

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 8-K

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

Date of Report (Date of earliest event reported): October 29, 2018

AppFolio, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

001-37468

(Commission File Number)

26-0359894

(IRS Employer Identification Number)

50 Castilian Drive

Santa Barbara, CA 93117

(Address of principal executive offices)

Registrant's telephone number, including area code: **(805) 364-6093**

N/A

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

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

Item 2.02. Results of Operations and Financial Condition.

On October 29, 2018, AppFolio, Inc. (the “Company”) issued a press release announcing its financial results for its third fiscal quarter ended September 30, 2018. A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

The information contained in this Item 2.02, including the press release attached as Exhibit 99.1 hereto, is being furnished and shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liability of that Section. Such information shall not be deemed to be incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing, except as otherwise expressly set forth by specific reference in such a filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits:

| Exhibit Number | Description |
|---------------------------|--|
| 99.1 | <u>Press release issued on October 29, 2018.</u> |

SIGNATURE

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

AppFolio, Inc.

By: /s/ Ida Kane

Name: Ida Kane

Title: Chief Financial Officer

EXHIBIT INDEX

| Exhibit Number | Description |
|---------------------------|---|
| 99.1 | Press release issued on October 29, 2018. |



News Release

AppFolio, Inc. Announces Third Quarter 2018 Financial Results

SANTA BARBARA, Calif., October 29, 2018 (GLOBE NEWSWIRE) -- AppFolio, Inc. (NASDAQ: APPF) ("AppFolio" or the "Company"), a leading provider of cloud-based business software solutions, today announced its financial results for the quarter ended September 30, 2018 and has updated its financial guidance for fiscal year 2018.

AppFolio's operating results for the third quarter of 2018 are summarized in the tables accompanying this press release. The Company nevertheless urges investors to review its Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission (the "SEC") on February 26, 2018, as well as its more detailed third quarter 2018 results that will be included in the Company's Quarterly Report on Form 10-Q, which will be filed with the SEC on October 29, 2018. These periodic report filings, together with other documents the Company files with the SEC from time to time, will be accessible on AppFolio's website, <http://ir.appfolioinc.com>. The limited information that follows in this press release is not adequate for making an informed investment judgment.

Financial Outlook

Based on information available as of October 29, 2018, AppFolio has updated its financial guidance for fiscal year 2018 as follows:

- Full year revenue is expected to be in the range of \$187 million to \$188 million.
- Diluted weighted average shares outstanding are expected to be approximately 36 million for the full year.

Conference Call Information

As previously announced, the Company will host a conference call today, October 29, 2018 at 1:30 p.m. Pacific Time, 4:30 p.m. Eastern Time, to discuss its financial results. Investors are invited to submit questions to management via the Investor Q&A form located on the Investor Overview section of AppFolio's website.

A live webcast of the call will be available at <http://ir.appfolioinc.com>, and it may also be accessed by dialing 866-393-4306 (Domestic), or 734-385-2616 (International). The conference ID is 1199261. A replay will be available at 855-859-2056 (Domestic) and 404-537-3406 (International) until the end of day November 1, 2018, and an archived webcast will be available for 12 months on the Company's website.

About AppFolio, Inc.

AppFolio's mission is to revolutionize vertical industry businesses by providing great software and service. Our cloud-based solutions serve customers in the real estate and legal markets. Today our products include property management software (AppFolio Property Manager) and legal practice management software (MyCase). AppFolio was founded in 2006 and is headquartered in Santa Barbara, CA. Learn more at www.appfolioinc.com.

Investor Relations Contact: ir@appfolio.com

Forward-Looking Statements

This press release contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which statements are subject to considerable risks and uncertainties. Forward-looking statements include all statements that are not statements of historical fact contained in this press release, and can be identified by words such as “anticipates,” “believes,” “seeks,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “could,” “will,” “would,” or similar expressions and the negatives of those expressions. In particular, forward-looking statements contained in this press release relate to the Company's future or assumed revenue and fully diluted weighted-average outstanding shares.

Forward-looking statements represent AppFolio's current beliefs and assumptions based on information currently available. Forward-looking statements involve numerous known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Some of the risks and uncertainties that may cause the Company's actual results to materially differ from those expressed or implied by these forward-looking statements are described in the section entitled “Risk Factors” in AppFolio's Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the SEC on February 26, 2018, as well as in the Company's other filings with the SEC. You should read this press release with the understanding that the Company's actual future results may be materially different from the results expressed or implied by these forward looking statements.

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

CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(in thousands, except par values)

| | September 30, 2018 | December 31, 2017 |
|---|-----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 13,745 | \$ 16,109 |
| Investment securities—current | 31,823 | 29,800 |
| Accounts receivable, net | 5,489 | 3,387 |
| Prepaid expenses and other current assets | 10,916 | 4,546 |
| Total current assets | 61,973 | 53,842 |
| Investment securities—noncurrent | 19,861 | 22,401 |
| Property and equipment, net | 6,699 | 6,696 |
| Capitalized software, net | 19,172 | 17,609 |
| Goodwill | 15,548 | 6,737 |
| Intangible assets, net | 6,179 | 1,725 |
| Other assets | 6,757 | 1,238 |
| Total assets | \$ 136,189 | \$ 110,248 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 1,108 | \$ 610 |
| Accrued employee expenses | 7,493 | 10,710 |
| Accrued expenses | 7,715 | 4,289 |
| Deferred revenue | 3,172 | 7,080 |
| Other current liabilities | 1,296 | 1,223 |
| Total current liabilities | 20,784 | 23,912 |
| Other liabilities | 7,042 | 1,257 |
| Total liabilities | 27,826 | 25,169 |
| Stockholders' equity: | | |
| Preferred stock, \$0.0001 par value, 25,000 authorized and no shares issued and outstanding as of September 30, 2018 and December 31, 2017 | — | — |
| Class A common stock, \$0.0001 par value, 250,000 shares authorized as of September 30, 2018 and December 31, 2017; 15,984 and 14,879 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively; | 2 | 1 |
| Class B common stock, \$0.0001 par value, 50,000 shares authorized as of September 30, 2018 and December 31, 2017; 18,250 and 19,102 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively; | 2 | 3 |
| Additional paid-in capital | 155,556 | 152,531 |
| Accumulated other comprehensive loss | (232) | (209) |
| Accumulated deficit | (46,965) | (67,247) |
| Total stockholders' equity | 108,363 | 85,079 |
| Total liabilities and stockholders' equity | \$ 136,189 | \$ 110,248 |

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(in thousands, except per share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | \$ 50,126 | \$ 37,903 | \$ 139,706 | \$ 105,906 |
| Costs and operating expenses: | | | | |
| Cost of revenue (exclusive of depreciation and amortization) | 19,282 | 14,053 | 53,624 | 40,747 |
| Sales and marketing | 8,681 | 7,257 | 23,711 | 21,556 |
| Research and product development | 6,440 | 4,367 | 17,523 | 11,998 |
| General and administrative | 6,541 | 5,405 | 17,105 | 15,310 |
| Depreciation and amortization | 3,705 | 3,237 | 10,784 | 9,347 |
| Total costs and operating expenses | 44,649 | 34,319 | 122,747 | 98,958 |
| Income from operations | 5,477 | 3,584 | 16,959 | 6,948 |
| Other income (expense), net | 1 | (5) | (20) | (93) |
| Interest income, net | 229 | 155 | 631 | 377 |
| Income before provision for income taxes | 5,707 | 3,734 | 17,570 | 7,232 |
| Provision for income taxes | 183 | 52 | 252 | 93 |
| Net income | \$ 5,524 | \$ 3,682 | \$ 17,318 | \$ 7,139 |
| Net income per common share: | | | | |
| Basic | 0.16 | 0.11 | 0.51 | 0.21 |
| Diluted | 0.16 | 0.10 | 0.49 | 0.20 |
| Weighted average common shares outstanding: | | | | |
| Basic | 34,219 | 33,905 | 34,154 | 33,817 |
| Diluted | 35,610 | 35,205 | 35,524 | 35,091 |

Stock-Based Compensation Expense

(in thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| Costs and operating expenses: | | | | |
| Cost of revenue (exclusive of depreciation and amortization) | \$ 282 | \$ 189 | \$ 752 | \$ 527 |
| Sales and marketing | 270 | 186 | 708 | 516 |
| Research and product development | 218 | 173 | 730 | 471 |
| General and administrative | 994 | 1,040 | 2,229 | 2,790 |
| Total stock-based compensation expense | \$ 1,764 | \$ 1,588 | \$ 4,419 | \$ 4,304 |

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Cash from operating activities | | | | |
| Net income | \$ 5,524 | \$ 3,682 | \$ 17,318 | \$ 7,139 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 3,705 | 3,237 | 10,784 | 9,347 |
| Purchased investment premium, net of amortization | 5 | 82 | 99 | (22) |
| Amortization of deferred financing costs | 16 | 16 | 48 | 48 |
| Amortization of deferred costs | 547 | — | 1,312 | — |
| (Income) loss on disposal of property and equipment | (2) | 5 | 18 | 94 |
| Stock-based compensation | 1,764 | 1,588 | 4,419 | 4,304 |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | 703 | 813 | (1,465) | (908) |
| Prepaid expenses and other current assets | (4,655) | (644) | (5,214) | (856) |
| Other assets | (3,176) | (3) | (5,003) | (54) |
| Accounts payable | (362) | 688 | 477 | 369 |
| Accrued employee expenses | (1,185) | 270 | (3,225) | 846 |
| Accrued expenses | 1,964 | 919 | 3,397 | 1,713 |
| Deferred revenue | (958) | (529) | (4,247) | (130) |
| Other liabilities | 5,657 | (434) | 5,883 | (334) |
| Net cash provided by operating activities | 9,547 | 9,690 | 24,601 | 21,556 |
| Cash from investing activities | | | | |
| Purchases of property and equipment | (1,160) | (843) | (1,740) | (1,680) |
| Additions to capitalized software | (3,492) | (2,814) | (8,997) | (8,085) |
| Purchases of investment securities | (7,952) | (2,000) | (28,784) | (17,597) |
| Sales of investment securities | 696 | 15 | 701 | 15 |
| Maturities of investment securities | 12,882 | 3,485 | 28,477 | 10,974 |
| Cash paid in business acquisition | (14,441) | — | (14,441) | — |
| Purchases of intangible assets | — | — | — | (1) |
| Net cash used in investing activities | (13,467) | (2,157) | (24,784) | (16,374) |
| Cash from financing activities | | | | |
| Proceeds from stock option exercises | 55 | 122 | 713 | 508 |
| Tax withholding for net share settlement | (400) | (263) | (2,894) | (1,608) |
| Proceeds from issuance of debt | 30 | 29 | 93 | 88 |
| Principal payments on debt | (30) | (29) | (93) | (88) |
| Net cash used in financing activities | (345) | (141) | (2,181) | (1,100) |
| Net (decrease) increase in cash and cash equivalents | (4,265) | 7,392 | (2,364) | 4,082 |
| Cash, cash equivalents and restricted cash | | | | |
| Beginning of period | 18,438 | 7,816 | 16,537 | 11,126 |
| End of period | \$ 14,173 | \$ 15,208 | \$ 14,173 | \$ 15,208 |

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

| | <u>September 30,</u> | |
|--|----------------------|------------------|
| | <u>2018</u> | <u>2017</u> |
| Cash and cash equivalents | \$ 13,745 | \$ 14,781 |
| Restricted cash included in other assets | 428 | 427 |
| Total cash, cash equivalents and restricted cash | <u>\$ 14,173</u> | <u>\$ 15,208</u> |