity for any losses or claims arising by reason of any failure, breach or delay in performing or furnishing the same which may be available under the terms of the Lease or may otherwise be available. Sublandlord hereby agrees that (i) it shall reasonably cooperate, at no cost, expense or liability to Sublandlord, with Subtenant in securing the performance of any responsibility of Landlord under the terms of the Lease, and Sublandlord shall promptly provide Subtenant with copies of any notices sent to or from Landlord that pertain in any manner to the Leased Premises or Subtenant's rights or obligations under this Sublease, and (ii) to the extent any remedy is available to Sublandlord under the Lease, such remedy shall also be available to Subtenant to the extent such remedies are so transferred to Subtenant pursuant to this Sublease, in accordance with the Lease and/or as otherwise may be available to Subtenant as a matter of law. Sublandlord shall use commercially reasonable efforts to pursue any such available remedies under the Lease). Sublandlord shall in no event be liable to Subtenant nor shall the obligations of Subtenant hereunder be impaired or the performance thereof excused because of any failure or delay on Landlord's part in furnishing such services, equipment or access, or making such restorations or repairs, except that to the extent that Sublandlord receives an abatement of any rent that Sublandlord is obligated to pay under the Lease in respect of any particular portion of the Leased Premises, Subtenant shall have a corresponding abatement. If Landlord shall default in any of its material obligations to Sublandlord with respect to the Leased Premises, Sublandlord shall, at the reasonable request of Subtenant, enforce Sublandlord's rights against Landlord under the Lease, at the cost and expense of Subtenant, and Subtenant shall defend, indemnify, protect and hold Sublandlord harmless from and against any and all claims, costs and expenses related to any such enforcement. If, after written request from Subtenant, Sublandlord shall fail or refuse to take appropriate action for the enforcement of Sublandlord's rights against Landlord with respect to the Leased Premises within a reasonable period of time considering the nature of Landlord's default, Subtenant shall, if the same right would be permissible by Sublandlord as Tenant under the Lease, have the right to pursue a claim, action, proceeding or arbitration for injunction, damages or other remedy in its own name, and for that purpose and only to such extent all of the rights of Sublandlord under the Lease

hereby are conferred upon and assigned to Subtenant and Subtenant hereby is subrogated to such rights to the extent that the same shall apply to the Leased Premises; provided that Subtenant shall defend, indemnify, protect and hold Sublandlord harmless from and against all costs, expenses and claims related to any such actions by Subtenant; and provided, further, that notwithstanding anything herein to the contrary, in no event shall Subtenant have the right to take any action which may result in a default under the Lease or in a termination of the Lease, in whole or in part or in a surrender of all of any portion of the Leased Premises (inclusive of the following sentence the "**Qualified Right To Proceed Against Landlord**"). If any such action against Landlord in Subtenant's name shall be barred by reason of lack of privity, non-assignability or otherwise, Subtenant may take such action in Sublandlord's name, provided that (i) Subtenant has given Sublandlord at least ten (10) business days' prior written notice of Subtenant's intention to take such action, (ii) Sublandlord shall, to the extent reasonably practicable, and at Subtenant's sole cost and expense, cooperate with Subtenant in taking such action, and (iii) Subtenant shall indemnify, defend, protect and hold Sublandlord harmless from and against all liability, loss or damage which Sublandlord shall suffer by reason of such action. Sublandlord covenants as follows: (i) not to voluntarily terminate the Lease, (ii) not to modify the Lease so as to adversely affect Subtenant's rights hereunder, and (iii) to take all actions reasonably necessary to preserve the Lease.

31. The occurrence of any of the following shall constitute an Event of Default by Subtenant hereunder (such events being in addition to, and superseding to the extent inconsistent with, the Events of Default set forth in Article 17 of the Lease):
- a. Subtenant fails to pay when due Base Subrent, additional rent or any other sums due hereunder and such failure shall continue for five (5) business days after written notice from Sublandlord of such failure;
 - b. Subtenant fails to comply with any other provision of this Sublease in the manner and within the time required, and such failure continues for twenty-five (25) days after written notice from Sublandlord provided that if such failure cannot be cured within such twenty-five (25) day period, an Event of Default shall not be deemed to have occurred so long as (i) Subtenant commences such cure within such twenty-five (25) day period and diligently pursues such cure to completion, and (ii) under the terms of the Lease, an "Event of Default" (as defined in the Lease) is not deemed to have occurred as a result of such failure.
32. If and so long as Subtenant pays the Base Subrent, additional rent, and other charges due and payable hereunder and performs all of the other obligations of Subtenant to be performed hereunder, Subtenant may peaceably and quietly have, hold and enjoy the Leased Premises subject, nevertheless, to the terms, covenants, conditions and provisions of this Sublease and to the Lease and to the matters to which the Lease is subject and subordinate.
33. Any notice, demand, request or other communication which under the terms of this Sublease or under any provision of law or governmental regulation must or may be given either by Sublandlord to Subtenant or by Subtenant to Sublandlord shall be in writing and hand delivered, sent by guaranteed overnight delivery courier or mailed by United States

certified mail, return receipt requested, postage prepaid, addressed as follows to the person entitled to receive the same:

a. if to Sublandlord,

Appfolio, Inc.
70 Castilian Drive
Goleta, CA 93117
Attention: V.P. Corporate Real Estate

b. if to Subtenant,

Google LLC
1600 Amphitheatre Parkway
Mountain View, CA 94043
Attn: Lease Administration
Phone: (650) 214-4529
E-mail: leaseadmin@google.com

With a copy to:

Google LLC
1600 Amphitheatre Parkway
Mountain View, CA 94043
Attn: Legal/RE Matters
Phone: (650) 214-4529

Any notice shall be deemed to have been validly given on receipt if personally served, one (1) business day after placing the same with a guaranteed overnight courier or five (5) business days after being deposited in the United States mail, postage prepaid. Either party by notice as aforesaid may change its address set forth above for notices, requests, demands or communications to it.

34. The parties hereto acknowledge that Sublandlord shall pay CBRE, Inc., and Hayes Commercial Group a mutually agreeable brokerage fee pursuant to separate agreements. Except as provided in the preceding sentence, Sublandlord warrants and represents to Subtenant that Sublandlord has dealt with no broker or other person in connection with this Sublease transaction who represents or acted on behalf of Sublandlord and Sublandlord agrees to indemnify and save harmless Subtenant from any costs, expenses, attorneys' fees or liability for compensation or charges which may be claimed by any broker or agent as a result of any conversations, correspondence, other dealings or actions of the indemnifying party in connection with this sublease transaction. Except as provided in the first sentence of this Section 34, Subtenant warrants and represents to Sublandlord that Subtenant has dealt with no broker or other person in connection with this Sublease transaction who represents or acted on behalf of Subtenant and Subtenant agrees to indemnify and save harmless Sublandlord from any costs, expenses, attorneys' fees or liability for compensation or charges which may be claimed by any broker or

agent as a result of any conversations, correspondence, other dealings or actions of the indemnifying party in connection with this sublease transaction.

35. Subtenant and Sublandlord shall, at any time and from time to time, on not less than ten (10) days' prior written demand by Sublandlord or Landlord or Subtenant, as appropriate, execute, acknowledge and deliver to Sublandlord or Landlord or Subtenant, as the case may be, a written statement certifying (a) that this Sublease is unmodified and in full force and effect, or, in the alternative, that this Sublease is in full force and effect as modified (the instruments of modification being set forth in a schedule attached to and made a part of said statement), (b) the dates to which the Base Subrent, additional rent and other charges due under this Sublease have been paid, (c) whether or not to the best of such party's actual knowledge, with no duty of investigation, Sublandlord and Subtenant are not in default hereunder, and, if so, specifying the nature of the default and (d) such other commercially reasonable information requested concerning the Sublease, the Leased Premises or the Subtenant. Each party understands that any such statement delivered pursuant to this Section may be relied upon by others with whom Landlord or Sublandlord or Subtenant, as the case may be, may be dealing with.
36. This Sublease shall be binding and inure to the benefit of the parties hereto and, subject to the limitations set forth in Section 13 hereof.
37. This Sublease may be executed in counterpart originals and delivered by electronic means and all such counterparts and electronically signed counterparts shall constitute one original Sublease.
38. Terms set forth in this Sublease with initial capital letters and not otherwise defined herein shall have the meanings ascribed to those terms in the Lease.
39. Compliance With Anti-Bribery Laws and Anti-Modern Slavery Laws.
 - a. Sublandlord will comply with all applicable commercial and public anti-bribery laws ("**Anti-Bribery Laws**"), which prohibit corrupt offers of anything of value, either directly or indirectly to anyone, including Government Officials (defined below), to obtain or keep business or to secure any other improper commercial advantage. Furthermore, Sublandlord will not make any facilitation payments, which are payments to induce officials to perform routine functions they are not otherwise obligated to perform. "Government Officials" include any government employee; candidate for public office; and employee of government-owned or government-controlled companies, public international organizations, and political parties.
 - b. Sublandlord will comply with all applicable anti-human trafficking, forced labor, and modern slavery laws and rules ("**Anti-Modern Slavery Laws**"). Sublandlord will take reasonable steps to ensure that no slavery, servitude, forced or compulsory labor, or human trafficking occurs in its provision of services to Subtenant or in its supply chain.

- c. Sublandlord will make commercially reasonable and good faith efforts to comply with Subtenant's anti-bribery due diligence process and anti-modern slavery due diligence process, including providing any requested information. Sublandlord will implement due diligence procedures for its own suppliers, subcontractors, and other participants in its supply chains to ensure that there is neither violations of Anti-Modern Slavery Laws nor Anti-Bribery Laws in its supply chains.
 - d. Sublandlord will keep complete and accurate records relating to this Sublease. During the Sublease Term, and for a period of one (1) year afterwards, Subtenant may audit Sublandlord's relevant records once every year, and upon 30 days' advance notice, to confirm Sublandlord's compliance with this Sublease. The auditor will only have access to those books and records of Sublandlord which are reasonably necessary to confirm such compliance.
 - e. Subtenant may terminate this Sublease immediately upon written notice to Sublandlord if; (i) Subtenant can demonstrate that Sublandlord or any of its directors and/or employees in connection with their business activities for Sublandlord has violated Anti Bribery Laws or Anti-Modern Slavery Laws, or has caused a violation of Anti Bribery or Anti-Modern Slavery Laws by Subtenant; or (ii) Charges have been brought against Sublandlord or against one or more of its directors and/or employees in connection with their business activities for Sublandlord for a violation of Anti Bribery Laws or Anti-Modern Slavery Laws and Sublandlord has not proved within a period of four (4) weeks from the filing of such charge that the charges have been withdrawn. Sublandlord is obliged to inform Subtenant in writing without delay if and as soon as any such public charges have been brought against Sublandlord or against one or more of its directors and/or employees in connection with their business activities for Sublandlord.
 - f. The parties agree to use good faith efforts to cause Landlord to include an acknowledgement of this provision in the form of Landlord Consent.
40. BOS. Sublandlord and Landlord hereby agree to cooperate reasonably with Subtenant in the implementation of the terms and provisions described in Exhibit D attached hereto (the "**BOS Clause**"): it being understood and agreed that Sublandlord and Landlord shall not be obligated to incur any cost or expense to comply with the provisions of the BOS Clause. For the avoidance of doubt, the BOS Clause is not intended to waive or restrict any right otherwise afforded to Subtenant under the Sublease, including, without limitation, Subtenant's exclusive right to equip, furnish, use, modify (subject to the requirements of the Sublease), manage, secure and control the Leased Premises during the term or any of Subtenant's rights under the Sublease.
41. OFAC. For purposes of this Sublease, the following terms shall have the following meanings: (a) "**Anti-Terrorism Laws**" means any: (1) laws or regulations concerning economic and trade sanctions requirements, restrictions, and embargoes administered or enforced by the United Nations, United States authorities (including, but not limited to, the United States Department of the Treasury, the United States Department of Commerce, and the United States Department of State), Her Majesty's Treasury, the

European Union, or any other relevant governmental authority (collectively, "**Sanctions**"); and (2) laws or regulations governing anti-terrorism and/or anti-money laundering activities, and including the United States Bank Secrecy Act, the United States Money Laundering Control Act of 1986, and Title 3 of the USA Patriot Act (defined below), and any regulations promulgated under any of them, each as may be amended from time to time; (b) "**Prohibited Person**" means any person: (i) that is the subject or target of any Sanctions; (ii) named in any Sanctions-related list maintained by the U.S. Department of State, the U.S. Department of Commerce (including, but not limited to, the Bureau of Industry and Security's Entity List and Denied Persons List), or the U.S. Department of the Treasury (including, but not limited to, the OFAC Specially Designated Nationals and Blocked Persons List, the Sectoral Sanctions Identifications List, and the Foreign Sanctions Evaders List), or any similar list maintained by the United Nations Security Council, the European Union, Her Majesty's Treasury, or any other relevant governmental authority; (iii) located, organized or resident in a country, territory or geographical region that is itself the subject or target of any territory-wide Sanctions (including, without limitation, the Crimea, People's Republic of Donetsk or People's Republic of Luhansk regions of Ukraine; Cuba; Iran; North Korea; or Syria) (a "**Sanctioned Jurisdiction**"); (iv) owned or controlled by any such person or persons described in any of the foregoing clauses (i), (ii) and (iii); or (v) with whom either party is otherwise prohibited from dealing or engaging in any transaction by any Anti-Terrorism Laws; and (c) "**USA Patriot Act**" means the "Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001" (Public Law 107-56), as amended from time to time. Each party certifies to the other party that such party is not a Prohibited Person and has no reason to believe that it or any of its affiliated persons or entities is the target of an investigation by authorities that could result in it becoming a Prohibited Person. Each party agrees that no portion of property used to fulfill such party's obligations under this Sublease will be sourced or derived, in whole or in part, from or used for activities (x) in violation of Anti-Terrorism Laws or (y) between such party and a Prohibited Person. Notwithstanding anything in this Sublease to the contrary, each party understands that this Sublease is a continuing transaction and that the foregoing representations, certifications and warranties are ongoing and shall be and remain true and in force on the date hereof and throughout the term of this Sublease and that any breach thereof after notice and beyond any applicable cure period shall be an Event of Default or a Sublandlord Default (as applicable).

42. Certified Access/Accessibility Specialist. For purposes of Section 1938 of the California Civil Code and to Sublandlord's actual knowledge, Sublandlord hereby discloses to Subtenant, and Subtenant hereby acknowledges, that the Subleased Premises have not undergone inspection by a Certified Access Specialist ("**CASp**"). As required by Section 1938(e) of the California Civil Code, Sublandlord hereby states as follows: "A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any

repairs necessary to correct violations of construction-related accessibility standards within the premises." In furtherance of the foregoing, Sublandlord and Subtenant hereby agree as follows: (a) any CASp inspection requested by Subtenant shall be conducted, at Subtenant's sole cost and expense, by a CASp approved in advance by Sublandlord, and any repairs required as a result of such CASp inspection shall be performed at Subtenant's sole cost and expense; and (b) any CASp inspection requested by Sublandlord shall be conducted, at Sublandlord's sole cost and expense, by a CASp approved in advance by Subtenant, and any repairs required as a result of such CASp inspection shall be performed at Sublandlord's sole cost and expense. The foregoing verification is included in this Sublease solely for the purpose of complying with California Civil Code Section 1938 and shall not in any manner affect Sublandlord's and Subtenant's respective responsibilities for compliance with construction-related accessibility standards as provided under this Sublease.

43. Waiver of Punitive/Consequential Damages. Notwithstanding anything to the contrary contained in this Lease and the Sublease, nothing in the Lease or Sublease shall impose any obligations on Subtenant or Sublandlord to be responsible or liable for, and each hereby releases the other from all liability for, any consequential or punitive damages or lost profits.
44. Notwithstanding anything to the contrary contained herein, should any claim, action, or proceeding (including, for the avoidance of doubt, any appeals of a claim, action, or proceeding) be commenced between the parties hereto concerning any provision of this Sublease, or the rights or duties of any person or entity in relation thereto, each party shall bear its own fees and costs (including, without limitation, attorneys' fees, accounting fees, expert witness fees, consulting fees, court costs, and all other costs) to the extent incurred in prosecuting or defending such claim, action, or proceeding against the other party. Nothing in this Section shall be construed to limit a party's obligation, as may be set forth elsewhere in this Sublease, to indemnify another from any fees or costs (including, without limitation, attorneys' fees, accounting fees, expert witness fees, consulting fees, court costs, and all other costs), except to the extent incurred by the indemnified party in an action brought against the indemnifying party to enforce such indemnification provisions under this Lease.
45. This Sublease shall not become effective unless and until Landlord has consented to this Sublease by providing written notice of its consent to Sublandlord and Landlord has provided a commercially reasonable estoppel certificate confirming that there are no existing defaults under the Lease by either party (collectively, the "**Landlord Form of Consent**"). Both Sublandlord and Subtenant agree to cooperate and to use reasonable efforts to obtain the written consent to the Sublease from Landlord. Notwithstanding anything to the contrary in this Sublease, if Landlord has not executed and delivered to Sublandlord and Subtenant the Landlord Form of Consent by the date that is forty-five (45) days following the mutual execution of this Sublease, then this Sublease shall automatically be void and of no further force and effect.

IN WITNESS WHEREOF, Sublandlord and Subtenant have duly executed this Sublease as of the day and year first above written.

APPFOLIO, INC.,
a Delaware corporation

GOOGLE LLC,
a Delaware limited liability company

By: /s/ Fay Sien Goon

Fay Sien Goon

By: /s/ Joe Borrett

Joe Borrett

Its: Chief Financial Officer

Its: Director

SCHEDULE A
RENT SCHEDULE

Period	Monthly Base Subrent Rate (\$/RSF)	Monthly Base Subrent	
_____, 2023 - _____, 2024	\$1.6000	\$57,536.00	1) Free Base Subrent beginning calendar month following six (6) months thereafter.
_____, 2024 - _____, 2025	\$1.6480	\$59,262.08	
_____, 2025 - _____, 2026	\$1.6974	\$61,038.50	2) The first three (3) percent of the thirteenth (13th) full Commencement Date*. Subsequent to thereafter on each anniversary
_____, 2026 - _____, 2027	\$1.7484	\$62,872.46	
_____, 2027 - _____, 2028	\$1.8008	\$64,756.77	
_____, 2028 - _____, 2029	\$1.8548	\$66,698.61	
_____, 2029 - _____, 2030	\$1.9105	\$68,701.58	
_____, 2030 - _____, 2031	\$1.9678	\$70,762.09	
_____, 2031 - December 31, 2031*	\$2.0268	\$72,883.73	

*Expiration Date is subject to the potential automatic extension through February 29, 2032 as provided for in the Sublease, and the method of term would commence a 13th month after the previous annual

EXHIBIT A
SUBLANDLORD FF&E

SUBLANDLORD FF&E		
ASSET NAME	DETAILS/BRAND	COUNT
Boomerang-Shaped Sit/Stand Desk (open areas 2nd Floor)		160
Rectangular Sit/Stand Desk (in the offices 1st & 2nd Floor)	Kinex	11
Y-Back Office Chair (2nd Floor)		120
Monitor Arm (single bracket mount 2nd Floor)	Human Scale	167
Curved Monitor (2nd Floor South Side)	Viotek #GNV27DB 27"	87
Mobile Ped (under desk cabinet on wheels)		
Pool Table (2nd Floor Game Room)	N/A	1
Ping Pong Table (2nd Floor Game Room)	N/A	1
TV - Wall Mounted (1st Floor Various Sizes Open Floor Area & Offices)	Samsung	8
TV - Wall Mounted (2st Floor Various Sizes Open Floor Area & Offices)	Samsung	16
Conference Room Wheeled Chairs	Circo	55
Conference Room Tables (Various Sizes)	N/A	
Coffee Maker	Fetco	2
Water & Ice Machine	Follett	2
Toaster	Ava Toast	2
Microwave	Solvave	3
Refrigerator - Clear & Able To Be Branded	True	2
Refrigerator - Stainless Steel Finish	Frigidaire	3
Video Conference Equipment (Room Setups)	Crestron	
Trash & Recycling Containers (Stainless Steel Finish)	N/A	
Open Path Building Access Control (System is Transferable)		N/A
Building-Mounted Cameras (Exterior North Side)	Verkada	
White Noise System (Ceiling Grid-Mounted)	Logison	N/A
Wireless Access Point	Cisco-AIR-AP3802I-B-K9	32
Catalyst Switch	Catalyst-WS-C2960XR-48FPS-I	19
APC UPC Battery	Smart-UPS X 3000	3
Miscellaneous Furniture 1st Floor (South Side) Barstools, etc	N/A	N/A
Miscellaneous Furniture 1st Floor (North Side) N/A	N/A	N/A
Miscellaneous Furniture 2nd Floor (South Side) Mobile Stadium Seating Blocks, Barstools, High Conference/Collab Tables, Etc.	N/A	N/A
Miscellaneous Furniture 2nd Floor (North Side) Open Lounge Area Couch, Chairs, Barstools, Etc.	N/A	N/A

EXHIBIT B
FF&E BILL OF SALE

This FF&E Bill of Sale (the "**Bill of Sale**") is entered into as of , 2023, and is delivered in connection with that certain Sublease (defined below) by and between APPFOLIO, INC., a Delaware corporation ("**Sublandlord**"), and GOOGLE LLC, a Delaware limited liability company ("**Subtenant**"), with reference to the following facts (the "**Recitals**"):

RECITALS

WHEREAS, Sublandlord and Subtenant have entered into that certain Sublease dated as of May [,] 2023 (the "**Sublease**"), whereby Sublandlord subleases to Subtenant the entirety of the "Leased Premises" as more particularly described in the Sublease.

WHEREAS, Sublandlord and Subtenant have agreed to transfer the Sublandlord's furniture, fixtures, and equipment (the "**Sublandlord FF&E**") as more particularly described in Exhibit A attached hereto, pursuant to the terms of this Bill of Sale.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Sublandlord and Subtenant agree as follows:

1. Transfer of Sublandlord FF&E. Sublandlord hereby sells, conveys, transfers, and assigns to Subtenant, and Subtenant hereby purchases and accepts from Sublandlord, all of Sublandlord's right, title, and interest in and to the Sublandlord FF&E, as more particularly described in Exhibit A attached hereto, free and clear of any liens, claims, or encumbrances.
2. As-Is Condition. Subtenant acknowledges and agrees that the Sublandlord FF&E is being sold on an "as-is, where-is" basis, with no representations or warranties of any kind, express or implied, except as otherwise expressly set forth in the Sublease.
3. Governing Law. This Bill of Sale shall be governed by and construed in accordance with the laws of the State of California.
4. Counterparts. This Bill of Sale may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[Signature page follows]

IN WITNESS WHEREOF, Sublandlord and Subtenant have executed this Bill of Sale as of the date set forth above.

SUBLANDLORD
APPFOLIO, INC.

SUBTENANT:
GOOGLE LLC

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

EXHIBIT C

SITE PLAN

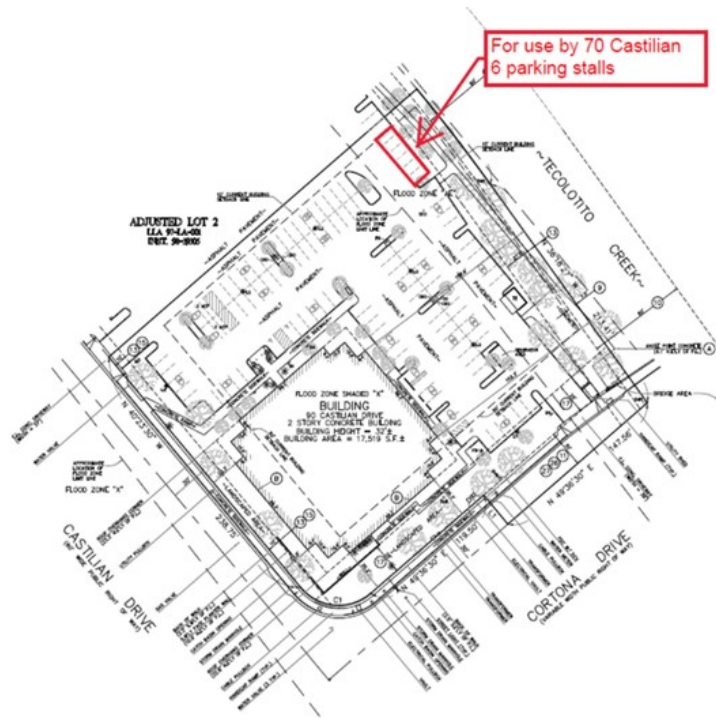


EXHIBIT D

BOS CLAUSE

Smart Building Standard

1. For purposes of this Exhibit, the following terms shall have the respective meanings set forth below:
 - a. Landlord Plant: This will typically be the main (shared/central) building plant/equipment such as (but not limited to) chillers, main heating plant (boilers/district heating), air handling units, main building transformers and generators, vertical transportation systems (elevators, escalators), common lighting control systems, fire alarm etc.
 - a. Landlord building control and monitoring system(s): Also referred to as Base Building Systems. This will typically be control and monitoring systems for the equipment described in "Landlord Plant" above.
 - a. Landlord control systems data: Telemetry data generated by the control and monitoring systems described in "Landlord's building control and monitoring system(s)" owned by the Landlord. It usually includes signals such as equipment faults/alarms, operational status (on/off/auto), sensor, valve positions, utility metering (kWh, BTU...etc.) and any other data points generated by similar types of plant/equipment. It excludes CCTV video stream, access badge information, or any sort of private and personal information.
 - a. Real time access: Access to data provided to the end user with no or negligible time delay from the time the data is generated (usually within seconds)
 - a. Read-only access: Access to a data point provided with only the right to read the value, and no ability to change it.
 - a. Read-write access: Access to a data point provided with the right to read the value and to change its value (usually for command signals such as on/off or setpoint change).
 - a. Tenant: All references to "Tenant" in this Exhibit D shall include Subtenant (as defined in the Sublease to which this Exhibit D is attached).
 - a. Unrestricted access: Access to the Landlord building control and monitoring system(s) hardware (e.g. controllers and head-end) and software (engineering software tools and management software) to allow, for example, monitoring of different data points, configuration of control strategy and user access changes.
2. Landlord acknowledges and will support Tenant's requirement to deliver the Premises pursuant to Tenant's Digital (Smart) Building Standard, as more particularly described in this Exhibit D. The "Digital Building Standard" combines all building data and end-user

feedback to allow the Tenant building systems to be optimized. The goal of the Digital Building Standard is to support healthy, efficient, flexible and sustainable infrastructure where occupants can interact with building applications to enhance the way in which they use the leased space within it.

3. Landlord agrees to allow the Tenant access to and collect data from the Landlord's building control and monitoring system(s) in the following circumstances:
 - a. Where the Tenant is, or becomes, the sole office tenant of the building
 - i. Landlord will provide Tenant unrestricted access to (and if specifically requested by Tenant the right to operate) the Landlord building control and monitoring system(s) and provide Tenant access to all Landlord control system(s) data for real time monitoring and archiving purposes.
 - ii. Landlord will provide the opportunity for Tenant to maintain the Landlord Plant.
 - b. Where the Tenant is one of multiple tenants of the building
 - i. Landlord will provide Tenant with real time read-only access to the Landlord's control system(s) data for real time monitoring and archiving purposes but only in so far as it relates to Tenants use of such Landlord building control and monitoring system(s) (i.e., Base Building Systems).
 - ii. Where any Landlord Plant exclusively serves Tenant's Premises, Landlord will provide Tenant with full read-write access to the specific parts of the Landlord building control and monitoring system related to said plant, and if specifically requested by Tenant unrestricted access and the right to operate for the specific plan mentioned.
 - iii. For any system controlled/operated by Tenant, Tenant agrees to send demand signals to the Landlord building control and monitoring system to facilitate efficient operation of said Landlord Plant.
4. Alteration of Landlord building control and monitoring system(s).
 - a. For existing buildings: For landlord building control and monitoring systems exclusively serving the Tenant's Premises, Landlord will, at no cost to Landlord, allow Tenant, at Tenants own cost, to access, modify, add and/or replace existing Landlord building control and monitoring system(s) hardware / infrastructure in compliance with Tenants technical and security requirements, subject in all respects to Landlord's reasonable approval.
 - b. For new buildings / pre-construction: At Tenant's own cost, Landlord agrees to procure, install and commission Landlord building control and monitoring system(s) hardware / infrastructure that fully comply with Tenant's technical and

security requirements, subject in all respects to Landlord's reasonable approval and at no cost to Landlord.

5. Tenant's data requirements

- a. Tenant will be allowed to store any data collected by Tenant (as detailed above) on one or more servers which are owned or controlled by Tenant.
- b. Landlord acknowledges that any data collected as it relates to Tenant's use is the property of Tenant.
- c. Landlord will maintain Tenant's right to anonymity with regard to the data produced by the Landlord building control and monitoring system(s) by excluding or removing any information in the control system and its associated database that could specifically identify Tenant.

6. Tenant's cyber security requirements. Landlord shall use reasonable efforts to follow best practice IT cyber security requirements for the design and management of the Landlord building control and monitoring system(s) in their control as described in the Appendix "Cyber Security Guidance to Landlords" and Google lot security requirements (URLI https://partnersecurity.withgoogle.com/docshot_requirements) as previously furnished to Landlord, provided, however, such efforts shall be at no cost to Landlord.

7. Technical Appendix

- a. Further details in relation to Tenant's requirement for a Digital (Smart) Building are set out in the Technical Appendix below.

8. Cybersecurity Audits

- a. If requested by the tenant, the Tenant and the Landlord shall work together to mutually agree a commercial and technical approach to jointly execute a cybersecurity Audit of the Landlord building control and monitoring system(s) owned and operated by the Landlord. Parties to agree to make reasonable efforts to reach an agreement within a reasonable time after the execution of this Amendment. Upon execution of the Audit, any recommendations to improve/remedy the cyber security status of the Landlord building control and monitoring system(s) shall be considered by the Landlord, and where any serious vulnerabilities are identified the parties will agree on rectification measures required and allocation of these costs.

TECHNICAL APPENDIX

Cyber Security Guidance to Landlords

To help landlords take initial steps and provide a better platform for providing secure building IT facilities the list below provides rudimentary criteria to help improve IT security of the Landlord building control and monitoring system(s) infrastructure.

Applying the below will provide a solid foundation to provide secure IT operations within a building facility environment, it does not provide all the possible mitigations and improvements that can/should be implemented.

Physical Security

- Shared facilities and building IT equipment should be locked in secure rooms at racks
- Access is only available to approved operators, and potentially recorded / monitored,
- Physical access is allocated on an individual (no shared keys) basis.

Network Security

- All networks are access controlled with client monitoring.
 - *Example:* network clients must authenticate successfully with authentication service before being granted network services.
- Shared facility and/or building IT network equipment does not share network services with any other tenant/public network
 - *Example:* Building management equipment must be logically segmented or physically separated from any open or public network infrastructure also provided within the facility
- All networks are protected by network access control or firewall capabilities.
- Inbound traffic from the internet is restricted and recorded. Ideally, blocked.
 - *Example:* network connections originating from the Internet are only allowed if they are specifically enabled on packet filtering or firewall devices. Those connections are monitored and logs maintained.
- No open wireless networks related to shared facilities or building IT equipment.
 - *Example:* Equipment and systems used to manage / operate facilities are not connected to any open or publicly shared wireless networks. If wifi is a necessary component of the building management network, it must be private and closely managed / monitored.

Software Security and Access Controls

- No default username password across all infrastructure (including device, network, system, software, service).
 - i. *Example:* Facilities to ensure default password are immediately changed upon installation. Device and system should be checked post-servicing to ensure defaults are not-reintroduced.
- Only necessary network and software services are enabled on installed systems (unnecessary software and services removed).
 - *Example:* Devices / systems do not enable unnecessary or superfluous services. They should only run the minimal amount of services needed to complete the tasks expected.
- Centralized and managed access control (network, system, software, service, and maintenance systems).
 - *Example:* all system and network access is controlled centrally and access is logged and monitored. Users have individually identifiable accounts, Network system can be uniquely and easily identified.
- Associated Software-as-a-Service (SaaS) services related to building management are managed and access controlled with the same diligence as on-site systems.
 - *Example:* Facility vendor to manage the accounts and access of SaaS providers, their systems, and their operators. Also ensure that deliberate or inadvertent access/privilege expansion is quickly identified and removed.
- Follow the principle of least privilege for access control where each entity or role has only enough privileges necessary to complete their own tasks.
 - *Example:* Lift/elevator maintenance engineers are only able to access systems related specifically to the lift/elevator. The systems they use only have access to the network services required to operate properly.

Operational Management

- Regular system inventory (preferably automated) audit capabilities
 - *Example:* Inventory management system tracking network device and user access routinely produces weekly/monthly reports (e.g. total devices, users, new devices, new users, removed / offline devices)
- Regular and timely software update and patching schedules
 - *Example:* Routine weekly/monthly patch update cycle is operated and monitored. Process for critical patch update and successful implementation is maintained.
- Practical replacement of end-of-life (EOL) IT equipment

- *Example:* Equipment is replaced before EOL or before critical maintenance services expire. EOL date is tracked in a management service.
- Regular operator and access inventory (preferably automated) audit capabilities
 - *Example:* Quarterly audit of user accounts and access levels on each service, removing former employees / vendors. Review audit logs for changes performed by accounts with elevated privileges.
- Practical and reliable fault / error reporting and break/fix service
 - *Example:* Utilize a monitoring service that can send alerts to specified parties and escalate when the issue is still present. Utilize services or enable features that can perform fault detection and automated repair.

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

I, Shane Trigg, 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 Rules 13a-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: October 26, 2023

/s/ Shane Trigg

Shane Trigg

Chief Executive Officer

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

I, Fay Sien Goon, 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 Rules 13a-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: October 26, 2023

/s/ Fay Sien Goon

Fay Sien Goon
Chief Financial Officer

**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 September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"):

I, Shane Trigg, 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: October 26, 2023

By: /s/ Shane Trigg
Shane Trigg
President and Chief Executive Officer

I, Fay Sien Goon, 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: October 26, 2023

By: /s/ Fay Sien Goon
Fay Sien Goon
Chief Financial Officer