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

FORM 10-K

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

For the fiscal year ended December 31, 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	**26-0359894**
(State of incorporation or organization)	***(I.R.S. Employer Identification No.)***
70 Castilian Drive **Santa Barbara, California**	***93117***
(Address of principal executive offices)	***(Zip Code)***

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

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Class A common stock, par value $0.0001 per share	APPF	The NASDAQ Stock Market LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price of the registrant's Class A common stock on June 30, 2023 (the last business day of the registrant's mostly recently completed second fiscal quarter), as reported on the NASDAQ Global Market on such date, was approximately $4.352 billion. Shares of the registrant's Class A common stock and Class B common stock held by each executive officer, director and holder of 10% or more of the registrant's outstanding Class A common stock and Class B common stock have been excluded from this calculation as such persons may be deemed to be affiliates. The determination of affiliate status for this purpose does not reflect a determination that any of such persons shall be deemed to be an affiliate of the registrant for any other purpose.

At January 25, 2024, the number of shares of the registrant's Class A common stock outstanding was 21,751,154 and the number of shares of the registrant's Class B common stock outstanding was 14,116,418.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2024 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed with the Securities and Exchange Commission (the "SEC") pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K (this "Annual Report"), are incorporated by reference in Part III, Items 10-14 of this Annual Report. Except for the portions of the Proxy Statement specifically incorporated by reference in this Annual Report, the Proxy Statement shall not be deemed to be filed as part hereof.

APPFOLIO, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023

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PART I

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (this "Annual 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 Annual 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 “Risk Factors” and elsewhere in this Annual Report. 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 Annual 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 Annual Report to reflect events or circumstances after the date of this Annual Report or to reflect new information or the occurrence of unanticipated events, except as required by law.

ITEM 1. BUSINESS

Unless otherwise stated in this Annual Report, references to "AppFolio," "we," "us," and "our" refer to AppFolio, Inc. and its consolidated subsidiaries.

Overview

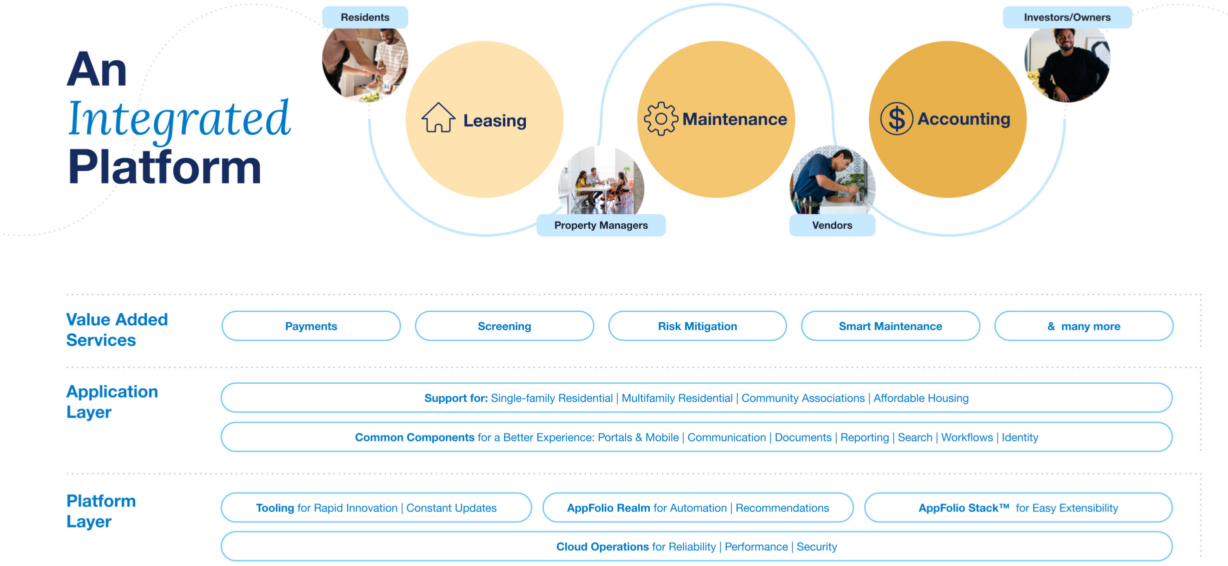
Founded in 2006, AppFolio is a leading provider of cloud business management solutions for the real estate industry. Our solutions are designed to enable our property manager customers to digitally transform their businesses, address critical operations, and deliver a better customer experience. Digital transformation is effectively a requirement for business success in the modern world, and the way we work and live today requires powerful software solutions.

AppFolio solutions are designed to meet that need in the real estate industry. We help our customers navigate an increasingly interconnected and growing network of stakeholders in their business ecosystems, including property owners, real estate investment managers, rental prospects, residents, and vendors, and provide key functionality related to critical transactions across the real estate lifecycle, including screening potential tenants, sending and receiving payments and providing insurance-related risk mitigation services. AppFolio’s intuitive interface, streamlined workflows, and artificial intelligence ("AI") powered automation services 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.

Our platform, which is designed for use across multiple devices and operating systems, is (i) a system of record to centralize and automate essential business processes, (ii) a system of engagement to enhance business interactions between our customers and their network of stakeholders, and (iii) a system of intelligence to leverage data to predict and optimize business workflows in order to enable exceptional customer experiences and increase efficiency across our customers' businesses. Our solutions are offered as a service, and are hosted using a public cloud service provider.

We rely on strategic partners and third-party service providers to deliver certain aspects of our solutions, and strive to provide a seamlessly integrated experience for our customers and their stakeholders. We believe our customer-centric culture drives a focus on customer satisfaction that leads to long-term retention and, ultimately, to our long-term success.

Our Core Solutions



Our Platform

AppFolio provides a cloud-based platform on which our customers operate their businesses, leveraging process automation and optimized workflows. The platform is enhanced with AppFolio Realm, a suite of AI-powered tools that assist with Leasing, Maintenance and Accounting and that includes generative AI to answer questions, perform tasks and automate common workflows. The platform also includes AppFolio Stack, our partner ecosystem that allows customers to connect our platform with specialized technology and services offered by third parties. The platform is frequently updated to provide new innovations and respond to market trends and customer needs.

AppFolio Property Manager Core

AppFolio Property Manager Core provides the basic functionality required to operate a property management business. Centered on accounting, AppFolio Property Manager Core serves as our customers' system of record. All critical transactions are completed and recorded in the system, giving our customers access to the data they need. It also serves as their system of engagement as they interact with key stakeholders in their business ecosystem, including residents living at their properties, owners and investors owning those properties, and vendors providing products and services to the properties. Both aspects of the system are inherently interconnected so that day-to-day interactions, such as residents paying rent through the AppFolio Property Manager mobile app, are instantly reflected in the system of record. AppFolio Property Manager Core is best suited for small property management companies that need a system that is comprehensive yet easy to use.

AppFolio Property Manager Plus

AppFolio Property Manager Plus includes the functionality of AppFolio Property Manager Core and adds an expanded set of functionalities designed to meet the needs of more complex, growing property management businesses. This includes support for affordable housing management, student housing management, more complex accounting needs, deeper leasing insights, bulk actions to support larger scale operations, role-based permissions to allow managing a larger team, Stack integrations to extend our platform's functionality, and enhanced customer support.

AppFolio Property Manager Max

AppFolio Property Manager Max includes the functionality of AppFolio Property Manager Plus and adds functionality designed to meet the needs of even larger property management businesses. This includes an end-to-end leasing funnel with built-in Customer Relationship Management ("CRM") functionality, increased customization with user-defined fields, full access to the customer database through an application programming interface, and dedicated customer success management.

Value Added Services

AppFolio Property Manager offers Value Added Services that supplement our core services and are often mission-critical for enhancing, automating and streamlining business-critical processes and workflows. These services build on functionality and workflows in our core solutions and generally fall into the categories of marketing and leasing, electronic payment services, business optimization, and risk mitigation. We strive for a seamless experience for our customers that increases their efficiency while not sacrificing ease of use, whether services are offered by AppFolio or by a third-party partner. Utilization and adoption of our Value Added Services is typically higher for residential properties than community association or commercial properties because of the unique and complex needs of the residential rental lifecycle.

We empower our customers and their network of stakeholders with a wide variety of Value Added Services, primarily:

- ***Payments.*** Our electronic payment services allow property managers to streamline their receivables and payables through a variety of online payment options. Property managers can collect funds through our secure online portal, our mobile application and/or via electronic cash payments from various stakeholders, including applicants, residents, vendors, and property owners. Types of funds that may be collected include rental application fees, security deposits, rent payments, and other tenant charges; contributions from property owners; and periodic dues from those living in community associations. Property managers can also electronically send funds to various stakeholders, including property owners, vendors, and even to their own management company.
- ***Screening.*** Our tenant screening services include background screening, credit checks, income verification, and a streamlined rental history verification process for use in connection with the rental application process.
- ***Risk Mitigation.*** Through our FolioGuard™ brand, we offer risk mitigation products for residents and property managers. FolioGuard Smart Ensure is a software tool that allows property management customers to enforce insurance coverage requirements within their leases by tracking coverage of their units and adding uncovered units to a qualifying liability to landlord insurance policy via a licensed insurance broker. FolioGuard Renters Insurance provided by AppFolio Insurance Services, Inc., a wholly-owned subsidiary of AppFolio, protects the personal belongings of renters, as well as the property itself, from certain unexpected damages.

We experience some seasonality in our Value Added Services revenue. See Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" for additional details regarding seasonality of revenue.

Our Growth Strategy

Our growth strategy involves providing valuable business management solutions to new and existing customers in the real estate industry. Our goal is to leverage our growing footprint to expand our share of the property management industry segment. Key components of our near and extended term growth strategy include:

Differentiate to Win. We will strive to continue to create a differentiated product experience that solves customer needs and creates new revenue streams for AppFolio. Advanced technologies, such as Realm and its generative AI capabilities, are designed to unlock increased productivity and efficiency gains for customers. Continued innovation in onboarding tools, processes, and workflows are designed to remove barriers for customers to switch to AppFolio, while accelerating use and adoption. Through new, complementary products and services, our goal is to extend value throughout the property technology ecosystem, for both property managers and residents.

Unlock Upmarket Customers. We will continue to focus on attracting larger operators with complex and diversified property portfolios, who derive value from managing their entire portfolio on a single platform. Through our AppFolio Stack marketplace, we extend the value of our platform by integrating with external partners who offer a diversified suite of everyday services.

Elevate the Customer. We believe our growing customer base needs differentiated service experiences that are easy, and accessible. We will focus the efforts of our customer-facing teams on driving use and adoption of our products and services, helping customers to achieve success on our platform. We will gain leverage in our service experience through self-service and automation, as well as through our solution partners who will enable us to quickly expand the AppFolio service offering. Additionally, we will empower our customers and their networks of stakeholders through the continued development and adoption of Value Added Services in such areas as payments, screening, and risk mitigation.

Scale the Business. We strive to operate with high efficiency across our organization. We will continue our efforts to efficiently and effectively scale our capabilities, processes, and systems to adapt and grow with our business, and continually align the value of our offerings to the size, scale, and complexity of our customers, while upholding a rigorous standard of privacy, protection, compliance, and ethics.

Great People and Culture. Our goal is to empower AppFolio employees to deliver exceptional value for customers and shareholders through continuous innovation, excellence, and meaningful work. We will continue to streamline our people processes, programs, and systems to fuel high performance. We believe fostering a connected and inclusive workplace is fundamental to AppFolio's success.

Our Customers

We define customers as those paying for a subscription to our core solutions. As of December 31, 2023, we had 19,737 property management customers.

Customer Service

We believe our success is tied to long-term customer relationships, not a one-time sale. Our team is structured to deliver continuous service; this includes ongoing live and on-demand training, a library of resources, and personalized account management. We regularly measure our Net Promoter Score and solicit customer feedback in a variety of ways in an effort to continue to better serve our customers. We utilize a tiered engagement model to align the value we deliver with the value we capture from our customers, including add-on offerings such as tailored training and certification programs.

Onboarding consists of a dedicated team that works to ensure that customers are prepared to run their businesses on our platform. As a result of our assistance with data migration matters, we are able to provide valuable insights into data integrity and work with our customers to help resolve any issues in their underlying business processes. We also assist our customers with the configuration of our products for particular property types, as appropriate. We share insights on best practices for the markets we serve and dedicate resources to guide our customers through the adoption and utilization of our Value Added Services.

Sales and Marketing

We leverage a modern and scalable marketing approach along with marketing automation technology to attract and engage prospects and build brand recognition as an industry leader. We participate in industry thought leadership and education, and we use a variety of inbound and outbound marketing techniques to promote AppFolio solutions.

Our business development team acts in partnership with our marketing and sales teams to reach potential customers, generate sales opportunities, and accelerate the time from evaluation to close. Our sales representatives assist prospective customers as they evaluate our products. Our interactive sales methodology allows our sales team to quickly build relationships, assess our customers' business challenges, and demonstrate the benefits of our core functionality and, where applicable, Value Added Services.

Technology and Operations

Our products are powered by a highly scalable computing platform and are designed with a strong focus on data security and availability. We take great care to keep our application framework and the rest of our software stack current in order to mitigate known security vulnerabilities. Our computing platform and cloud infrastructure are primarily powered by Amazon Web Services platform. In order to ensure that data is not lost and that customer requests can be satisfied, production assets are securely replicated and regularly backed up to multiple geographic regions.

We monitor our production infrastructure to ensure high performance and availability, and our architecture allows our operators significant flexibility in achieving these goals. In particular, we have fine-grained control over the specific server and region on which each customer's data resides, and can move such data between different geographic regions in order to avoid service disruption or to increase service performance.

All sensitive data in our systems, including passwords, Social Security numbers, and tax identification numbers, is encrypted during transmission, and before being written to disk. We regularly evaluate our product and infrastructure security, including through third-party penetration testing. In addition, our products allow our customers to define roles that provide different levels of access to users, allowing them to view and modify specific items depending on their role. Supervisors can distribute work to staff in a secure and controlled environment, while leadership retains visibility across the entire system. Some sensitive customer actions require secondary verification via two-factor authentication, and any customer can enable two-factor authentication for logging into their account.

Research and Product Development

We rely heavily on input from our customers and prospective customers in developing products that meet their needs and in anticipating developments in their businesses. We perform research and market validation efforts to guide our product roadmap. We believe that it is easier for our customers to adjust to continuous updates to our platform, which incrementally change and improve their user experience, than to adapt to infrequent, but more drastic, upgrades.

Competition

The overall market for business management solutions in the real estate and other industries is global, highly competitive, and continually evolving to respond to changes in technology, operational requirements, and ever-changing laws and regulations. We believe our competitors primarily fall into the following categories:

- On-premise or cloud-based vertical real estate business management service providers that serve companies of all sizes in our markets; and
- On-premise or cloud-based horizontal business management service providers that offer broad solutions across multiple industries.

We also experience competition from numerous cloud-based solution providers that focus almost exclusively on one or more point solutions in the real estate industry or in other industries. Continued consolidation among cloud-based point solution providers could significantly increase competition.

Some of our competitors may have greater financial, technical and other resources, greater name recognition and larger sales and marketing budgets; therefore, we may not always compare favorably with respect to some or all of the foregoing factors. Further, the barrier to entry for competition in one or more areas we serve may be low, which could lead to competition from new entrants who solve similar problems in different ways.

Intellectual Property

We rely on a combination of patents, copyrights, trademarks, trade secrets, confidentiality procedures and contractual restrictions to establish and protect our proprietary rights in our core solutions and Value Added Services. We may pursue additional patent protection to the extent we believe it would be beneficial and cost-effective.

We control access to our proprietary technology by entering into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with third parties. We also limit access to certain confidential information or trade secret information, including our source code, to those who have a need for such access. Despite our precautions, it may be possible for unauthorized third parties to copy our products and use information that we regard as proprietary to create products and services that compete with ours.

Human Capital

We believe our people are at the heart of our success and our customers' success. We drive our success by investing in our people, and cultivating an exceptional work destination where they want to be and stay. Our company culture, driven by the following six core values, fuels our purpose and results:

- Great people make a great company.
- Listening to customers is in our DNA.
- Innovation powers success.
- Simpler is better.
- Do the right thing; it’s good for business.
- Build trust every day.

As of December 31, 2023, we had 1,504 employees. We routinely engage temporary employees and consultants. We consider our relationships with our employees and consultants to be strong. To maintain this strong relationship and attract new talent, our human capital management efforts focus on the following initiatives:

Diversity, Equity, and Inclusion. Diversity is core to our values and, we believe, necessary to drive innovation and collective growth. Our commitment to diversity, equity and inclusion starts at the leadership level and cascades to our talented employees. Through employee-led resource groups, we strive to cultivate an environment where individual uniqueness is valued, fostering a sense of belonging. Our commitment to transparency, open communication, and regular listening forums ensures that every employee's voice is not only heard but actively contributes to our inclusive culture.

When we conducted a voluntary survey of our workforce in 2023, of those who elected to share, approximately 57% identified as men, 42% identified as women, and 1% identified as outside of the gender binary. Additionally, approximately

63% identified as White, 14% identified as Asian, 11% identified as Hispanic or Latino, 7% identified as two or more races, 4% identified as Black, and less than 1% identified as American Indian, Alaska Native, Native Hawaiian or Pacific Islander.

Employee Development. We invest significant resources to develop the talent needed to remain at the forefront of innovation and make us an employer of choice. Employees throughout our organization have access to tailored training and learning programs designed both for our entire employee base as well as for distinct employee audiences. Our quarterly engagement survey provides a platform for employees to provide anonymous feedback directly to their managers and our executives.

Societal Impact. We create a culture of impact by striving to be a force for good for our customers, communities, and each other. We encourage employee volunteerism through our employee-led Give Back Committee and company-wide benefit of eight hours of paid volunteer time off annually. Our corporate philanthropy program "AppFolio Gives Back" supports housing affordability, an ongoing challenge in the real estate industry, through a combination of employee fundraising, team volunteering, and a corporate matching gift program.

Environmental Stewardship. We believe in a culture of environmental stewardship and strive to create environmentally friendly workplaces. We maintain sustainability requirements that all contractors who work in or around our buildings are required to follow. Examples of these requirements include recycling of all demolished or removed materials whenever possible, installation of energy efficient HVAC units, low power LED lighting and fixtures, and native, drought resistant landscaping.

Compensation and Benefits. We build a culture of high performance that recognizes and rewards those who deliver meaningful results. Our compensation and benefits programs support the wellness of our employees and their families so they feel they can live their best lives both at work and at home. Our competitive compensation packages may include base salary, commission or annual performance-based bonuses, and stock-based compensation. We also offer paid parental leave, paid sabbaticals, paid leave to care for family members, and access to fertility networks and discounts on fertility care. We review our programs periodically to ensure they remain competitive.

Health, Safety, and Wellness. We are committed to providing a safe workplace for our employees and assisting them in maintaining a healthy work-life balance. We regularly solicit feedback to assess the well-being and needs of our employees and offer resources focused on mental health and physical wellness. Our office locations are intentional spaces where we fuel innovation, collaboration, and celebrate successes together. We have also embraced a hybrid work model, where many of our employees work out of one of our offices several days a week and others work remotely.

Available Information

Copies of the reports, proxy statements and other information may also be obtained, free of charge, electronically through our corporate website, at www.appfolioinc.com, as soon as reasonably practical after we file such material with, or furnish it to, the SEC.

ITEM 1A. RISK FACTORS

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

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

Risks Related to Our Products and Solutions

In the event we are found to be in violation of the legal requirements applicable to our products and services, our business and operating results may be adversely affected.

Many of our products and services are highly regulated or intended to be used in connection with other highly regulated activities. Some of the laws and regulations to which our products and services are subject include, without limitation:

- the Fair Housing Act;
- the Fair Credit Reporting Act (the "FCRA");
- Title VII of the Civil Rights Act;

- the Telephone Consumer Protection Act;
- the Americans with Disabilities Act;
- the Electronic Signatures in Global and National Commerce Act; and
- the Federal Trade Commission Act.

State law equivalents of the foregoing, plus various state regulations related to insurance licensing and solicitation and privacy also apply to certain of our products and services. In addition, our products and services are subject to changing federal and state laws and regulations, the application or interpretation of which is not clear in some jurisdictions. Unfavorable regulations, laws, and administrative or judicial decisions interpreting or applying laws and regulations could subject us to litigation or governmental investigation and increase our cost of doing business, any of which may adversely affect our operating results. Further, the evolution and expansion of our products and services may subject us to additional risks and regulatory requirements. For example, as our electronic payments services business evolves, we may become subject to laws governing money transmission and anti-money laundering. Regulatory requirements vary throughout the markets in which we operate, and have increased over time as the scope and complexity of our products and services have expanded. Moreover, federal and state legislatures and regulatory agencies have indicated they are focused on protecting tenants. This focus may result in the introduction of new laws and regulations that are directly applicable to our business. There is no guarantee that we will not be subject to fines, criminal and civil lawsuits or other regulatory enforcement actions in one or more jurisdictions or be required to adjust business practices to accommodate regulatory requirements.

New and evolving regulatory requirements may also impact our customers and their ability or willingness to utilize our products and services. For instance, we are monitoring (i) FCRA rulemaking efforts by the Consumer Financial Protection Bureau and various recently enacted and proposed state regulations applicable to tenant screening, such as New Jersey's Fair Chance in Housing Act, and (ii) rulemaking efforts by the Federal Trade Commission ("FTC") and various recently enacted and proposed state regulations that govern, and in some cases limit, the advertising and collection of certain rental fees that may be deemed hidden, duplicative, or excessive, such as Colorado House Bill 1095. These new regulatory requirements may impact our ability to offer or our customers' ability and willingness to utilize certain of our services, which may impact our operating results.

We periodically undergo examinations, audits and investigations related to our services, including those related to the affairs of insurance companies and agencies and electronic payment services providers. Such examining, auditing, and investigating authorities are generally vested with relatively broad discretion to grant, renew and revoke licenses and approvals, to implement and interpret rules and regulations, levy fines and penalties, and bring enforcement actions. While we have implemented various programs, processes and controls focused on compliance with applicable laws and regulations throughout our business, there is no guarantee that we will not be subject to fines, penalties or other regulatory actions in one or more jurisdictions, or be required to adjust our business practices to accommodate future regulatory requirements. In the event that we are found to be in violation of our legal, regulatory or contractual requirements, we may be subject to monetary fines or penalties, cease-and-desist orders, mandatory product changes, or other liabilities that could have an adverse effect on our business and operating results.

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

Our electronic payment services business facilitates the processing of inbound and outbound payments for our customers. These payments are settled through our sponsoring clearing bank, card payment processors and other third-party electronic payment services providers that we contract with from time to time. Our electronic payment services subject us to a number of risks, including liability for customer costs related to disputed transactions. Additionally, with respect to the processing of electronic payment transactions by our third-party electronic payment services providers, we are exposed to financial risks that could affect our operating results. Electronic payment transactions between our customers and another individual may be returned for various reasons such as insufficient funds or stop payment orders. If we or any of our electronic payment services providers are unable to collect such amounts from the customer’s account, we bear the ultimate risk of loss for the transaction amount.

Our electronic payment services business also exposes us to risk in connection with theft, fraud and other malicious activity on the part of our employees, our partners’ employees, or third parties who improperly gain access to our systems or our customers’ systems. In the event of such activity, we may incur liability to compensate our customers, our customers' stakeholders, or payment partners for losses incurred. While we take reasonable measures to secure our systems and payments infrastructure, it is not possible to entirely eliminate the risk of intentional wrongdoing. In the past, third-party bad actors have gained improper access to our systems and our customers’ systems and we experienced financial loss as a result. If third party bad actors again gain access to our systems or our customers’ systems, or our employees or partners’ employees misuse our payment systems for malicious purposes, we could experience significant financial loss that may affect our operating results.

Changes to payment card networks or bank fees, rules, or practices could harm our business.

We do not directly access the payment card networks, such as Visa and MasterCard, that enable our acceptance of credit cards and debit cards, including some types of prepaid cards. Accordingly, we must rely on banks or other payment processors to process transactions and must pay fees for the services. From time to time, payment card networks have increased, and may increase in the future, the interchange fees and assessments that they charge for each transaction which accesses their networks. Our payment card processors may have the right to pass any increases in interchange fees and assessments on to us as well as increase their own fees for processing. Any changes in interchange fees and assessments could increase our operating costs and reduce our operating income. In addition, federal regulators have required Visa and MasterCard to reduce interchange fees, or have opened investigations as to whether Visa's or MasterCard's interchange fees and practices violate antitrust law. Any material change in credit or debit card interchange rates, including as a result of changes in interchange fee limitations, could have an adverse effect on our business.

We are required by our processors to comply with payment card network operating rules, including special operating rules for payment service providers to merchants, and we have agreed to reimburse our processors for any fines they are assessed by payment card networks as a result of any rule violations by us or our merchants. The payment card networks set and interpret the card operating rules. From time to time, the networks have alleged that various aspects of our business model violate these operating rules. If such allegations are not resolved favorably, they may result in material fines and penalties or require changes in our business practices that may be costly. In addition, the payment card networks could adopt new operating rules or interpret or re-interpret existing rules that we or our processors might find difficult or even impossible to follow, or costly to implement. As a result, we could lose our ability to give consumers the option of using payment cards to fund their payments. If we are unable to accept payment cards or are meaningfully limited in our ability to do so, our business would be adversely affected.

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

Our tenant screening services business is subject to a number of complex laws that are subject to varying interpretations, including the FCRA, the Fair Housing Act, and related federal and state regulations. The FCRA continues to be the subject of multiple class-based litigation proceedings, as well as numerous regulatory inquiries and enforcement actions. In addition, entities such as the FTC and the Consumer Financial Protection Bureau have the authority to promulgate rules and regulations that may impact our customers and our business and have made various public statements that tenant screening is an area of focus for such agencies. Although we attempt to structure our tenant screening services to comply with relevant laws and regulations, we are routinely accused of not complying with such laws and regulations and have been and may again in the future be found to be in violation of them. In addition, we have been and expect in the future to be subject to routine regulatory inquiries, enforcement actions, class-based litigation and/or indemnity demands.

As previously disclosed, in January 2021, we entered into a settlement agreement with the FTC to resolve allegations that we failed to comply with certain sections of the FCRA. In connection with the settlement, we paid a fine and agreed to ongoing compliance and reporting obligations. Our failure to comply with these obligations could result in material additional penalties or other actions by the FTC or other agencies, including enjoining our ability to provide screening services. In November 2023 we entered into a settlement, which is subject to court approval, in connection with certain allegations relating to the New Mexico Unfair Practices Act where we did not admit any liability. See the section of this Annual Report entitled "Legal Proceedings" for more information.

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

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

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

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

Our customers use our products to manage critical aspects of their businesses, and any errors, defects or other disruptions in the performance of our products, or the products of our third-party partners upon which certain of our products are dependent, may result in loss of or damage to our customers' data and disruption to our customers' businesses, which could harm our reputation and subject us to potential liability. Such product problems could be caused by a variety of factors, including infrastructure changes, power or network outages, fire, flood or other natural disasters, human or software errors, viruses, security breaches, fraud or other malicious activity, spikes in customer usage or distributed denial of service attacks. In addition, we provide continuous updates to our products and these updates may contain undetected errors when first introduced. In the past, we have discovered errors, failures, vulnerabilities and bugs in our updates after they have been released, and similar problems may arise in the future. Real or perceived errors, failures, vulnerabilities or bugs in our products could result in negative publicity, reputational harm, loss of customers, delay in market acceptance of our products and solutions, loss of competitive position, withholding or delay of payment to us, claims by customers for losses sustained by them and potential litigation or regulatory action. In any such event, we may be required to expend additional resources to help correct the problem or we may choose to expend additional resources to take corrective action even where not required. The costs incurred in correcting any material errors, defects or other disruptions could be substantial. In addition, we may not carry insurance sufficient to offset any losses that may result from claims arising from errors, defects or other disruptions in our products.

If our property management customers stop requiring insurance coverage for their units, if insurance premiums decline or if insureds experience greater than expected losses, our operating results could be harmed.

We generate a portion of our revenue by offering insurance-related risk mitigation services through wholly owned subsidiaries. If demand for rental housing declines, or if our property management customers believe that it may decline, these customers may stop requiring insurance coverage for their units to reduce the overall cost of renting and make their rental offerings more competitive. If our property management customers stop tracking and requiring insurance coverage for their units or elect to use other methods of tracking and acquiring insurance coverage, demand for our insurance-related risk mitigation products may drop and our revenues from such products could be adversely affected.

If we fail to maintain relationships with third-party partners that enable certain functionality within our solutions or provide our customers with specialized technology and services, our business and operating results may be harmed.

Certain functionality of our services is provided, supported or enhanced by third parties, including without limitation functions related to customer relationship management, cloud computing, texting, emailing, electronic payments, tenant screening, and insurance related offerings. In addition, our customers are able to integrate specialized, third-party technology and services through AppFolio Stack. If our third-party partners cease providing their products or making them available through AppFolio Stack, if such third parties are acquired by competitors or if we are otherwise unable to integrate with such third-party products, our solutions and demand for our solutions could be adversely impacted and our business and operating results would be harmed. In addition, our competitors may be more effective than us in cost-effectively building relationships with third parties that enhance their products and services, allow them to provide more competitive pricing, or offer other benefits to their customers. Acquisitions of our partners by our competitors or others could result in a decrease in the number of current and potential strategic partners willing to establish or maintain relationships with us, and could increase the price at which products or services are available to us. If we are unsuccessful in establishing or maintaining our relationships with third parties, our ability to compete in the marketplace or to grow our customer base and revenue could be impaired, which could negatively impact our operating results.

The development and use of AI in connection with our products may result in reputational harm or liability, which could adversely affect our business and operating results.

Our company employs machine learning and AI technologies, including generative AI, in our product and service offerings, and research into and continued development of such technologies remains ongoing. As AI represents a rapidly evolving field, it inherently carries a spectrum of risks typical to emerging technologies. We anticipate the enactment of new regulations and laws pertaining to AI usage, potentially placing us under increased regulatory oversight, escalating litigation risks, and augmenting our existing obligations regarding confidentiality and privacy. Such developments could negatively impact our business operations. Moreover, AI technologies introduce heightened cybersecurity risks and ethical considerations, potentially affecting our reputation and operational performance. Should we introduce solutions that generate content that is misleading, biased, harmful or controversial due to perceived or actual societal impact, we may face potential harm to our brand and reputation, competitive disadvantages, or even legal liabilities. AI algorithms and training methodologies may be flawed. ineffective or inadequate. AI development or deployment practices by us or others could result in incidents that impair the acceptance of AI solutions or cause harm to individuals or society. Further, the legal landscape regarding intellectual property rights in AI technologies remains unsettled in the United States, both in legislation and judicial precedent. Consequently, our engagement with AI technologies and features might lead to allegations of infringement or misappropriation of third-party intellectual property rights. This risk is intensified by the current trend of entities swiftly seeking patents and other intellectual property protections in AI to gain a competitive edge. Additionally, generative AI has the capacity to yield inaccurate or misleading results, promote discriminatory outcomes, or perpetuate unintended biases. Despite our efforts to implement measures and develop our AI tools in a manner that enhances security and fairness, these issues may arise due to the direct interaction of users with generative AI models and the inherent unpredictability and power of these technologies. Litigation or government regulation related to the use of AI may also adversely impact our ability to develop and offer products that use AI, as well as increase the cost and complexity of doing so. If we enable or offer solutions that draw controversy due to their perceived or actual impact on society, we may experience brand or reputational harm, competitive harm, or legal liability. Potential government regulation related to AI use and ethics may also increase the burden and cost in this area, and failure to properly remediate AI usage or ethics issues may cause public confidence in AI to be undermined. Such outcomes can result in reputational damage, legal liabilities, and adverse effects on our operational results.

There may be risks in leveraging AI capabilities to improve internal operations and functions.

Additionally, leveraging AI capabilities to potentially improve internal functions and operations presents further risks and challenges. While we aim to use AI ethically and attempt to identify and mitigate ethical or legal issues presented by its use, we may be unsuccessful in identifying or resolving issues before they arise. The use of AI to support business operations carries inherent risks related to data privacy and security, such as intended, unintended, or inadvertent transmission of proprietary or sensitive information, as well as challenges related to implementing and maintaining AI tools, such as developing and maintaining appropriate datasets for such support. Further, dependence on AI without adequate safeguards to make certain business decisions may introduce additional operational vulnerabilities, such as the introduction of source code that could infringe the intellectual property rights of third parties.

If we are unable to ensure that our solutions interoperate and keep pace with other technology, our solutions may become less competitive and our operating results may be harmed.

To remain competitive, we must continue to develop new product offerings, applications, features, and enhancements to our products. Maintaining adequate resources to meet the demands of our customers and the market is essential. If we are unable to develop our products and services, including through the development of emerging technologies, such as AI, we may miss market opportunities and our product may become less attractive to users. Our competitors may have or expend a greater amount of resources on improvement of technology, and our failure to maintain adequate development programs or compete effectively could materially and adversely affect our business. In addition, we depend on the interoperability of our platform with web browsers, and in the case of our mobile applications - operating systems, that we do not control. Any changes in such web browsers or systems that degrade the functionality of our solutions or give preferential treatment to competitive services could adversely affect the adoption and usage of our solutions. In addition, to deliver high quality solutions, we will need to continuously enhance and modify our functionality to keep pace with technical, contractual, and other changes in Internet-related hardware, mobile operating systems such as iOS and Android, browsers, communication, network and database technologies. We may not be successful in developing enhancements and modifications that operate effectively with these devices, operating systems, web browsers or other technologies or in bringing them to market in a timely manner. Furthermore, uncertainties regarding the timing or nature of new network platforms or technologies, and modifications to existing platforms or technologies, could increase our research and product development expenses. In the event that it is difficult for our customers to access and use our solutions, our solutions may become less competitive, and our operating results could be adversely affected.

Risks Related to Cybersecurity and Data Privacy

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

Our business involves the storage and transmission of sensitive and proprietary data and personal information collected by or on behalf of our customers, the personal information of our employees, customers, and prospective customers and our proprietary financial, operational and strategic information. Cyber-attacks, malicious Internet-based activity, online and offline fraud, and other similar activities may threaten the confidentiality, integrity, and availability of our information technology systems, or those of the third parties upon which we rely, along with the proprietary, confidential, and sensitive data stored in or processed by such systems. As our business grows, the number of individuals using our products, as well as the amount of information we collect, store, and process is increasing, and our brands are becoming more widely recognized, which makes us a greater target for malicious activity. We have incurred, and expect to continue to incur, significant expenses in connection with our efforts to keep our systems, products and networks protected and up to date. However, there can be no assurance that the security measures we employ will prevent malicious or unauthorized access to our systems or information. Furthermore, no security program can entirely eliminate the risk of human error, such as an employee or contractor's failure to follow one or more security protocols, which has previously occurred and we expect will occur again despite our efforts to train our employees and contractors on cybersecurity issues and enforce our security protocols. Additionally, with many of our employees continuing to work remotely, we face an increased risk of attempted security breaches and incidents. Therefore, despite our significant efforts to keep our systems, products and networks protected and up to date, we may be unable to anticipate new modes for cyber attacks, detect security incidents or react to them in a timely manner, or implement adequate preventive measures, any of which may expose us to a risk of loss, harm to our reputation, litigation, fines, penalties, and potential liability.

Computer malware, ransomware, viruses, social engineering (phishing, smishing and vishing attacks), denial of service or other attacks, employee theft or misuse, and increasingly sophisticated network attacks have become more prevalent in our industry, particularly against cloud service providers. The frequency and sophistication of these malicious attacks has increased, and it appears that cyber crimes and cyber criminal networks, some of which may be state-supported, have been provided substantial resources and may target U.S. enterprises or our customers and their use of our products. Furthermore, the risk of state-supported and geopolitical-related cyberattacks may increase in connection with ongoing global geopolitical tensions, such as the war in Ukraine and any related political or economic responses and counter-responses. In the past, we have had to take corrective action against cyber attackers to protect our cloud environment. If our security measures are, or are believed to have been breached or otherwise to have failed as a result of third-party action, employee error, malfeasance or otherwise, our reputation could be damaged, our business may suffer, and we could incur significant liability.

In addition, some of our third-party service providers and partners also collect, store or process our sensitive information and our customers' data on our behalf. These service providers and partners have been, and continue to be, subject to similar threats of cyber attacks and other malicious Internet-based activities. Our contracts with these third parties may not provide us with adequate remedies in the event of such an incident which could also expose us to risk of loss, litigation, fines, penalties, and potential liability.

If our security measures, or the security measures of our third-party service providers or partners, are breached as a result of wrongdoing or malicious activity on the part of our employees, our partners' employees, our customers' employees, or any third party, or as a result of any human error or neglect, product defect or otherwise, and this results in the loss, theft, misuse, unauthorized disclosure, or unauthorized access to personal data or other sensitive information, we could incur liability to our customers, employees, and to individuals or organizations whose information was being stored by us or our customers, as well as due to fines, penalties, or actions from payment processing networks or by governmental bodies. If we experience a widespread security breach, our insurance coverage may not offset liabilities actually incurred and insurance may not continue to be available to us on reasonable terms, or at all. In addition, security breaches could result in reputational damage, adversely affect our ability to attract new customers and cause existing customers to reduce or discontinue the use of our products and solutions. Furthermore, the perception by our current or potential customers that our products could be vulnerable to exploitation or that our security measures are inadequate, even in the absence of a particular problem or threat, could reduce market acceptance of our products and solutions and cause us to lose customers.

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

We collect, store, process, and transmit personal information relating to our employees, customers, prospective customers, and other individuals, and our customers use our technology platform to store and transmit a significant amount of personal information relating to their customers, vendors, employees and other industry participants. Federal, state, and foreign government bodies and agencies have adopted, and are increasingly adopting, laws and regulations regarding the collection, use, processing, security and transmission of personal information. For example, in the United States, existing comprehensive privacy laws exist in California, Colorado, Connecticut, Utah, and Virginia. Further, new comprehensive privacy laws have or will become effective in 2024 in Montana, Oregon, and Texas, and updates to existing regulations in California and Colorado affecting privacy operations are also expected in 2024. These obligations have and will likely continue to increase the cost and complexity of delivering our services. Despite our efforts, we cannot guarantee that we will be able to maintain full compliance with constantly evolving, and sometimes conflicting, data privacy laws in the jurisdictions in which we operate. If our privacy or data security measures fail to comply with current or future laws and regulations, we may be subject to claims, legal proceedings or other actions by individuals or governmental authorities based on privacy or data protection regulations and our privacy commitments to customers or others.

In addition to government regulation, privacy advocates and industry groups may propose various self-regulatory standards that may legally or contractually apply to our business. As new laws, regulations and industry standards take effect, and as we offer new services we will need to understand and comply with various new requirements, which may impede our plans for growth or result in significant additional costs. These laws, regulations and industry standards have had, and will likely continue to have, negative effects on our business, including by increasing our costs and operating expenses, and/or delaying or impeding our deployment of new or existing core functionality or Value Added Services. Failure to comply with these laws, regulations and industry standards could result in negative publicity, subject us to fines or penalties, expose us to litigation, or result in demands that we modify or cease existing business practices. Furthermore, privacy concerns may cause our customers' clients, vendors, employees and other industry participants to resist providing the personal information necessary to allow our customers to use our applications effectively, which could reduce overall demand for our solutions. Any of these outcomes could adversely affect our business and operating results.

Risks Related to Attracting and Retaining Talent

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

Our success and future growth depend, in part, upon the continued services of our executive officers and other key employees. To execute our growth plan and achieve our strategic objectives, we must continue to retain and hire highly qualified and motivated personnel across our organization. In particular, to continue to enhance our products and solutions, add new and innovative core functionality and/or Value Added Services, as well as develop new products, it will be critical for us to maintain and, over time, grow the current skill set and abilities of our research and product development organization. Further, for us to achieve broader market acceptance of our products and solutions, grow our customer base, and pursue new markets consistent with our strategic plan, we will need to maintain and, over time, grow the current skill set and abilities of our sales, marketing and customer service and support organizations. Competition for personnel is intense within our industry and there continues to be upward pressure on the compensation paid to these professionals. Retaining, identifying, recruiting, and training qualified personnel is difficult and requires a significant investment of time and resources.

Many of the companies with which we compete for experienced personnel have greater name recognition and financial resources than we have. As a result, we may have greater difficulty retaining and hiring skilled personnel than our competitors. In addition, existing and prospective employees often consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity awards declines, we are unable to offer equity awards in competitive amounts, or if the price of our Class A common stock experiences significant volatility, this may adversely affect our ability to retain and recruit highly skilled employees. If we are unable to retain and attract the personnel necessary to execute our growth plan, we may be unable to achieve our strategic objectives and our operating results may suffer.

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

We believe that our culture has been and will continue to be a key contributor to our success. If we do not continue to develop our corporate culture or maintain our core values as we grow and evolve, we may be unable to foster the passion, creativity, teamwork, focus and innovation we believe we need to support our growth. Any failure to preserve our culture could negatively affect our ability to recruit and retain personnel and to effectively focus on and pursue our strategic objectives. As we grow, we may find it difficult to maintain our corporate culture. This difficulty may be exacerbated by our current commitment to remote work, which makes it more challenging for employees to interact and connect.

Risks Related to Our Industry

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

We expect that our real estate industry customers will continue to account for a significant portion or all of our revenue for the foreseeable future. Demand for our solutions and services could be affected by factors that are unique to and adversely affect the real estate industry and our customers within it. If the industry itself declines, our customers may decide not to renew their subscriptions or they may cease using our Value Added Services to reduce costs to remain competitive. Higher interest rates may make it difficult or impossible for our customers to obtain financing and may increase their cost of capital, which could negatively impact the demand for our solutions and services, increase customer churn, and impact our operating results. In addition, we could lose real estate customers as a result of acquisitions or consolidations, bankruptcies or other financial difficulties facing our real estate customers, new or enhanced legal or regulatory regimes that negatively impact the real estate industry, and conditions or trends specific to the real estate industry such as the economic factors that impact the rental market.

Our estimates of market opportunity are subject to significant uncertainty.

We determine the level of our investment in various aspects of our business, in part, based on our market opportunity estimates. Market opportunity estimates are subject to significant uncertainty, especially in a volatile economic environment, and are based on assumptions, including our internal analysis and industry experience. Assessing markets for cloud-based business management solutions in the real estate industry is particularly difficult due to a number of factors, including limited available information and rapid evolution of the industry and markets therein. If we do not accurately estimate our opportunities, we may fail to realize a return on our investment in various aspects of our business, which could lead to a failure to gain market share and negatively impact our long-term growth prospects. Even if the market in which we compete meets our size estimates and forecasted growth, our business could fail to grow at similar rates, if at all.

Risks Related to Growing Our Business

Our inability to effectively maintain and enhance our brands could adversely affect our ability to attract new customers and negatively affect our business and operating results.

Maintaining and enhancing our brands is critical to achieving widespread awareness and acceptance of our solutions as well as maintaining and expanding our customer base. We expect the importance of brand recognition will increase, as competition for our products and services increases. If we do not continue to build awareness of our brands, we will be at a competitive disadvantage compared to companies whose brands are, or become, more recognizable than ours. Maintaining and enhancing our brands requires us to make substantial investments, and these investments may not result in commensurate increases in our revenue. In addition, new and existing technologies, industry trends, and laws that restrict online advertising or that affect our ability to customize and target advertising may require us to significantly increase our marketing costs to generate and capture demand and maintain our brand awareness, level of sales, and operating results. If we fail to successfully maintain and enhance our brands, or if we make investments that are not offset by increased revenue, our operating results could be adversely affected.

If we fail to manage our growth effectively, our costs and operating expenses may increase without corresponding increases in revenue, which would adversely affect our operating results.

We have experienced, and anticipate that we will continue to experience, significant growth in the size, complexity, and diversity of our business. This growth has placed, and we expect that it will continue to place, a significant strain on our administrative, operational, and financial resources. Our future success depends, in part, on our ability to manage this growth effectively. For example, to grow our customer base and facilitate the continuous launch and refinement of our products and services we invest significantly in our sales, marketing, and product development organizations as well as software and systems to support the efficient operation of such organizations. There is no guarantee that these or similar expenditures to support our growth will be successful. If we are unable to manage our growth successfully and efficiently, it could result in increased costs and operating expenses without corresponding increases in revenue, which would adversely affect our operating results.

If we do not accurately predict and respond promptly to rapidly evolving technological developments and customer needs, the demand for our products and our business and operating results may be harmed.

Customer demands are constantly changing in response to new technology and other market factors. To compete effectively, we must identify and innovate in the right technologies, accurately predict our customers' evolving needs, and continually improve our own technology platform. If we fail to execute against any of the foregoing, our business and operating results may be harmed. In addition, the widespread adoption of quickly evolving disruptive technology products may significantly impact the real estate industry, even if such products are not specifically designed to apply directly to the real estate industry. The adoption of such new technologies could significantly reduce the number or demand of our customers, thereby reducing our revenue, which could materially impact our business, financial condition and operating results.

We participate in an intensely competitive market and our business could be harmed if we do not compete effectively.

The market for cloud-based business management solutions has relatively low barriers to entry and is global, highly competitive and continually evolving in response to a number of factors, including changes in technology, operational requirements, and laws and regulations. We compete with both other real estate industry cloud-based solution providers and providers of broad cloud-based solutions across multiple industries. We also face competition from numerous cloud-based solution providers that focus almost exclusively on one or more point solutions. Our competitors include established vendors, as well as newer entrants in the market. Our established competitors may have greater name recognition, longer operating histories, and significantly greater resources, which allows them to respond more quickly and effectively to new or changing opportunities or challenges, technologies, operational requirements and industry standards. Our competitors who are new entrants to the market, and generally smaller, may have more nimble operations due to having fewer products and less overhead and may be willing to take legal and operational risks, which allows them to launch products and meet customer demand more quickly and efficiently. Regardless of size, our current and potential competitors may develop, market and sell new technologies with comparable functionality to our solutions, which could cause us to lose customers, slow the rate of growth of new customers and/or cause us to decrease our prices to remain competitive, which could harm our business.

In addition, we have introduced and expect to continue to introduce variations to our pricing model that are intended to provide broader usage and better align the cost of our services to the value they provide our customers. Although we believe that these pricing changes will increase customer adoption and revenue, it is possible that they will not and may make our services less appealing, which could negatively impact our business, revenue, and operating results.

If we are unable to successfully expand sales of our solutions to new markets, our business and operating results may suffer.

Our growth strategy requires expanding sales of our solutions to new markets within the real estate space. These new markets include larger customers and housing types outside of multi-family and single-family residential. Acceptance of our current and future solutions in new markets will depend on numerous factors, including our ability to provide more sophisticated functionality and features, the pricing of our solutions relative to competitive products, perceptions about the security, privacy and availability of our solutions relative to competitive products, and the time-to-market of updates and enhancements to our services and products. There is no guarantee we will be successful in achieving all or any of the foregoing. Additionally, sales to new markets will involve risks that are not present, or are present to a lesser extent, in sales to the markets we currently serve, and such risks may include new regulatory regimes, longer sale cycles, increased chance of litigation with customers, increased risk and impact of reputational harm, and increased competition. We may not be able to sufficiently mitigate such risks, which would impact our ability to successfully expand our business. If we are unable to successfully expand sales of our solutions to new markets, our revenue may increase at a slower rate than we expect and may even decline, which could adversely affect our operating results.

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

For us to maintain or increase our revenue and improve our operating results, it is important that our existing customers continue to use our core solutions, as well as increase their adoption and utilization of our Value Added Services. Our customers may not renew their subscriptions with us, continue to broaden their adoption and utilization of our Value Added Services, or use our Value Added Services at all. If our existing customers do not renew their subscriptions and increase their adoption and utilization of our existing or newly developed Value Added Services, our revenue may increase at a slower rate than we expect and may decline, which could adversely affect our financial condition and operating results. A reduction in the number of our existing customers, even if offset by an increase in new customers, could reduce our revenue and operating margins.

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

We make product decisions and pursue opportunities that are consistent with our strategic objective to achieve long-term growth. These decisions may not be consistent with the short-term expectations of some investors, and may cause significant fluctuations in our results of operation and our stock price from period to period. In addition, notwithstanding our intention to make strategic decisions that positively impact long-term value, the decisions we make may not produce the long-term benefits we expect, which could materially affect our business, financial condition and results of operation.

Our acquisition of other companies or technologies may subject us to risks.

We have acquired, and may in the future acquire, other companies or technologies to complement or expand our products and solutions, optimize our technical capabilities, enhance our ability to compete, or otherwise offer growth or strategic opportunities. We have limited experience and success in acquiring other businesses and we may not be able to effectively integrate acquired assets, technologies, personnel and operations or achieve the anticipated synergies or other benefits from the acquired business due to the inherent risks associated with acquisitions. If an acquisition fails to meet our expectations in terms of its contribution to our overall business strategy or results of operation, or if the costs of acquiring or integrating the acquired business exceed our estimates, our business, results of operation, strategic objectives, and financial condition may suffer.

Risks Related to Intellectual Property Matters

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

We currently rely on patent, trademark, copyright and trade secret laws, trade secret protection, and confidentiality or license agreements with our employees, customers, partners and others to protect our intellectual property rights. In addition, we utilize third-party platforms to host our code for version control and collaboration and rely on the security features made available by such platforms to prevent unauthorized access to our code. Our success and ability to compete depend, in part, on our ability to continue to protect our intellectual property, including our code, proprietary technology and brands. If we are unable to protect our proprietary rights adequately or the security controls made available by our code hosting partners are compromised and our code is improperly accessed, which has previously occurred and could occur again in the future, our competitors could use the intellectual property we have developed to enhance their own products and services, which could harm our business. In addition, third parties may independently develop technologies or products that compete with ours, and we may be unable to prevent such competition. To monitor and protect our intellectual property rights, we may be required to expend significant resources. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management, and could result in the impairment or loss of portions of our intellectual property or require us to pay costly royalties. Accordingly, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property. Our failure to secure, protect and enforce our intellectual property rights could adversely affect our business and operating results.

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

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

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

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

Risks Related to Our Financial Results

We expect to make substantial investments across our organization to grow our business, which may impact profitability.

To implement our business and growth strategy, we have made and will continue to make substantial investments across our organization and, as a result, our expenses may increase significantly impacting profitability. For example, we intend to continue to make substantial investments in, among other things: our research and product development organization to enhance the ease of use and functionality of our solutions and develop new products; our sales and marketing organization, including expansion of our direct sales organization and marketing programs, to increase the size of our customer base and increase adoption and utilization of new and existing Value Added Services by our new and existing customers; and maintaining and expanding our technology infrastructure and operational support to promote the security and availability of our products and solutions. Even if we are successful in growing our customer base and increasing revenue from new and existing customers, we may not be able to generate additional revenue in an amount that is sufficient to cover our expenses.

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

Our quarterly results, including the levels of our revenue, costs, operating expenses, and operating margins, may fluctuate significantly in the future, and period-to-period comparisons of our results may not be meaningful. For example, we have historically experienced seasonality in our Value Added Services revenue, primarily in our tenant screening services, due to seasonally higher leasing activities in the second quarter, which increase tenant screening transactions in that period. Accordingly, the results of any one quarter should not be relied upon as an indication of our future performance. In addition, we may experience significant fluctuations in our operating results from period to period, including significant losses. This may make it difficult for us to effectively allocate our resources to achieve our strategic goals. Furthermore, if our quarterly results fall below the expectations of investors or any securities analysts who follow our stock, or below any financial guidance we may provide, the price of our common stock could decline substantially. See Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" for additional details regarding seasonality of revenue.

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

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

In addition, increases in interest rates have increased the cost of borrowing and volatility in financial markets could impact our access to, or further increase the cost of, any new financing arrangements we may enter into. Past disruptions in the credit and equity markets made it more difficult for many businesses to obtain financing on acceptable terms. These conditions tended to increase the cost of borrowing in the past and if they recur, our borrowing costs could increase and it may be more difficult to obtain financing for our operations or investments. We may not be able to obtain financing on terms acceptable to us, if at all.

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

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

Risks Related to Our Common Stock

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

The market price of our Class A common stock has been, and is likely to continue to be, highly volatile, and fluctuations in the price of our Class A common stock could cause our stockholders to lose all or part of their investments. There are a wide variety of factors, many of which are outside our control, that could cause fluctuations in the market price of our Class A common stock, including without limitation:

- changes in the estimates of our operating results;
- changes in recommendations by securities analysts;
- announcements of new products, services, technologies, or pricing;
- fluctuations in our valuation or the valuation of similarly situated companies;
- changes to our management team;
- trading activity by insiders or the market’s perception that insiders intend to sell their shares;
- the trading volume of our Class A common stock, including sales upon exercise of outstanding options or vesting of equity awards; and
- the overall performance of the equity markets.

Such factors could cause the market price of our Class A common stock to decline or make it more difficult for you to sell your Class A common stock at a time and price that you deem appropriate, and could impair our ability to raise capital through the sale of additional equity securities.

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

Our Class B common stock has 10 votes per share, and our Class A common stock has one vote per share. As of December 31, 2023, the holders of the outstanding shares of our Class B common stock, including our executive officers, directors, and principal stockholders, collectively held approximately 87% of the combined voting power of our outstanding capital stock. Because of the 10-to-1 voting ratio between our Class B common stock and Class A common stock, the holders of our Class B common stock collectively control a majority of the combined voting power of our outstanding capital stock and therefore control the election of a majority of our directors and thereby have the power to control our affairs and policies, including the appointment of management and strategic decisions, as well as matters that are submitted to a vote by our holders of our common stock. The interests of our principal stockholders may be inconsistent with or adverse to those of holders of our Class A common stock. This concentrated control may also have the effect of delaying, deterring or preventing a change-in-control transaction, depriving our stockholders of an opportunity to receive a premium for their capital stock or negatively affecting the market price of our Class A common stock. In addition, transfers by holders of our Class B common stock will generally result in those shares converting to Class A common stock, subject to limited exceptions. The conversion of our Class B common stock to Class A common stock will have the effect, over time, of increasing the relative voting power of the holders of our Class B common stock who retain their shares over the long term.

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

Several shareholder advisory firms are opposed to the use of multiple class structures such as ours. As a result, shareholder advisory firms may publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure. Any actions or publications by shareholder advisory firms critical of our corporate governance practices or capital structure could also adversely affect the value of our Class A common stock. Likewise, institutional investors and certain investment funds may be precluded, reluctant or unwilling to invest in entities with multiple class structures due to a lack of ability to meaningfully influence corporate affairs and policies through voting. Such restrictions, reluctance and unwillingness may make our Class A common stock less attractive to investors and, as a result, the market price of our Class A common stock could be adversely affected.

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

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

Price appreciation, which may never occur, may be further impacted by repurchases of our shares in accordance with our Share Repurchase Program. Repurchases of our shares could increase the volatility of the trading price of our shares, which could have a material adverse impact on the trading price of our shares. Similarly, the future announcement of the termination or suspension of the Share Repurchase Program, or our decision not to utilize the full authorized repurchase amount under the Share Repurchase Program, could result in a decrease in the trading price of our shares. In addition, the Share Repurchase Program could have the impact of diminishing our cash reserves, which may impact our ability to finance our growth, complete acquisitions and execute our strategic plan. For additional information regarding our Share Repurchase Program, refer to Note 12, *Stockholders' Equity*.

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

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

We could be subject to securities class action litigation.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in the market price of a company's securities. This type of litigation, if instituted, could result in substantial costs and a diversion of management's attention and resources, which could adversely affect our business, operating results, or financial condition. Additionally, the dramatic increase in the cost of directors' and officers' liability insurance may make it more expensive for us to obtain directors' and officers' liability insurance in the future and may require us to opt for lower overall policy limits and coverage or to forgo insurance that we may otherwise rely on to cover significant defense costs, settlements, and damages awarded to plaintiffs, or incur substantially higher costs to maintain the same or similar coverage. These factors could make it more difficult for us to attract and retain qualified executive officers and members of our board of directors.

Risks Related to Macroeconomic Conditions

Global and regional economic conditions could harm our business.

Adverse global and regional economic conditions such as turmoil affecting the banking system or financial markets, including, but not limited to, recessionary or inflationary pressures, tightening in the credit markets, extreme volatility or distress in the financial markets, supply chain issues, reduced consumer confidence or economic activity, government fiscal and tax policies, geopolitical events, and other negative financial news or macroeconomic developments could have a material adverse impact on the demand for our products and services or cause us to experience increased costs that could negatively affect our operating results.

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

In addition to regulations and laws directly applicable to our products and services, we are subject to general business regulations and laws. Unfavorable regulations, laws, and administrative or judicial decisions interpreting or applying laws and regulations applicable to our business could subject us to litigation or governmental investigation and increase our cost of doing business, any of which may adversely affect our operating results. For example, the Inflation Reduction Act of 2022 contains several revisions to the Internal Revenue Code, including a 15% corporate minimum income tax on adjusted financial statement income for companies with profits greater than $1.0 billion and a nondeductible 1% excise tax on corporate stock repurchases in tax years beginning after December 31, 2022. While the foregoing tax law changes have no immediate effect on our business, such changes or similar changes may adversely affect our operating results in the future. In addition, the application of federal, state, local and foreign tax laws to services provided electronically is continuously evolving. New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted or amended at any time, possibly with retroactive effect, and could be applied solely or disproportionately to services provided over the Internet. These enactments or amendments could adversely affect our sales activity due to the inherent cost increase such taxes would represent and could ultimately result in a negative impact on our operating results. In addition, existing tax laws, statutes, rules, regulations or ordinances could be interpreted, modified or applied adversely to us, possibly with retroactive effect, which could require us or our customers to pay additional tax amounts, as well as require us or our customers to pay fines or penalties, as well as interest on past amounts. If we are unsuccessful in collecting such taxes due from our customers, we could be held liable for such costs, thereby adversely impacting our operating results.

Audits and reviews by tax authorities may prove costly and a distraction to management.

Our tax filings are subject to reviews and audits in various jurisdictions and the positions or assumptions we take may be challenged. Although we believe our tax positions are reasonable, it is possible that tax authorities may disagree with certain positions we have taken and an adverse outcome of such a review or audit could have a negative effect on our financial position and operating results. In addition, defending our tax positions or disputing the positions taken by tax authorities may be costly and a distraction to management, which may affect our operating results.

Natural disasters, health epidemics, or other catastrophic events may cause damage or disruption to our operations, commerce and the global economy, and have a negative effect on our business and operations.

Our business operations are subject to interruption by natural disasters, flooding, fire, power shortages, health epidemics, terrorism, political unrest, telecommunications failure, vandalism, cyber-attacks, geopolitical instability, war, the effects of climate change (such as drought, wildfires, hurricanes, and increased storm severity) and other events beyond our control. Although we maintain crisis management and disaster response plans, such events could make it difficult or impossible for us to deliver our services to our customers, could decrease demand for our services, and could cause us to incur substantial expense. Our insurance may not be sufficient to cover losses or additional expenses that we may sustain. The majority of our research and development activities, offices, information technology systems, and other critical business operations are located near major seismic faults in California. Customer data could be lost, significant recovery time could be required to resume operations and our financial condition and operating results could be adversely affected in the event of a major natural disaster or catastrophic event. In addition, the impacts of climate change on the global economy and our industry are rapidly evolving. We may be subject to increased regulations, reporting requirements, standards or expectations regarding the environmental impacts of our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 1C. CYBERSECURITY

Our business involves the storage and transmission of a significant amount of confidential and sensitive information. As a result, we take the confidentiality, integrity, and availability of this highly sensitive information seriously and invest significant time, effort, and resources into protecting such information. Our cybersecurity strategy was designed with the foregoing principles in mind and prioritizes detecting and responding to threats and effective management of security risks.

To implement our cybersecurity strategy, we maintain various safeguards to secure the data we hold, including encrypting sensitive data, utilizing a robust 24/7/365 security monitoring system, regularly assessing product features for security vulnerabilities, periodically conducting internal penetration tests, and providing our customers with multi-factor authentication options to help them effectively protect their information. We also have data and cybersecurity protection and control policies to facilitate a secure environment for sensitive information and to ensure the availability of critical data and systems. We have processes in place to assess and manage vendor cybersecurity risks, which include initial and periodic security program reviews and, in cases where personal information is shared, ongoing cybersecurity and privacy obligations that are documented in data processing agreements. We engage independent third parties to audit our adherence to our cybersecurity policies and conduct infrastructure and application security assessments and penetration testing. These third parties help us assess our internal preparedness, adherence to best practices and industry standards, and compliance with applicable laws and regulations as well as help us to identify areas for continued focus and improvement. We conduct annual information security awareness training for employees involved in the systems or processes connected to confidential and sensitive information. We also carry insurance that provides certain, limited protection against potential losses arising from a cybersecurity incident.

The Risk and Compliance Oversight Committee of our Board of Directors (the "RCOC") is responsible for overseeing and reviewing AppFolio's cybersecurity program and cybersecurity risk exposure and the steps taken to monitor and mitigate such exposure. The RCOC updates the full Board of Directors on cybersecurity matters as appropriate.

Our information security team is led by our Chief Information Security Officer ("CISO"), who has served in the role since 2015 and has experience in application security, intrusion detection, penetration testing, complex threat modeling, and unconventional cyber-attack vectors. The CISO oversees a team of information security professionals who are devoted full time to assessing and managing cybersecurity threats on a day-to-day basis. The CISO attends each quarterly meeting of the RCOC to brief members on information security matters and discuss cybersecurity risks generally.

In addition, our management team has established an Enterprise Risk Management Program (the "ERM Program"), which includes processes designed to identify, assess, categorize, and monitor key current and evolving risks facing AppFolio, including cybersecurity risks. Management is made aware of current and evolving cybersecurity risks through ERM Program reporting. Furthermore, in the event of a material or potentially material cybersecurity event, senior members of management are promptly informed of such event and oversee triage, response, and disclosure efforts pursuant to the terms of a documented incident response plan.

Notwithstanding the foregoing efforts, there can be no assurance that the security measures we employ will prevent malicious or unauthorized access to our systems or information. No security program can entirely eliminate the risk of human error, such as an employee or contractor’s failure to follow one or more security protocols. Like many other businesses, we have experienced, and are continually subject to, cyber-attacks. While these past cyber-attacks have not materially affected or, in our belief, are reasonably likely to materially affect us, future cybersecurity incidents and threats may materially affect us, including by affecting our business strategy, results of operations, or financial condition. See Item 1A., "Risk Factors" for additional details regarding cybersecurity risks.

ITEM 2. PROPERTIES

Our corporate headquarters is located in Santa Barbara, California, where we lease approximately 86,000 square feet of space. We also lease office space in several other U.S. cities. We do not own any real estate.

We believe our current facilities are adequate for our current needs and that, should it be needed, suitable additional or alternative space will be available to us to accommodate any such expansion of our operations.

ITEM 3. LEGAL PROCEEDINGS

On February 10, 2023, a lawsuit was filed in the First Judicial District Court of New Mexico, Murphy, et al. v. AppFolio, Inc., et al. (No. D-101-CV-2022-02100), naming us as a defendant and alleging certain violations of the New Mexico Unfair Practices Act and negligent misrepresentation in connection with our tenant screening service (the “Murphy Litigation”). In late November 2023, the parties agreed to settle the Murphy Litigation and plan to file a notice of settlement with the court. AppFolio did not admit any wrongdoing in connection with the settlement of the Murphy Litigation.

The Company has assessed the potential liabilities related to this matter and has determined that it is probable a loss will be incurred. As of December 31, 2023, the Company has recorded a liability of $7.0 million in *Accrued Expenses* related to the potential loss in connection with the Murphy Litigation. The Company expects that this loss will be covered by existing insurance policies.

In addition to the foregoing, from time to time, we are involved in various other investigative inquiries, legal proceedings and 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.

For additional information regarding legal proceedings, refer to Note 11, *Commitments and Contingencies* of our Consolidated Financial Statements.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for our Common Stock

Our Class A common stock is listed on the NASDAQ Global Market under the symbol "APPF".

Our Class B common stock is not listed or traded on any stock exchange.

Holders of Record

At January 25, 2024, there were 34 holders of record of our Class A common stock and 59 holders of record of our Class B common stock. Because many of our shares of Class A common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

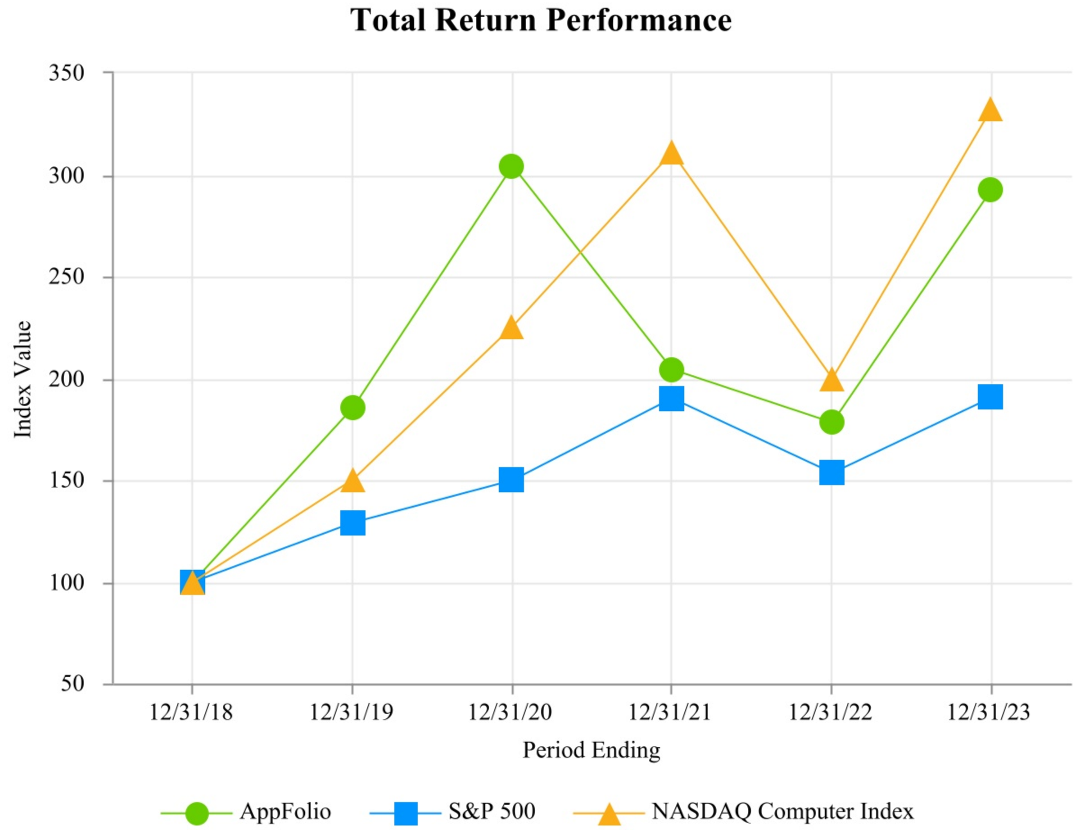
Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We do not anticipate declaring or paying any cash dividends to holders of our capital stock in the foreseeable future and intend to retain all future earnings for use in the growth of our business.

Stock Performance Graph

The following performance graph compares the cumulative total return on our Class A common stock with that of the S&P 500 Index and the NASDAQ Computer Index. This chart assumes $100 was invested in our Class A common stock at the close of market on December 31, 2018, and in the S&P 500 Index and the NASDAQ Computer Index, and assumes the reinvestment of any dividends.

The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.



This performance graph shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or incorporated by reference into any of our other filings under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Unregistered Sales of Equity Securities and Purchases of Equity Securities

None.

ITEM 6. [RESERVED]

ITEM 7. 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 Consolidated Financial Statements and the related notes included elsewhere in this 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 of this Annual Report entitled "Risk Factors". See the section of this Annual Report entitled “Forward-Looking Statements” for additional information.

The following discussion and analysis of our financial condition and results of operations includes 2023 and 2022 items and year-over-year comparisons between 2023 and 2022. For discussion of 2021 items and year-over-year comparisons between 2022 and 2021, refer to Part II. Item 7. “Management's Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 31, 2022.

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 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 vendors, and provide key functionality related to critical transactions across the real estate lifecycle, including screening potential tenants, sending and receiving payments and providing insurance-related risk mitigation services. AppFolio's intuitive interface, streamlined workflows, and AI powered automation 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 designed 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.

Key Business Metric

We monitor the key business metric set forth below to help us evaluate our business, identify trends affecting our business, formulate business plans, and make strategic decisions.

Property management units under management. We believe that our ability to increase the 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 8.2 million and 7.3 million property management units under management, as of December 31, 2023 and 2022, respectively.

Seasonality

We have historically experienced seasonality in our Value Added Services revenue, primarily in our tenant screening revenue, due to seasonally higher leasing activities in the second quarter, which increase tenant screening transactions in that period. We generally experience decreased tenant screening revenue in the fourth quarter, when seasonally lower leasing activities occur. Corresponding to the higher tenant applications in the second quarter, our property manager customers typically experience an increase in new tenants in the third quarter, resulting in a higher demand for our insurance-related risk mitigation services in that period. As a result of the seasonality of the rental lifecycle and the growth of our business, we have typically experienced a sequential increase in revenue in the first, second and third quarters and a sequential decline in revenue in the fourth quarter of each of our most recent fiscal years. These seasonal factors could be heightened or lessened due to the impact of a change in macroeconomic factors that could impact tenant behavior or a change in our product portfolio mix or the adoption rate of our other less seasonally impacted Value Added Services. Although these seasonal factors are common in the real estate industry, historical patterns should not be considered a reliable indicator of our future sales activity or performance.

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 onboarding assistance to our core solutions and 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 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 December 31, 2023 and 2022, we had 19,737 and 18,441 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 or fines, other corporate expenses, impairment of long-lived assets, 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, net includes gain on sale of our equity-method investments, gains and losses associated with the sale of businesses and property and equipment, and income from certain post-closing transition services provided by us to MyCase, Inc. during fiscal year 2021.

Interest Income, Net. Interest income includes interest earned on investment securities, amortization and accretion of the premium and discounts paid from the purchase of investment securities, and interest earned on cash deposited in our bank accounts.

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

Results of Operations

Revenue

	Year Ended December 31,		Change	
	2023	2022	Amount	%
	(dollars in thousands)			
Core solutions	$ 156,692	$ 132,541	$ 24,151	18 %
Value Added Services	454,098	327,636	126,462	39
Other	9,655	11,706	(2,051)	(18)
Total revenue	$ 620,445	$ 471,883	$ 148,562	31 %

The increase in revenue for the year ended December 31, 2023, compared to the prior year, was primarily attributable to an increase in the usage of our payments, tenant screening, and risk mitigation services. During the year ended December 31, 2023, we experienced growth of 13% in the number of property management units under management compared to the prior year, which drove growth in users of our subscription and usage-based services.

Our payment services experienced increased usage during the comparative periods as residents, property managers, and owners transacted more business online. In addition, we stopped waiving the eCheck (ACH) transaction fee beginning in the third quarter of 2023. Our tenant screening and risk mitigation services usage also increased during the comparative periods in line with the increase in units under management.

The decrease in other revenue is primarily attributable to the WegoWise Transaction during the year ended December 31, 2022. For additional information regarding the WegoWise Transaction, refer to Note 3, *Sale of Subsidiary Business,* of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

We expect total revenue for the year ending December 31, 2024 to increase compared to the year ended December 31, 2023 as we continue to add new customers and property management units under management, along with increased adoption and usage of our Value Added Services.

Cost of Revenue (Exclusive of Depreciation and Amortization)

	Year Ended December 31,		Change	
	2023	2022	Amount	%
	(dollars in thousands)			
Cost of revenue (exclusive of depreciation and amortization)	$ 238,076	$ 191,826	$ 46,250	24 %
Percentage of revenue	38.4 %	40.7 %		
Stock-based compensation, included above	$ 3,703	$ 2,640	$ 1,063	40 %
Percentage of revenue	0.6 %	0.6 %		

Cost of revenue (exclusive of depreciation and amortization) for the year ended December 31, 2023, increased primarily due to increases in expenditures to third-party service providers related to the delivery of our Value Added Services of $34.9 million compared to 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 $9.6 million for the year ended December 31, 2023, compared to 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. For additional information, see Note 16, *Workforce Reduction*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

Allocated shared and other costs increased by $1.7 million for the year ended December 31, 2023, compared to the prior year, primarily related to platform infrastructure, software and other costs incurred in support of our overall growth.

We expect cost of revenue (exclusive of depreciation and amortization) for the year ending December 31, 2024, to decrease slightly as a percentage of revenue compared to the year ended December 31, 2023, as we continue to drive additional efficiencies.

Sales and Marketing

	Year Ended December 31,		Change	
	2023	2022	Amount	%
	(dollars in thousands)			
Sales and marketing	$ 107,602	$ 107,398	$ 204	— %
Percentage of revenue	17.3 %	22.8 %		
Stock-based compensation, included above	$ 5,983	$ 8,681	$ (2,698)	(31)%
Percentage of revenue	1.0 %	1.8 %		

Sales and marketing expense for the year ended December 31, 2023 was relatively flat compared to the prior year, reflecting a net increase in personnel-related costs, including stock-based and performance-based compensation, of $2.6 million, partially offset by a decrease in allocated shared and other costs of $1.9 million. 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. For additional information, see Note 16, *Workforce Reduction*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

We expect sales and marketing expense for the year ending December 31, 2024 to decrease as a percentage of revenue compared to the year ended December 31, 2023, as we continue to leverage headcount efficiencies.

Research and Product Development

	Year Ended December 31,		Change	
	2023	2022	Amount	%
	(dollars in thousands)			
Research and product development	$ 151,364	$ 111,118	$ 40,246	36 %
Percentage of revenue	24.4 %	23.5 %		
Stock-based compensation, included above	$ 20,974	$ 16,030	$ 4,944	31 %
Percentage of revenue	3.4 %	3.4 %		

Research and product development expense for the year ended December 31, 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 $37.7 million, compared to 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. For additional information, see Note 16, *Workforce Reduction,* of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

Allocated shared and other costs increased by $2.6 million year ended December 31, 2023 compared to the prior year, driven by costs supporting our overall growth.

We expect research and product development expenses for the year ending December 31, 2024 to decrease as a percentage of revenue compared to the year ended December 31, 2023, as we continue to leverage headcount efficiencies.

General and Administrative

	Year Ended December 31,		Change	
	2023	2022	Amount	%
	(dollars in thousands)			
General and administrative	$ 93,452	$ 100,792	$ (7,340)	(7)%
Percentage of revenue	15.1 %	21.4 %		
Stock-based compensation, included above	$ 21,704	$ 13,584	$ 8,120	60 %
Percentage of revenue	3.5 %	2.9 %		

General and administrative expense for the year ended December 31, 2023 decreased compared to the same period in the prior year primarily due to lease-related asset impairment charges of $22.0 million recognized in the year ended December 31, 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 year ended December 31, 2023, compared to the prior year. This was partially offset by an increase in personnel-related costs, including stock-based and performance-based compensation, in the year ended December 31, 2023 of $17.2 million compared to the prior year. The increase in personnel-related costs for the year ended December 31, 2023 was driven primarily by the separation costs associated with our former Chief Executive Officer's Separation Agreement of $14.9 million and the severance related costs associated with the workforce reduction in the third quarter of 2023 of $2.5 million. For further information, see Note 8, *Accrued Employee Expenses*, and Note 16, *Workforce Reduction*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

For the year ended December 31, 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, 2024 to decrease as a percentage of revenue compared to the year ended December 31, 2023, as we continue to leverage headcount efficiencies.

Depreciation and Amortization

	Year Ended December 31,		Change	
	2023	2022	Amount	%
	(dollars in thousands)			
Depreciation and amortization	$ 28,988	$ 33,119	$ (4,131)	(12)%
Percentage of revenue	4.7 %	7.0 %		

Depreciation and amortization expense for the year ended December 31, 2023 decreased, compared to 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, 2024 to decrease as a percentage of revenue compared to the year ended December 31, 2023 due to a decrease in amortization of accumulated capitalized software development balances.

Interest Income, Net

	Year Ended December 31,		Change	
	2023	2022	Amount	%
Interest income, net	$ 7,031	$ 1,184	$ 5,847	494 %
Percentage of revenue	1.1 %	0.3 %		

Interest income for the year ended December 31, 2023 increased, compared to the prior year, primarily due to higher interest rates.

Other Income, net

	Year Ended December 31,		Change	
	2023	2022	Amount	%
	(dollars in thousands)			
Other income, net	$ 3	$ 4,469	$ (4,466)	(100)%
Percentage of revenue	— %	0.9 %		

Other income, net for the year ended December 31, 2023 decreased, compared to the prior year, primarily due to a gain of $4.2 million associated with the WegoWise Transaction during the year ended December 31, 2022. For further information, see Note 3, *Sale of Subsidiary Business,* of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Provision for Income Taxes

	Year Ended December 31,		Change	
	2023	2022	Amount	%
	(dollars in thousands)			
Income (loss) before provision for income taxes	$ 7,997	$ (66,717)	$ 74,714	(112)%
Provision for income taxes	$ 5,295	$ 1,402	$ 3,893	278 %
Effective tax rate	66.2 %	(2.1)%		

The increase in our effective tax rate for the year ended December 31, 2023, as compared to the prior year, is primarily due to the significant increase in our pre-tax income, change in valuation allowance against deferred tax assets, higher non-deductible officers' compensation, partially offset by higher tax benefits from stock-based compensation and research and development credits.

Liquidity and Capital Resources

Our principal sources of liquidity continue to be cash, cash equivalents, and investment securities, as well as cash flows generated from our operations. As of December 31, 2023, our cash and cash equivalents and investment securities had an aggregate balance of $211.7 million. We have financed our operations primarily through cash generated from operations. We believe that our existing cash and cash equivalents, investment securities, and cash generated from operating activities will be sufficient to meet our working capital and capital expenditure requirements for at least the next 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. Non-cancelable purchase commitments for business operations total $57.0 million as of December 31, 2023, due primarily over the next three years. Operating lease obligations totaling $55.5 million associated with leased facilities and have varying maturities with $31.1 million due over the next five years. Furthermore, our Board of Directors has authorized our management to repurchase up to $100.0 million of shares of our Class A common stock from time to time. To date, we have repurchased $4.2 million of our Class A common stock under the Share Repurchase Program. For additional information regarding our Share Repurchase Program, refer to Note 12, *Stockholders' Equity*.

Cash Flows

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

	Year Ended December 31,	
	2023	2022
Net cash provided by operating activities	$ 60,283	$ 25,365
Net cash used in investing activities	(55,582)	(6,466)
Net cash used in financing activities	(25,961)	(6,163)
Net (decrease) increase in cash and cash equivalents	$ (21,260)	$ 12,736

Cash Provided by Operating Activities

Our primary source of operating cash inflows is cash collected from our customers in connection with their use of our core solutions and Value 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 year ended December 31, 2023, compared to the prior year, was primarily due to a higher increase in cash collections from customers relative to the increase in operating expenditures, partially offset by the payment of separation costs related to our former Chief Executive Officer's Separation Agreement and the severance costs associated with the workforce reduction during the year ended December 31, 2023. For additional information, see Note 16, *Workforce Reduction*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

Cash Used in 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 year ended December 31, 2023, compared to the prior year, was primarily due to higher purchases of available-for-sale investment securities.

Cash Used in 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 year ended December 31, 2023, compared to the prior year, was primarily due to an increase in net share settlements for employee tax withholdings associated with the vesting of equity awards.

Off-Balance Sheet Arrangements

As of December 31, 2023, we did not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our Consolidated Financial Statements and the related notes included elsewhere in this Annual Report are prepared in accordance with generally accepted accounting principles in the United States. The preparation of our Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from those estimates.

We believe that the following critical accounting policies involve a greater degree of judgment or complexity than our other accounting policies. Accordingly, these are the policies we believe are the most critical to a full understanding and evaluation of our Consolidated Financial Statements. For additional information, refer to Note 2, *Summary of Significant Accounting Policies* of our Consolidated Financial Statements included elsewhere in this Annual Report.

Revenue Recognition

Many of our contracts with customers contain multiple performance obligations. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require judgment. We account for individual performance obligations separately if they are distinct. The performance obligations for these contracts include access and use of our core solutions, implementation services, and customer support. Access and use of our core solutions and implementation services are considered distinct.

The transaction price is allocated to each performance obligation on a relative standalone selling price basis. Judgment is required to determine the standalone selling price for each distinct performance obligation. We typically have more than one standalone selling price for individual products and services due to the stratification of those products and services by customers and circumstances. In these instances, we determine the standalone selling price based on our overall pricing objectives, taking into consideration customer demographics and other factors. Fees are fixed based on rates specified in the subscription agreements, which do not provide for any refunds or adjustments.

Capitalized Software Development Costs

We believe there are two key estimates within the capitalized software balance, which are the determination of the useful life of the software and the determination of the amounts to be capitalized.

We determined that a three year life is appropriate for our internal-use software based on our best estimate of the useful life of the internally developed software after considering factors such as continuous developments in the technology, obsolescence and anticipated life of the service offering before significant upgrades. Based on our prior experience, internally generated software will generally remain in use for a minimum of three years before being significantly replaced or modified to keep up with evolving customer and company needs. While we do not anticipate any significant changes to this three year estimate, a change in this estimate could produce a material impact on our financial statements.

We determine the amount of internal software costs to be capitalized based on the amount of time spent by our software engineers on projects. Costs associated with building or significantly enhancing our software solutions and new internally built software solutions are capitalized, while costs associated with planning new developments and maintaining our software solutions are expensed as incurred. There is judgment involved in estimating the stage of development as well as estimating time allocated to a particular project. A significant change in the time spent on each project could have a material impact on the amount capitalized and related amortization expense in subsequent periods.

Impairment of long-lived assets

We assess the recoverability of our long-lived assets when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable or that the useful lives of those assets are no longer appropriate. An impairment charge would be recognized when the carrying amount of a long-lived asset or asset group is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset or asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group.

Any impairments to operating lease right of use ("ROU") assets, leasehold improvements, or other assets as a result of a sublease, abandonment, or other similar factor are assessed for impairment when a decision to do so is made and recorded as an operating expense. Similar to other long-lived assets, management tests ROU assets for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. For ROU and other lease-related assets, such circumstances would include subleases that do not fully recover the costs of the associated leases or a decision to abandon the use of all or part of a leased asset. Significant judgment and estimates are required in assessing impairment of long-lived assets, including identifying whether events or changes in circumstances require an impairment assessment, estimating future cash flows, uncertainty associated with the time period it will take to obtain a sublessee, the anticipated sublease income and determining appropriate discount rates. Our estimates of fair value are based on assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

Income Taxes

We recognize deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the Consolidated Statements of Operations in the period that includes the enactment date. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. In evaluating the need for a valuation allowance, we consider the weighting of all available positive and negative evidence, which includes, among other things, the nature, frequency and severity of current and cumulative taxable income or losses, future projections of profitability, and the duration of statutory carryforward periods. We give significant weight to objectively verified evidence, such as historical cumulative losses, in our overall assessment.

Judgment is required to measure the amount of tax benefits that can be recognized associated with uncertain tax positions. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. We recognize interest and penalties accrued with respect to uncertain tax positions, if any, in our provision for income taxes in the Consolidated Statements of Operations.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, refer to Note 2, *Summary of Significant Accounting Policies* of our Consolidated Financial Statements included elsewhere in this Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk

Investment Securities

As of December 31, 2023, we had $162.2 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 all of our investment securities have fixed interest rates, changes in interest rates may impact the fair value of the investment securities and our interest income over time as funds from maturing positions are reinvested. 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 December 31, 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 $0.8 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 $0.8 million. This estimate is based on a sensitivity model which measured an instant change in interest rates by 100 basis points as of December 31, 2023.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of AppFolio, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of AppFolio, Inc. and its subsidiaries (the “Company”) as of December 31, 2023 and 2022, and the related consolidated statements of operations, of comprehensive income (loss), of stockholders’ equity and of cash flows for each of the three years in the period ended December 31, 2023, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition

As described in Notes 2 and 15 to the consolidated financial statements, the Company's total revenue was $620.4 million for the year ended December 31, 2023. The Company generates revenue from customers primarily for subscriptions to access the core solutions and Value Added Services. Revenue is recognized upon transfer of control of promised services in an amount that reflects the consideration the Company expects to receive in exchange for those services. The Company enters into contracts that can include various combinations of services, which are generally capable of being distinct, distinct within the context of the contract, and accounted for as separate performance obligations. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities. The Company recognizes revenue in proportion to the amount they have the right to invoice for certain core solutions and Value Added Services revenue, as that amount corresponds directly with the performance completed to date.

The principal consideration for our determination that performing procedures relating to revenue recognition is a critical audit matter is a high degree of auditor effort in performing procedures related to the Company's revenue recognition.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process. These procedures also included, among others (i) evaluating revenue transactions by either (a) testing the issuance and settlement of invoices and credit memos, tracing transactions not settled to a detailed listing of accounts receivable, and testing the completeness and accuracy of data provided by management or (b) testing, on a sample basis, revenue transactions by obtaining and inspecting source documents, such as executed contracts, invoices, and cash receipts and (ii) confirming, on a sample basis, outstanding customer invoice balances as of year-end and, and for confirmations not returned, obtaining and inspecting source documents, such as executed contracts, invoices, and subsequent cash receipts.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California
February 1, 2024

We have served as the Company's auditor since 2012.

APPFOLIO, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except par values)

	December 31,	
	2023	**2022**
Assets		
Current assets		
Cash and cash equivalents	$ 49,509	$ 70,769
Investment securities—current	162,196	89,297
Accounts receivable, net	20,709	16,503
Prepaid expenses and other current assets	39,943	24,899
Total current assets	272,357	201,468
Investment securities—noncurrent	—	25,161
Property and equipment, net	28,362	26,110
Operating lease right-of-use assets	19,285	23,485
Capitalized software development costs, net	21,562	35,315
Goodwill	56,060	56,060
Intangible assets, net	2,357	4,833
Other long-term assets	8,906	8,785
Total assets	$ 408,889	$ 381,217
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 1,141	$ 2,473
Accrued employee expenses	35,567	34,376
Accrued expenses	21,723	15,601
Other current liabilities	11,335	8,893
Total current liabilities	69,766	61,343
Operating lease liabilities	41,114	50,237
Other liabilities	697	4,091
Total liabilities	111,577	115,671
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, $0.0001 par value, 25,000 shares authorized and no shares issued and outstanding as of December 31, 2023 and December 31, 2022	—	—
Class A common stock, $0.0001 par value, 250,000 shares authorized as of December 31, 2023 and December 31, 2022; 22,168 and 20,988 shares issued as of December 31, 2023 and December 31, 2022, respectively; 21,749 and 20,569 shares outstanding as of December 31, 2023 and December 31, 2022, respectively	2	2
Class B common stock, $0.0001 par value, 50,000 shares authorized as of December 31, 2023 and December 31, 2022; 14,116 and 14,746 shares issued and outstanding as of December 31, 2023 and December 31, 2022, respectively	2	2
Additional paid-in capital	236,985	209,704
Accumulated other comprehensive loss	99	(1,684)
Treasury stock, at cost, 419 shares of Class A common stock as of December 31, 2023 and December 31, 2022	(25,756)	(25,756)
Retained earnings	85,980	83,278
Total stockholders' equity	297,312	265,546
Total liabilities and stockholders' equity	$ 408,889	$ 381,217

The accompanying notes to the Consolidated Financial Statements are an integral part of these statements.

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

	Year Ended December 31,		
	2023	2022	2021
Revenue	$ 620,445	$ 471,883	$ 359,370
Costs and operating expenses:			
Cost of revenue (exclusive of depreciation and amortization)[1]	238,076	191,826	143,944
Sales and marketing[1]	107,602	107,398	73,200
Research and product development[1]	151,364	111,118	65,980
General and administrative[1]	93,452	100,792	57,279
Depreciation and amortization	28,988	33,119	30,845
Total costs and operating expenses	619,482	544,253	371,248
Income (loss) from operations	963	(72,370)	(11,878)
Other income (loss), net	3	4,469	13,111
Interest income, net	7,031	1,184	501
Income (loss) before provision for income taxes	7,997	(66,717)	1,734
Provision for income taxes	5,295	1,402	706
Net income (loss)	$ 2,702	$ (68,119)	$ 1,028
Net income (loss) per common share:			
Basic	$ 0.08	$ (1.95)	$ 0.03
Diluted	$ 0.07	$ (1.95)	$ 0.03
Weighted average common shares outstanding:			
Basic	35,629	35,010	34,578
Diluted	36,417	35,010	35,701

[1] Includes stock-based compensation expense as follows:

	Year Ended December 31,		
	2023	2022	2021
Stock-based compensation expense included in costs and operating expenses:			
Cost of revenue (exclusive of depreciation and amortization)	$ 3,703	$ 2,640	$ 2,024
Sales and marketing	5,983	8,681	2,329
Research and product development	20,974	16,030	5,457
General and administrative	21,704	13,584	5,531
Total stock-based compensation expense	$ 52,364	$ 40,935	$ 15,341

The accompanying notes to the Consolidated Financial Statements are an integral part of these statements.

APPFOLIO, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	Year Ended December 31,		
	2023	2022	2021
Net income (loss)	$ 2,702	$ (68,119)	$ 1,028
Other comprehensive income (loss):			
Changes in unrealized gains (losses) on investment securities, net of tax	1,783	(1,490)	(250)
Comprehensive income (loss)	$ 4,485	$ (69,609)	$ 778

The accompanying notes to the Consolidated Financial Statements are an integral part of these statements.

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

	Common Stock Class A		Common Stock Class B		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Retained Earnings	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2020	18,729	$ 2	15,659	$ 2	$ 161,247	$ 56	$ (25,756)	$ 150,369	$ 285,920
Exercise of stock options	238	—	84	—	2,614	—	—	—	2,614
Stock-based compensation	—	—	—	—	18,031	—	—	—	18,031
Vesting of restricted stock units, net of shares withheld for taxes	111	—	—	—	(9,962)	—	—	—	(9,962)
Conversion of Class B common stock to Class A common stock	335	—	(335)	—	—	—	—	—	—
Issuance of restricted stock awards	4	—	—	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	(250)	—	—	(250)
Net Income	—	—	—	—	—	—	—	1,028	1,028
Balance at December 31, 2021	19,417	2	15,408	2	171,930	(194)	(25,756)	151,397	297,381
Exercise of stock options	303	—	27	—	4,474	—	—	—	4,474
Stock-based compensation	—	—	—	—	43,937	—	—	—	43,937
Vesting of restricted stock units, net of shares withheld for taxes	154	—	—	—	(10,637)	—	—	—	(10,637)
Conversion of Class B common stock to Class A common stock	689	—	(689)	—	—	—	—	—	—
Issuance of restricted stock awards	6	—	—	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	(1,490)	—	—	(1,490)
Net loss	—	—	—	—	—	—	—	(68,119)	(68,119)
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	255	—	—	—	2,595	—	—	—	2,595
Stock-based compensation	—	—	—	—	53,240	—	—	—	53,240
Vesting of restricted stock units, net of shares withheld for taxes	289	—	—	—	(28,554)	—	—	—	(28,554)
Conversion of Class B common stock to Class A common stock	630	—	(630)	—	—	—	—	—	—
Issuance of restricted stock awards	6	—	—	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	1,783	—	—	1,783
Net income	—	—	—	—	—	—	—	2,702	2,702
Balance at December 31,2023	21,749	$ 2	14,116	$ 2	$ 236,985	$ 99	$ (25,756)	$ 85,980	$ 297,312

The accompanying notes to the Consolidated Financial Statements are an integral part of these statements.

APPFOLIO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2023	**2022**	**2021**
Cash from operating activities			
Net income (loss)	$ 2,702	$ (68,119)	$ 1,028
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	26,500	30,820	29,032
Amortization of operating lease right-of-use assets	2,132	3,187	3,199
Impairment, net	—	22,022	—
Gain on lease modification	(4,281)	—	—
Stock-based compensation, including as amortized	54,852	43,234	17,154
Gain on sale of business	—	(4,156)	(380)
Gain on sale of equity-method investment and recovery of note receivable	—	(40)	(12,767)
Other	(3,598)	(818)	499
Changes in operating assets and liabilities:			
Accounts receivable	(4,206)	(4,198)	(2,103)
Prepaid expenses and other assets	(13,493)	(7,281)	(3,427)
Accounts payable	(1,565)	1,176	497
Operating lease liabilities	(2,504)	(2,524)	1,268
Accrued expenses and other liabilities	3,744	12,062	1,391
Net cash provided by operating activities	60,283	25,365	35,391
Cash from investing activities			
Purchases of available-for-sale investments	(195,740)	(79,279)	(241,215)
Proceeds from sales of available-for-sale investments	1,013	994	43,198
Proceeds from maturities of available-for-sale investments	152,382	87,883	107,354
Purchases of property and equipment	(9,041)	(6,540)	(8,103)
Capitalization of software development costs	(4,825)	(14,688)	(24,615)
Proceeds from sale of business, net of cash divested	—	5,124	402
Proceeds from sale of equity-method investment	629	40	12,520
Net cash used in investing activities	(55,582)	(6,466)	(110,459)
Cash from financing activities			
Proceeds from stock option exercises	2,595	4,474	2,614
Tax withholding for net share settlement	(28,556)	(10,637)	(9,962)
Net cash used in financing activities	(25,961)	(6,163)	(7,348)
Net (decrease) increase in cash and cash equivalents	(21,260)	12,736	(82,416)
Cash, cash equivalents and restricted cash			
Beginning of period	71,019	58,283	140,699
End of period	$ 49,759	$ 71,019	$ 58,283

APPFOLIO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2023	2022	2021
Supplemental disclosure of cash flow information			
Cash paid for income taxes	$ 8,086	$ 3,338	$ 9,324
Cash paid for amounts included in the measurement of lease liabilities included in operating cash flows	4,732	3,933	1,618
Right-of-use assets obtained in exchange for operating lease liabilities	$ —	$ —	$ 11,945

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

	December 31,		
	2023	2022	2021
Cash and cash equivalents	$ 49,509	$ 70,769	$ 57,847
Restricted cash included in other long-term assets	250	250	436
Total cash, cash equivalents and restricted cash	$ 49,759	$ 71,019	$ 58,283

The accompanying notes to the Consolidated Financial Statements are an integral part of these statements.

APPFOLIO, INC.

NOTES TO CONSOLIDATED AUDITED 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 property manager 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

The accompanying Consolidated Financial Statements were prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Reclassification

We reclassified certain amounts in our 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.

Principles of Consolidation

The accompanying Consolidated Financial Statements include the operations of AppFolio, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

We accounted for our investment in SecureDocs, Inc. (“SecureDocs”) under the equity method of accounting as we had the ability to exert significant influence, but did not control and were not the primary beneficiary of the entity. Our investment in SecureDocs was not material and any income (loss) activity was not material individually or in the aggregate to our Consolidated Financial Statements for any period presented. In December 2021, we sold our interest in SecureDocs. Refer to Note 4, *Investment Securities and Fair Value Measurements* for additional information.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue, expenses, other income, and provision for income taxes during the reporting period. Assets and liabilities which are subject to judgment and use of estimates include the fair value of financial instruments, useful lives of property and equipment and intangible assets, capitalized software development costs, incremental borrowing rate applied in lease accounting, impairment of goodwill and long-lived assets, period of benefit associated with deferred costs, stock-based compensation, income taxes, and contingencies. Actual results could differ from those estimates and any such differences may have a material impact on our Consolidated Financial Statements.

Segment Information

Our chief operating decision maker reviews financial information presented on an aggregated and consolidated basis, together with revenue information for our core solutions, Value Added Services, and other service offerings, principally to make decisions about how to allocate resources and to measure our performance. Accordingly, we have determined that we have one reportable and operating segment.

Concentrations of Credit Risk

Financial instruments that potentially subject us to credit risk consist principally of cash, cash equivalents, restricted cash, accounts receivable, and investment securities. We maintain cash balances at financial institutions in excess of amounts insured by United States government agencies or payable by the United States government directly. We place our cash with high credit, quality financial institutions. We invest in investment securities with a minimum rating of A by Standard & Poor's or A-1 by Moody's and regularly monitor our investment security portfolio for changes in credit ratings.

Concentrations of credit risk with respect to accounts receivable and revenue are limited due to a large, diverse customer base. As of December 31, 2023, (i) no individual customer exceeded 10% of our total revenues in any of the periods presented, and (ii) 26% of our accounts receivable balance was attributable to amounts due from a risk mitigation provider. For purposes of assessing concentration of credit risk and significant customers, a group of residents that are receiving services from a third party that controls and transfers the specified services are regarded as one single customer.

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We use a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, which are the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, in the marketplace.

Level 3 - Unobservable inputs that are supported by little or no market activity.

Cash, Cash Equivalents and Restricted Cash

We consider all highly liquid investments, readily convertible to cash, and which have a remaining maturity date of three months or less at the date of purchase, to be cash equivalents. Cash and cash equivalents are recorded at fair value and consist primarily of bank deposits, and money market funds.

Investment Securities

Our investment securities currently consist of United States government agency securities and treasury securities. We classify investment securities as available-for-sale at the time of purchase and reevaluate such classification at each balance sheet date. All investments are recorded at estimated fair value and investments with original maturities of less than one year at the time of purchase are classified as short-term. Unrealized gains and losses for available-for-sale investment securities are included in accumulated other comprehensive income, a component of stockholders' equity.

For available-for-sale debt securities in an unrealized loss position, we first assess whether we intend to sell, or whether it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If either of these criteria is met, the security's amortized cost basis is written down to fair value through income. For securities in an unrealized loss position that do not meet these criteria, we evaluate whether the decline in fair value has resulted from credit loss or other factors. If this assessment indicates a credit loss exists, the credit-related portion of the loss is recorded as an allowance for losses on the security. No allowance for credit losses for available-for-sale investment securities was recorded as of December 31, 2023 and 2022.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount, net of an allowance for credit losses. The allowance for credit losses is based on historical loss experience, the number of days that receivables are past due, and an evaluation of the potential risk of loss associated with delinquent accounts. Accounts receivable considered uncollectible are charged against the allowance for credit losses when identified. We do not have any off-balance sheet credit exposure related to our customers. As of December 31, 2023 and 2022, our allowance for credit losses was not material.

Property and Equipment

Property and equipment is stated at cost net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of assets as follows:

Asset Type	Depreciation Period
Computer equipment	3 years
Furniture and fixtures	7 years
Office equipment	3 to 5 years
Leasehold improvements	Shorter of remaining life of lease or asset life

Leases

We determine if an arrangement is a lease at inception. Operating lease right-of-use ("ROU") assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments, over the lease term at commencement date. As none of our leases provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. The operating lease ROU assets also include any lease payments made to the lessor before or at the lease commencement date and excludes lease incentives received and initial direct costs incurred. Our lease terms may include options to extend the lease when it is reasonably certain that we will exercise that option.

Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. We have lease arrangements with lease and non-lease components, which are generally accounted for as a single lease component. Leases with an initial term of twelve months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term.

Capitalized Software Development Costs

Software development costs consist of certain payroll and stock compensation costs incurred to develop functionality of our internal-use software solutions. We capitalize certain software development costs for new offerings as well as significant upgrades and enhancements to our existing software solutions. Capitalized software development costs are amortized using the straight-line method over an estimated useful life of three years. We do not transfer ownership of our software, license, or lease our software to third parties.

Goodwill and Intangible Assets, Net

Goodwill is tested for impairment at least annually at the reporting unit level or at other times whenever events or changes in circumstances indicate that goodwill might be impaired. A qualitative assessment is performed to determine whether it is more likely than not that the fair value of its reporting unit is less than its carrying amount. A quantitative assessment is performed if the qualitative assessment results in a more-likely-than-not determination or if a qualitative assessment is not performed. The quantitative assessment considers whether the carrying amount of a reporting unit exceeds its fair value, in which case an impairment charge is recorded to the extent that the reporting unit's carrying value exceeds its fair value.

We test for goodwill impairment annually during the fourth quarter of the calendar year. Based on the annual assessment performed at November 1, 2023, we determined it was not more likely than not that our reporting unit fair value was less than its carrying value and no quantitative impairment test assessment was required. No impairment losses were recorded for goodwill during the years ended December 31, 2023, 2022 and 2021.

Intangible assets primarily consist of acquired database, domain names and patents, which are recorded at cost, less accumulated amortization. We determine the appropriate useful life of our intangible assets by performing an analysis of expected cash flows of the acquired assets. Intangible assets are amortized over their estimated useful lives on a straight-line basis, which approximates the pattern in which the economic benefits of the assets are consumed.

Impairment of Long-Lived Assets

We assess the recoverability of our long-lived assets when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability is measured by comparing the carrying amount of the asset or asset group to the future undiscounted cash flows we expect the asset or asset group to generate. Any excess of the carrying value of the asset or asset group above its fair value is recognized as an impairment loss. We recorded net lease-related impairment charges of $22.0 million for the year ended December 31, 2022. Refer to Note 10, Leases for additional information. There were no impairment charges related to the identified long-lived assets for the years ended December 31, 2023 and 2021.

Revenue Recognition

We generate revenue from our customers primarily for subscriptions to access our core solutions and Value Added Services. Revenue is recognized upon transfer of control of promised services in an amount that reflects the consideration we expect to receive in exchange for those services. We enter into contracts that can include various combinations of services, which are generally capable of being distinct, distinct within the context of the contract, and accounted for as separate performance obligations. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities. We recognize revenue in proportion to the amount that we have the right to invoice for certain core solutions and Value Added Services revenue, as that amount corresponds directly with our performance completed to date. Refer to Note 15, *Revenue and Other Information* for the disaggregated breakdown of revenue between Core solutions, Value Added Services and Other revenue.

Core Solutions

We charge our customers on a subscription basis for our core solutions. Our customers do not have rights to the underlying software code of our solutions, and, accordingly, we recognize subscription revenue over time on a straight-line basis over the contract term beginning on the date that our service is made available to the customer. The terms of our subscription agreements are monthly, annual, and multiyear and we typically invoice our customers for subscription services in monthly or annual installments, in advance of the subscription period.

Value Added Services

We primarily charge our customers on a usage basis for our Value Added Services. Usage-based fees are charged either as a percentage of the transaction amount (e.g., for certain of our electronic 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 electronic payments services fees are recorded gross of the interchange and payment processing related fees. We generally invoice our customers for usage-based services on a monthly basis for services rendered in the preceding month. We also have certain Value Added Services which are charged on a subscription basis. We typically invoice our customers for subscription-based services in monthly installments, in advance of the subscription period. We recognize revenue for subscription-based services over time on a straight-line basis over the contract term beginning on the date that our service is made available to the customer. Some subscription or usage-based Value Added Services, such as fees for electronic payment services, are paid by either our customers or clients of our customers at the time the services are rendered.

We work with third-party partners to provide certain of our Value Added Services. For these Value Added Services, we evaluate whether we are the principal, and report revenue on a gross basis, or the agent, and report revenue on a net basis. In this assessment we consider if we obtain control of the specified services before they are transferred to the customer, as well as other indicators such as whether we are the party primarily responsible for fulfillment, and whether we have discretion in establishing price.

Other Revenue

Other revenue include fees from one-time services related to the implementation of our software solutions and other recurring or one-time fees related to our customers who are not otherwise using our core solutions. This includes legacy customers of businesses we have acquired where the customers haven't migrated to our core solutions. The fees for implementation and data migration services are billed upon signing our core subscription contract and are recognized as revenue in the period the service is rendered. Other services are billed when the services rendered are completed and delivered to the customer or billed in advance and deferred over the subscription period.

Deferred Costs

Deferred costs, which primarily consist of sales commissions, are considered incremental and recoverable costs of obtaining a contract with a customer. These costs are deferred and then amortized on a straight-line basis over a period of benefit that we have determined to be three years. We typically do not pay commissions for contract renewals. We determined the period of benefit by taking into consideration our customer contract term, the useful life of our internal-use software, average customer life, and other factors. Amortization expense for the deferred costs is included within sales and marketing expense in the accompanying Consolidated Statements of Operations.

Deferred costs were $15.9 million and $15.8 million as of December 31, 2023 and 2022, respectively, of which $8.7 million and $8.1 million, respectively, are included in *Prepaid expenses and other current assets* and $7.2 million and $7.7 million, respectively, are included in *Other long-term assets* in the accompanying Consolidated Balance Sheets. Amortization expense for deferred costs was $9.5 million, $8.1 million, and $6.8 million for the years ended December 31, 2023, 2022, and 2021, respectively. For the years ended December 31, 2023 and 2022, no impairments were identified in relation to the costs capitalized for the periods presented.

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. Advertising expenses were $8.6 million, $9.2 million and $9.4 million for each of the years ended December 31, 2023, 2022 and 2021, respectively, and are expensed as incurred.

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 which meet the criteria for capitalization. Amortization of capitalized software development costs is included in depreciation and amortization expense.

General and Administrative

General and administrative expense consists of personnel-related costs for employees in our executive, finance, information technology, human resources, legal, compliance, corporate development and administrative organizations (including salaries, performance-based 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 fines and penalties, other corporate expenses, impairment of long-lived assets, and allocated shared costs.

Depreciation and Amortization

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

Stock-Based Compensation

We recognize stock-based compensation expense for restricted stock awards ("RSAs") and restricted stock units ("RSUs") with only service conditions on a straight-line basis over the requisite service period. For RSUs with both service and performance conditions ("PSUs"), compensation cost is recorded on a graded-vesting method, if it is probable that the performance condition will be achieved. Adjustments to compensation expense are made each period based on changes in our estimate of the number of PSUs that are probable of vesting. PSUs will vest on the vesting date and upon achievement of the relevant performance metric once such calculation is finalized in accordance with our internal policies. We estimate a forfeiture rate to calculate our stock-based compensation expense for our stock-based awards.

Income Taxes

We recognize deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the Consolidated Statements of Operations in the period that includes the enactment date. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. In evaluating the need for a valuation allowance, we consider the weighting of all available positive and negative evidence, which includes, among other things, the nature, frequency and severity of current and cumulative taxable income or losses, future projections of profitability, and the duration of statutory carryforward periods.

Net Income (Loss) per Common Share

Basic net income (loss) per share includes no dilution and is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. The dilutive effect of outstanding options and equity incentive awards is reflected in diluted net income per share by application of the treasury stock method. The calculation of diluted net income per share excludes all anti-dilutive common shares.

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):

	Year Ended December 31,		
	2023	2022	2021
Basic net income (loss) per share:			
Numerator			
Net income (loss) attributable to common stockholders	$ 2,702	$ (68,119)	$ 1,028
Denominator			
Weighted average common shares outstanding	35,636	35,015	34,583
Less: Weighted average unvested restricted shares subject to repurchase	7	5	5
Weighted average common shares outstanding; basic	35,629	35,010	34,578
Net income (loss) per common share; basic	$ 0.08	$ (1.95)	$ 0.03
Diluted net income (loss) per share:			
Numerator			
Net income (loss) attributable to common stockholders	$ 2,702	$ (68,119)	$ 1,028
Denominator			
Weighted average common shares outstanding; basic	35,629	35,010	34,578
Add: Weighted average dilutive options outstanding	333	—	959
Add: Weighted average dilutive RSUs outstanding	455	—	164
Weighted average common shares outstanding; diluted	36,417	35,010	35,701
Net income (loss) per common share; diluted	$ 0.07	$ (1.95)	$ 0.03

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):

	Year Ended December 31,		
	2023	2022	2021
Unvested Restricted Stock Awards	6	6	4
Options	120	516	846
Restricted Stock Units	20	1,162	837
Total potentially dilutive securities	146	1,684	1,687

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 a material impact on our Consolidated Financial Statements.

Recent Accounting Pronouncements Not Yet Adopted

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*". The amendments "improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses." In addition, the amendments enhance interim disclosure requirements, clarify circumstances in which an entity can disclose multiple segment measures of profit or loss, provide new segment disclosure requirements for entities with a single reportable segment, and contain other disclosure requirements. ASU 2023-07 is effective for calendar year-end public business entities in the 2024 annual period and in 2025 for interim periods. Early adoption is permitted. We expect to adopt ASU 2023-07 for 2024 annual period and 2025 interim periods, retrospectively. We are currently evaluating the impact of this ASU on our Consolidated Financial Statements.

In December 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures*, which requires that an entity, on an annual basis, disclose additional income tax information, primarily related to the rate reconciliation and income taxes paid. The amendment in the ASU is intended to enhance the transparency and decision usefulness of income tax disclosures. The guidance will be applied on a prospective basis with the option to apply the standard retrospectively and is effective for calendar year-end public business entities in the 2025 annual period and in 2026 for interim periods with early adoption permitted. We are currently evaluating the impact of this ASU on our Consolidated Financial Statements.

3. Sales of Subsidiary Business

Sale of WegoWise

In August 2022, we completed the sale of AppFolio Utility Management, Inc., dba WegoWise ("WegoWise"), a former wholly owned subsidiary of the Company that provided cloud-based utility analytics reporting software solutions to our customers. We sold WegoWise for $5.2 million (the "WegoWise Transaction") and recognized a pre-tax gain on the sale of $4.2 million. Net assets divested are primarily comprised of intangible assets of $2.5 million and deferred revenue of $1.7 million. The gain on the sale is included within *Other income, net* in our Consolidated Statements of Operations.

4. Investment Securities and Fair Value Measurements

Investment Securities

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

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government and agency securities	$ 162,062	$ 193	$ (59)	$ 162,196
Total available-for-sale investment securities	$ 162,062	$ 193	$ (59)	$ 162,196

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	$ 17,497	$ 2	$ (112)	$ 17,387
U.S. government and agency securities	99,112	—	(2,041)	97,071
Total available-for-sale investment securities	$ 116,609	$ 2	$ (2,153)	$ 114,458

As of December 31, 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 December 31, 2023 or 2022.

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

	December 31, 2023		December 31, 2022	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 162,062	$ 162,196	$ 90,822	$ 89,297
Due after one year through three years	—	—	25,787	25,161
Total available-for-sale investment securities	$ 162,062	$ 162,196	$ 116,609	$ 114,458

During the years ended December 31, 2023 and 2022, we had sales and maturities (which include calls) of investment securities, as follows (in thousands):

	Year Ended December 31, 2023			
	Gross Realized Gains	Gross Realized Losses	Gross Proceeds from Sales	Gross Proceeds from Maturities
Corporate bonds	$ 3	$ —	$ 1,013	$ 16,497
U.S. government and agency securities	—	—	—	135,885
	$ 3	$ —	$ 1,013	$ 152,382

	Year Ended December 31, 2022			
	Gross Realized Gains	Gross Realized Losses	Gross Proceeds from Sales	Gross Proceeds from Maturities
Corporate bonds	$ —	$ (3)	$ 994	$ 28,998
U.S. government and agency securities	—	—	—	58,885
	$ —	$ (3)	$ 994	$ 87,883

SecureDocs

In December 2021, we sold all of our interest in SecureDocs. A gain of $12.8 million was recognized within *Other income, net* in our Consolidated Statements of Operations, a portion of which relates to the recovery of a $2.0 million note receivable which had been previously reserved.

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 December 31, 2023 and 2022 by level within the fair value hierarchy (in thousands):

	December 31, 2023		
	Level 1	Level 2	Total Fair Value
Cash equivalents:			
Money market funds	$ 37,100	$ —	$ 37,100
Available-for-sale investment securities:			
U.S. government and agency securities	—	162,196	162,196
Total	$ 37,100	$ 162,196	$ 199,296

	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
U.S. government and agency securities	80,048	17,023	97,071
Total	$ 123,308	$ 34,410	$ 157,718

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.

There were no changes to our valuation techniques used to measure asset and liability fair values on a recurring basis during the year ended December 31, 2023. The valuation techniques for the financial assets in the tables above are as follows:

Cash Equivalents

As of December 31, 2023 and 2022, cash equivalents include cash invested in money market funds with a maturity of three months or less. Fair value is based on market prices for identical assets.

Available-for-Sale Investment Securities

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

5. Property and Equipment, net

Property and equipment, net consists of the following (in thousands):

	December 31, 2023	December 31, 2022
Computer equipment	$ 4,438	$ 5,529
Furniture and fixtures	5,521	5,747
Office equipment	3,761	3,800
Leasehold improvements	24,208	23,625
Construction in process	5,499	544
Gross property and equipment	43,427	39,245
Less: Accumulated depreciation	(15,065)	(13,135)
Total property and equipment, net	$ 28,362	$ 26,110

Depreciation expense for property and equipment totaled $7.3 million, $5.1 million, and $4.7 million for the years ended December 31, 2023, 2022 and 2021, respectively. During the year ended December 31, 2022, we recorded an impairment of $4.4 million related to property and equipment associated with our leased office spaces. For additional information, see Note 10, *Leases*.

6. Capitalized Software Development Costs, net

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

	December 31, 2023	December 31, 2022
Capitalized software development costs, gross	$ 126,606	$ 129,749
Less: Accumulated amortization	(105,044)	(94,434)
Capitalized software development costs, net	$ 21,562	$ 35,315

Capitalized software development costs were $5.5 million, $17.7 million and $27.2 million for the years ended December 31, 2023, 2022 and 2021, respectively. Amortization expense with respect to software development costs totaled $19.2 million, $23.6 million and $21.5 million for the years ended December 31, 2023, 2022 and 2021, respectively. During the years ended December 31, 2023 and 2022, we disposed of $8.2 million and $3.3 million, respectively, of fully amortized capitalized software development costs.

Future amortization expense with respect to capitalized software development costs is estimated as follows (in thousands):

Years Ending December 31,	
2024	$ 12,659
2025	6,050
2026	2,432
2027	421
Total amortization expense	$ 21,562

7. Goodwill and Intangible Assets, Net

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

	December 31, 2023						
	Gross Carrying Value		Accumulated Amortization		Net Carrying Value		Weighted Average Useful Life in Years
Database		4,710		(2,355)		2,355	10.0
Domain names		90		(88)		2	5.0
Patents		252		(252)		—	5.0
Total intangible assets, net	$	5,052	$	(2,695)	$	2,357	9.7

	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 $2.5 million, $4.4 million and $4.6 million for the years ended December 31, 2023, 2022 and 2021, respectively. Future amortization expense with respect to intangible assets is estimated as follows (in thousands):

Years Ending December 31,		
2024	$	473
2025		471
2026		471
2027		471
2028		471
Total	$	2,357

Our goodwill balance is solely attributed to acquisitions. The change in the carrying amount of goodwill during the years ended December 31, 2023 and 2022 is as follows (in thousands):

Goodwill at December 31, 2021	$	56,147
Goodwill attributed to WegoWise Transaction		(87)
Goodwill at December 31, 2022	$	56,060
Goodwill at December 31, 2023	$	56,060

8. Accrued Employee Expenses

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

	December 31, 2023	December 31, 2022
Accrued vacation	$ 12,399	$ 12,067
Accrued bonuses	14,795	13,806
Accrued severance and related personnel cost	1,098	496
Accrued payroll and other	7,275	8,007
Total accrued employee expenses	$ 35,567	$ 34,376

During the year ended December 31, 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, which has been substantially paid out in cash during the year ended December 31, 2023. The remaining balance is expected to be paid in 2024. Refer to Note 16, *Workforce Reduction* for additional information.

9. Other Current Liabilities

Other Current Liabilities consisted of the following (in thousands):

	December 31, 2023	December 31, 2022
Insurance reserves	$ 4,174	$ 2,665
Operating lease liabilities-current	3,626	3,357
Other	3,535	2,871
Total other current liabilities	$ 11,335	$ 8,893

For additional information, refer to Note 11, *Commitments and Contingencies* and Note 10, *Leases.*

10. Leases

Operating leases for our corporate offices have remaining lease terms ranging from five months 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 Consolidated Statements of Operations were as follows (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Operating lease cost	$ 4,362	$ 5,403	$ 5,203
Variable lease cost	1,737	1,058	1,463
Total lease cost	$ 6,099	$ 6,461	$ 6,666

Lease-related assets and liabilities were as follows (in thousands, except years and %):

	December 31,	
	2023	2022
Assets		
Operating lease right-of-use assets	19,285	23,485
Liabilities		
Other current liabilities	$ 3,626	$ 3,357
Operating lease liabilities	41,114	50,237
Total lease liabilities	$ 44,740	$ 53,594
Weighted-average remaining lease term (years)	8.3	9.4
Weighted-average discount rate	5.1 %	3.9 %

During the year ended December 31, 2022, we decided to exit and make available for sublease certain leased office spaces. As a result, we reassessed our asset groupings and evaluated the recoverability of our right-of-use and other lease related assets, and determined that the carrying value of the respective asset groups was not fully recoverable. We utilized discounted cash flow models to estimate the fair value of the asset groups taking into consideration the time period it will take to obtain a sublessee, the applicable discount rates and the anticipated sublease income and calculated the corresponding impairment loss. We used prices and other relevant information generated primarily by recent market transactions involving similar or comparable assets, as well as our historical experience in real estate transactions. When available, we use valuation inputs from independent valuation experts, such as real estate appraisers and brokers, to corroborate our estimates of fair value. We recorded a net impairment of $22.0 million consisting of $17.6 million related to ROU assets and $4.4 million related to property and equipment associated with our leased office spaces. These amounts were recorded within *General and administrative* in our 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 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 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 year ended December 31, 2023.

Future minimum lease payments under non-cancellable leases as of December 31, 2023 were as follows (in thousands):

Years ending December 31,		
2024	$	5,348
2025		6,168
2026		6,345
2027		6,529
2028		6,717
Thereafter		24,373
Total future minimum lease payments		55,480
Less: imputed interest		(10,740)
Total	$	44,740

11. Commitments and Contingencies

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. 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 December 31, 2023 and 2022 was $4.2 million and $2.7 million, respectively, and is included in *Other current liabilities* on our Consolidated Balance Sheets.

Included in *Prepaid expenses and other current assets* as of December 31, 2023 and 2022 are $5.1 million and $4.5 million, respectively, of deposits held with a third party related to requirements to maintain collateral for this risk mitigation service.

Legal Proceedings

On February 10, 2023, a lawsuit was filed in the First Judicial District Court of New Mexico, Murphy, et al. v. AppFolio, Inc., et al. (No. D-101-CV-2022-02100), naming us as a defendant and alleging certain violations of the New Mexico Unfair Practices Act and negligent misrepresentation in connection with our tenant screening service (the “Murphy Litigation”). In late November 2023, the parties agreed to settle the Murphy Litigation and plan to file a notice of settlement with the court. We did not admit any wrongdoing in connection with the settlement of the Murphy Litigation.

We have assessed the potential liabilities related to this matter and have determined that it is probable a loss will be incurred; however, we expect that this loss will be covered by existing insurance policies. As of December 31, 2023, we recorded a liability of $7.0 million within *Accrued Expenses* and a corresponding receivable amount within *Prepaid expenses and other current assets.*

In addition to the foregoing, from time to time, we are involved in various other investigative inquiries, legal proceedings and 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.

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 Consolidated Financial Statements.

12. Stockholders' Equity

Amended and Restated Certificate of Incorporation

Upon the effectiveness of our Amended and Restated Certificate of Incorporation on June 25, 2015, we are authorized to issue 250,000,000 shares of Class A common stock, 50,000,000 shares of Class B common stock and 25,000,000 shares of undesignated preferred stock, each with a par value of $0.0001 per share.

Class A Common Stock and Class B Common Stock

Holders of our Class A common stock and Class B common stock are entitled to dividends when, as, and if declared by our board of directors, subject to the rights of the holders of all classes of stock outstanding having priority rights to dividends. As of December 31, 2023, we have not declared any dividends. The holder of each share of Class A common stock is entitled to one vote, while the holder of each share of Class B common stock is entitled to ten votes. Each share of our Class B common stock is convertible at any time at the option of the holder into one share of our Class A common stock and generally convert into shares of our Class A common stock upon transfer. Class A common stock and Class B common stock are collectively referred to as common stock throughout the notes to these financial statements, unless otherwise noted.

Preferred Stock

Our Board of Directors, subject to the limitations prescribed by Delaware law, has the authority to issue up to 25,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders.

Share Repurchase Program

On February 20, 2019, our Board of Directors authorized a $100.0 million share repurchase program (the "Share Repurchase Program") relating to our outstanding shares of Class A common stock. Under the Share Repurchase Program, share repurchases may be made from time to time, as directed by a committee consisting of three directors, in open market purchases or in privately negotiated transactions at a repurchase price that the members of the committee unanimously believe is below intrinsic value conservatively determined. The Share Repurchase Program does not obligate us to repurchase any specific dollar amount or number of shares, there is no expiration date for the Share Repurchase Program, which may be modified, suspended or terminated at any time and for any reason. We have not made any repurchases under the Share Repurchase Program during the years ended December 31, 2023, 2022 and 2021.

13. Stock-Based Compensation

We currently have two stock incentive plans, our 2007 Stock Incentive Plan (the "2007 Plan") and the 2015 Stock Incentive Plan (the "2015 Plan"). The 2007 Plan expired on February 14, 2017, however it will continue to govern outstanding awards granted under the 2007 Plan.

Under the 2015 Plan, 2,000,000 shares of our Class A common stock were reserved and available for grant and issuance. On January 1 of each subsequent calendar year, the number of shares available for grant and issuance under the 2015 Plan increase by the lesser of (i) the number of shares of our Class A common stock subject to awards granted under the 2015 Plan during the preceding calendar year and (ii) such lesser number of shares of our Class A common stock determined by our Board of Directors. The number of shares of our Class A common stock is also subject to adjustment in the event of a recapitalization, stock split, reclassification, stock dividend or other change in our capitalization. The 2015 Plan authorizes the award of stock options, stock appreciation rights, RSAs, RSUs, performance awards and stock bonuses. The 2015 Plan provides for the grant of awards to our employees, directors, consultants and independent contractors, subject to certain exceptions. RSUs, PSUs, and RSAs have been issued during 2023 pursuant to the 2015 Plan.

RSUs and PSUs represent the right on the part of the holder to receive shares of our Class A common stock at a specified date in the future or the achievement of performance conditions at the discretion of our compensation committee, subject to forfeiture of that right due to termination of employment. If an RSU or PSU has not been forfeited, then, on the specified date, we will deliver to the holder of the RSU or PSU shares of our Class A common stock.

Stock Options

A summary of activity in connection with our stock options for the year ended December 31, 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	(255)	10.18	
Options outstanding as of December 31, 2023	381	$ 51.49	3.4
At December 31, 2023:			
Options vested and expected to vest	381	$ 51.49	3.4
Options exercisable	261	$ 15.55	0.8

Our stock-based compensation expense for stock options were not material for the periods presented.

During the year ended December 31, 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 years ended December 31, 2022 or 2021.

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 the year ended December 31, 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	—

The total intrinsic value of options exercised in 2023, 2022 and 2021 was $36.4 million, $31.1 million, and $39.1 million, respectively. This intrinsic value represents the difference between the fair value of our common stock on the date of exercise and the exercise price of each option. Based on the fair value of our common stock as of December 31, 2023, the total intrinsic value of all outstanding options, exercisable options, and options vested and expected to vest was $46.4 million.

Restricted Stock Units

A summary of activity in connection with our RSUs for the year ended December 31, 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	659		125.05
Vested	(520)		120.39
Forfeited	(358)		114.37
Unvested as of December 31, 2023	943	$	121.61

Unvested RSUs as of December 31, 2023 were composed of 0.8 million RSUs with only service conditions and 0.1 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 December 31, 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 throughout the performance period. 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.

We recognized stock-based compensation expense for the RSUs and PSUs of $51.0 million, $43.3 million and $17.3 million for the years ended December 31, 2023, 2022 and 2021, respectively. Excluded from stock-based compensation expense is capitalized software development costs of $0.9 million, $3.0 million, and $2.7 million for the years ended December 31, 2023, 2022 and 2021, respectively. As of December 31, 2023, the total estimated remaining stock-based compensation expense for the aforementioned RSUs and PSUs was $89.5 million, which is expected to be recognized over a weighted average period of 2.3 years. The total fair value of RSUs and PSUs vested during the years ended December 31, 2023, 2022 and 2021 was approximately $82.2 million, $27.5 million and $26.6 million, respectively.

Restricted Stock Awards

A summary of activity in connection with our RSAs for the year ended December 31, 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		150.06
Vested	(6)		96.33
Unvested as of December 31, 2023	6	$	150.06

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

As of December 31, 2023, the total estimated remaining stock-based compensation expense for unvested restricted stock awards with a repurchase right was $0.3 million, which is expected to be recognized over a weighted average period of 0.5 years.

14. Income Taxes

Set forth below is a reconciliation of the components that caused our provision for income taxes to differ from amounts computed by applying the United States federal statutory rate:

	Year Ended December 31,		
	2023	2022	2021
U.S. federal statutory income tax rate	21 %	21 %	21 %
State and local income taxes, net of federal benefit	(44)	9	(214)
Change in valuation allowance	215	(37)	795
Stock-based compensation expense	(108)	7	(426)
Research and development tax credits	(93)	5	(205)
Non-deductible officers' compensation	79	(6)	47
Other permanent differences	(4)	(1)	23
Provision for income taxes	66 %	(2)%	41 %

The provision for income tax consists of the following (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Current			
Federal	$ 3,485	$ 1,313	$ 20
State and local	2,299	686	346
Total current	5,784	1,999	366
Deferred			
Federal	(477)	(854)	(10,966)
State and local	(12)	257	11,306
Total deferred	(489)	(597)	340
Total income tax provision	$ 5,295	$ 1,402	$ 706

The components of deferred tax assets (liabilities) were as follows (in thousands):

	December 31,	
	2023	2022
Deferred income tax assets:		
Research and development tax credits	$ 19,513	$ 18,558
Capitalized research and software costs	33,958	14,706
Lease liability	11,914	14,260
Net operating loss carryforwards	6,502	5,802
Stock-based compensation	2,894	5,105
Other	3,303	3,614
Total deferred tax assets	78,084	62,045
Valuation allowance	(62,380)	(43,776)
Deferred tax assets, net of valuation allowance	15,704	18,269
Deferred tax liabilities:		
Lease asset	(5,135)	(6,249)
Property and equipment	(4,189)	(4,914)
Capitalized commissions	(4,237)	(4,217)
Intangible assets	(329)	(940)
Other	(2,511)	(2,634)
Total deferred tax liabilities	(16,401)	(18,954)
Total net deferred tax liabilities	$ (697)	$ (685)

As of December 31, 2023, we had state net operating loss carryforwards $75.1 million. The state net operating losses will begin to expire in 2028. As of December 31, 2023, we also had federal and state research and development credit carryforwards of $7.5 million and $24.3 million, respectively. The federal credit carryforwards will begin to expire in 2043, while the state credit carryforwards apply indefinitely. Utilization of our net operating loss and credit carryforwards may be subject to annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions.

The change in the valuation allowance are as follows (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Valuation allowance, at beginning of year	$ 43,776	$ 17,217	$ —
Increase in valuation allowance	18,604	26,559	17,217
Valuation allowance, at end of year	$ 62,380	$ 43,776	$ 17,217

The following is a reconciliation of the total amounts of reserves for unrecognized tax benefits from uncertain tax positions (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Unrecognized tax benefit beginning of year	$ 9,455	$ 7,816	$ 6,141
Increases-tax positions in current year	2,860	1,639	1,675
Unrecognized tax benefit end of year	$ 12,315	$ 9,455	$ 7,816

The unrecognized tax benefits are recorded as a reduction to the deferred tax assets and liabilities.

As of December 31, 2023 and 2022, we had no accrued interest and penalties related to uncertain income tax positions. We do not anticipate that the amount of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

We file income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. While the applicable statute of limitations are generally open for three to four years for the jurisdictions we file in, we remain subject to income tax examinations for all years due to the usage of carryforward attributes, such as net operating losses and research and development credits. As of December 31, 2023, we have not been notified for audit by the Internal Revenue Service or any significant state jurisdiction.

15. Revenue and Other Information

The following table presents our revenue categories (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Core solutions	$ 156,692	$ 132,541	$ 105,148
Value Added Services	454,098	327,636	241,289
Other	9,655	11,706	12,933
Total revenue	$ 620,445	$ 471,883	$ 359,370

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

16. Workforce Reduction

During the year ended December 31, 2023, we implemented 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 years ended December 31, 2022 and 2021.

The following table presents the total severance and related personnel costs by function, for the year ended December 31, 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]	$	12,083

[1] Total severance and related personnel costs include $1.8 million of accelerated stock-based compensation expense recognized during the year ended December 31, 2023.

The following is a summary of changes in the accrued severance and related personnel cost, within Accrued Employee Expenses on the 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		(9,425)
Balance as of December 31, 2023	$	853

The remaining balance is expected to be paid in 2024.

17. Retirement Plans

We have a 401(k) retirement and savings plan made available to all employees. We may, at our discretion, make matching contributions to the 401(k) plan. Cash contributions to the plan were $7.3 million, $5.9 million, and $4.0 million for the years ended December 31, 2023, 2022 and 2021, respectively.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 December 31, 2023, the last day of the period covered by this Annual Report. 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 recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms and that such information is accumulated and communicated to its management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based on our management's evaluation, our principal executive officer and principal financial officer have concluded that, as of December 31, 2023, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Internal control over financial reporting is a process designed under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, 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. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2023, our management assessed the effectiveness of our internal control over financial reporting using the criteria set forth in the *Internal Control – Integrated Framework* (2013) as issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on our evaluation under the COSO criteria, our management concluded that our internal control over financial reporting was effective at the reasonable assurance level as of December 31, 2023.

The effectiveness of our internal control over financial reporting has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their audit report which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting at December 31, 2023.

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 Rules 13(a)-15(d) and 15d-15(d) under the Exchange Act that occurred during the quarter ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

On November 15, 2023, Olivia Nottebohm, a member of our Board of Directors, entered into a prearranged stock selling plan for the sale of up to 1,449 shares of the Company's Class A common stock between March 1, 2024 and December 27, 2024. Ms. Nottebohm's trading plan was entered into during an open insider trading window and is 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.

ITEM 9C. DISCLOSURES REGARDING FOREIGN JURISDICTION THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be included in our definitive Proxy Statement or an amendment to this Annual Report, which will be filed with the SEC not later than 120 days after the end of our fiscal year ended December 31, 2023, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be included in our definitive Proxy Statement or an amendment to this Annual Report, which will be filed with the SEC not later than 120 days after the end of our fiscal year ended December 31, 2023, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will be included in our definitive Proxy Statement or an amendment to this Annual Report, which will be filed with the SEC not later than 120 days after the end of our fiscal year ended December 31, 2023, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item will be included in our definitive Proxy Statement or an amendment to this Annual Report, which will be filed with the SEC not later than 120 days after the end of our fiscal year ended December 31, 2023, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item will be included in our definitive Proxy Statement or an amendment to this Annual Report, which will be filed with the SEC not later than 120 days after the end of our fiscal year ended December 31, 2023, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES

The following documents are filed as part of this Annual Report:

1. Consolidated Financial Statements

   Our consolidated financial statements are listed in the "Index to Consolidated Financial Statements" under Part II, Item 8, of this Annual Report.

2. Financial Statement Schedules

   All financial statement schedules have been omitted because they are not required or are not applicable, or the required information is shown in our Consolidated Financial Statements or the notes thereto.

3. Exhibits

   The documents listed in the Exhibit Index of this Annual Report are filed or furnished with, or incorporated by reference into, this Annual Report, in each case as indicated therein.

EXHIBIT INDEX

		Incorporated by Reference				
Exhibit Number	**Exhibit Description**	**Form**	**File No.**	**Exhibit**	**Filing Date**	**Filed Herewith**
3.1	Amended and Restated Certificate of Incorporation of the registrant as currently in effect.	10-Q	001-37468	3.1	8/6/2015	
3.1	Amended and Restated Bylaws of the registrant as currently in effect.	10-Q	001-37468	3.1	8/3/2020	
4.1	Specimen Certificate for Class A Common Stock.	S-1/A	333-204262	4.1	6/4/2015	
4.2	Amended and Restated Investor Rights Agreement, by and among the registrant and the investors named therein, dated November 26, 2013.	S-1/A	333-204262	4.2	6/4/2015	
4.3	Description of Capital Stock of the registrant.	10-K	001-37468	4.3	3/2/2020	
10.1	Industrial Lease, by and between the registrant and 50 Castilian Drive, LLC, effective December 6, 2019 (50 Castilian Drive, Goleta, CA 93117).	8-K	001-37468	10.1	12/11/2019	
10.2	Industrial Lease, by and between the registrant and 50 Castilian Drive, LLC, effective December 6, 2019 (70 Castilian Drive, Goleta, CA 93117).	8-K	001-37468	10.2	12/11/2019	
10.3	Industrial Lease, by and between the registrant and 50 Castilian Drive, LLC, effective December 6, 2019 (90 Castilian Drive, Goleta, CA 93117).	8-K	001-37468	10.3	12/11/2019	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.4	First Amendment to Industrial Lease, by and between the registrant and 50 Castilian Drive, LLC, effective February 10, 2022 (50 Castilian Drive, Goleta, CA 93117).	10-K	001-37468	10.4	2/28/2022	
10.5	First Amendment to Industrial Lease, by and between the registrant and 50 Castilian Drive, LLC, effective February 10, 2022 (70 Castilian Drive, Goleta, CA 93117).	10-K	001-37468	10.5	2/28/2022	
10.6	First Amendment to Industrial Lease, by and between the registrant and 50 Castilian Drive, LLC, effective February 10, 2022 (90 Castilian Drive, Goleta, CA 93117).	10-K	001-37468	10.6	2/28/2022	
10.7	Umbrella Termination Agreement, by and between the registrant and Castilian 90, LLC, Castilian 70, LLC and Castilian 50, LLC, effective February 10, 2022.	10-K	001-37468	10.7	2/28/2022	
10.8#	Employment agreement between the Company and Jason Randall.	10-Q	001-37468	10.1	7/28/2022	
10.9#	2007 Stock Incentive Plan, as amended, and related form agreements.	S-1/A	333-204262	10.3	6/4/2015	
10.10#	2015 Stock Incentive Plan and related form agreements.	S-1/A	333-204262	10.4	6/4/2015	
10.11#	2015 Employee Stock Purchase Plan.	S-1/A	333-204262	10.5	6/4/2015	
10.12#	Long-Term Cash Incentive Plan.	10-K	001-37468	10.9	2/26/2018	
10.13#	Form of Long-Term Cash Incentive Award Offer.	10-K	001-37468	10.1	2/26/2018	
10.14#	Employment agreement between the Company and Fay Sien Goon.	10-Q	001-37468	10.1	11/8/2021	
10.15#	Form of Restricted Stock Unit Award Agreement (New Hire) under 2015 Stock Incentive Plan.	10-K	001-37468	10.16	2/28/2022	
10.16#	Form of Restricted Stock Unit Award Agreement (Refresh) under 2015 Stock Incentive Plan.	10-K	001-37468	10.17	2/28/2022	
10.17#	Form of Restricted Stock Unit Award Agreement (PSU) under 2015 Stock Incentive Plan.	10-K	001-37468	10.18	2/28/2022	
10.18#	Nonemployee Director Deferred Compensation Plan.	10-K	001-37468	10.19	2/28/2022	
10.19#	Related form of Deferral Election under Nonemployee Director Deferred Compensation Plan.	10-K	001-37468	10.20	2/28/2022	
10.20#	Transition and Separation Agreement, dated March 1, 2023, by and between Jason Randall and the Company	10-Q	001-37468	10.22	4/28/2023	
10.22#	Employment agreement, dated March 1, 2023, between the Company and William Shane Trigg	10-Q	001-37468	10.23	4/28/2023	
10.23#	Sublease, by and between the registrant and Google LLC, effective July 10, 2023 (50 Castilian Drive, Goleta, CA 93117).	10-Q	001-37468	10.24	10/27/2023	
10.24	Form of Indemnification Agreement by and between the registrant and certain of its senior employees and directors.					X
21.1	Subsidiaries of the registrant.					X
23.1	Consent of independent registered public accounting firm.					X

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
24.1	Power of Attorney (included on the signature page of this report).					X
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.					X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.					X
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
97.1#	Executive Compensation Recovery Policy					X
101.SCH	XBRL Taxonomy Extension Schema Document.					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					X

# Indicates a management contract or compensatory plan or arrangement

* The certifications attached as Exhibit 32.1 accompany this Annual 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, irrespective of any general incorporation language contained in any such filing.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned thereunto duly authorized.

AppFolio, Inc.

Date:	February 1, 2024	By: /s/ Shane Trigg Shane Trigg Chief Executive Officer (Principal Executive Officer)
Date:	February 1, 2024	By: /s/ Fay Sien Goon Fay Sien Goon Chief Financial Officer (Principal Financial and Accounting Officer)

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Shane Trigg, Fay Sien Goon, and Matthew Mazza, his or her lawful attorneys-in-fact and agents, for such person in any and all capacities, to sign any and all amendments to this report and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Shane Trigg Shane Trigg	President, Chief Executive Officer and Director (Principal Executive Officer)	February 1, 2024
/s/ Fay Sien Goon Fay Sien Goon	Chief Financial Officer (Principal Financial and Accounting Officer)	February 1, 2024
/s/ Andreas von Blottnitz Andreas von Blottnitz	Chairman of the Board	February 1, 2024
/s/ Timothy Bliss Timothy Bliss	Director	February 1, 2024
/s/ Agnes Bundy Scanlan Agnes Bundy Scanlan	Director	February 1, 2024
/s/ Janet Kerr Janet Kerr	Director	February 1, 2024
/s/ Olivia Nottebohm Olivia Nottebohm	Director	February 1, 2024
/s/ Winifred Webb Winifred Webb	Director	February 1, 2024
/s/ Alexander Wolf Alexander Wolf	Director	February 1, 2024

EXHIBIT 10.24

LIST OF INDEMNITEES

Each of the individuals identified below is a party to an indemnification agreement with AppFolio, Inc. in the form attached herewith as Exhibit 10.24.

Name	Date Signed
Jon Walker	December 12, 2022
Timothy Bliss	December 4, 2022
Andreas von Blottnitz	November 17, 2022
Klaus Schauser	November 18, 2022
Janet Kerr	December 7, 2022
Jason Randall	November 18, 2022
Winifred Webb	November 17, 2022
Agnes Bundy Scanlan	November 30, 2022
William Shane Trigg	November 19, 2022
Fay Sien Goon	November 16, 2022
Alex Wolf	December 5, 2022
Nailya Dovletova	November 18, 2022
Brian Hershokowitz	November 19, 2022
Amy Meyer	November 23, 2022
Luca Caporicci	November 16, 2022
Evan Pickering	November 16, 2022
Matthew Mazza	November 16, 2022
Ronnie Lin	December 12, 2022
Jay Choi	November 21, 2022
Olivia Nottebohm	March 31, 2023

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (this "**Agreement**"), dated ________, 2022, is by and between AppFolio, Inc., a Delaware corporation (the "**Company**"), and _________________________________ ("**Indemnitee**"). This Agreement supersedes and replaces any and all previous Agreements between the Company and Indemnitee covering the subject matter of this Agreement.

RECITALS

A. Indemnitee is a director or an officer of the Company.

B. The board of directors of the Company (the "**Board**") has determined that enhancing the ability of the Company to retain and attract as directors and officers the most capable persons is in the best interests of the Company and that the Company therefore should seek to assure such persons that indemnification is available.

C. In recognition of the need to provide Indemnitee with substantial protection against personal liability, in order to procure Indemnitee's service or continued service as a director or officer of the Company and to enhance Indemnitee's ability to serve the Company in an effective manner, and in order to provide such protection pursuant to express contract rights (intended to be enforceable irrespective of, among other things, any amendment to the Company's certificate of incorporation or bylaws (collectively, the "**Constituent Documents**"), any change in the composition of the Board or any change in control or business combination transaction relating to the Company), the Company wishes to provide in this Agreement for the indemnification of, and the advancement of Expenses (as defined in Section 2 below) to, Indemnitee as set forth in this Agreement and, to the extent insurance is maintained, for the continued coverage of Indemnitee under the Company's directors' and officers' liability insurance policies.

NOW, THEREFORE, in consideration of the foregoing and the Indemnitee's agreement to serve or continue to provide services to the Company, the parties hereby agree as follows:

1. Services to the Company. Indemnitee agrees to serve or continue to serve as a director or officer of the Company for so long as Indemnitee is duly elected or appointed, until Indemnitee tenders Indemnitee's resignation or until Indemnitee is terminated by the Company, as applicable. This Agreement shall not be deemed an employment agreement between the Company (or any of its subsidiaries or another Enterprise) and Indemnitee. Indemnitee specifically acknowledges that Indemnitee's service to the Company or any of its subsidiaries or another Enterprise (as defined in Section 2 below) is at will and the Indemnitee may be discharged at any time for any reason, with or without cause, except as may be otherwise provided in any written employment agreement between Indemnitee and the Company (or any of its subsidiaries or another Enterprise), other applicable formal severance policies duly adopted by the Board or, with respect to service as a director or officer of the Company, by the Company's Constituent Documents or Delaware law. This Agreement shall continue in force after Indemnitee has ceased to serve as a director or officer of the Company or, at the request of the Company, of any of its subsidiaries or Enterprise (as defined in Section 2 below).

2. Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

(a) "**Agreement**" shall have the meaning ascribed to it in the prefatory language above.

(b) "**Beneficial Owner**" has the meaning given to the term "beneficial owner" in Rule 13d-3 under the Exchange Act.

(c) "**Board**" shall have the meaning ascribed to it in the Recitals above.

(d) "**Business Combination**" means a reorganization, a merger or a consolidation.

(e) "**Change in Control**" means the occurrence after the date of this Agreement of any of the following events:

(i) Acquisition of Stock by Third Party. Any Person (as defined below) becomes hereafter the Beneficial Owner, directly or indirectly, of securities of the Company representing thirty percent (30%) or more of the Company's Voting Securities, unless the change in the relative Beneficial Ownership of the Company's securities by any Person results solely from a reduction in the aggregate number of outstanding Voting Securities;

(ii) Corporate Transactions. The consummation of a Business Combination, unless immediately following such Business Combination, (1) the Beneficial Owners of the Voting Securities of the Company immediately prior to such transaction beneficially own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the outstanding Voting Securities of the entity resulting from such transaction, (2) no Person (excluding any corporation resulting from such Business Combination) is the Beneficial Owner, directly or indirectly, of twenty percent (20%) or more of the combined voting power of the then outstanding securities entitled to vote generally in the election of directors of such corporation except to the extent that such ownership existed prior to the Business Combination and (3) at least a majority of the Board of Directors of the corporation resulting from such Business Combination were Continuing Directors (as defined below), at the time of the execution of the initial agreement or of the action of the Board, providing for such Business Combination;

(iii) Change in Board of Directors. The Continuing Directors cease for any reason to constitute at least a majority of the members of the Board; or

(iv) Liquidation. The stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or an agreement or series of agreements for the sale or disposition by the Company of all or substantially all of the Company's assets (or, if such approval is not required, the decision by the Board to proceed with such a liquidation, sale, or disposition in one transaction or a series of related transactions).

(f) "**Claim**" means:

any threatened, pending or completed action, suit, claim, counterclaim, crossclaim, demand, proceeding, arbitration, mediation, alternative dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought in the right of the Corporation or otherwise and whether civil, criminal, administrative, arbitrative, investigative (formal or informal), legislative, regulatory or other, including any appeal therefrom, and whether made pursuant to federal, state or other law. Any situation that the Indemnitee determines in good faith might lead to the institution of a Claim shall be considered a Claim under this Agreement.

(g) "**Company**" shall have the meaning ascribed to it in the prefatory language above.

(h) "**Constituent Documents**" shall have the meaning ascribed to it in the Recitals above.

(i) "**Continuing Directors**" means, during a period of two consecutive years, not including any period prior to the execution of this Agreement, the individuals collectively who at the beginning of such period constituted the Board (including for this purpose any new directors whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved).

(j) "**Delaware Court**" means the Court of Chancery of the State of Delaware.

(k) "**Disinterested Director**" means a director of the Company who is not and was not a party to the Claim in respect of which indemnification is sought by Indemnitee.

(l) "**Enterprise**" means, any corporation, limited liability company, partnership, joint venture, trust or other entity.

(m) "**Exchange Act**" means the Securities Exchange Act of 1934, as amended.

(n) "**Expense Advance**" means any payment of Expenses advanced to Indemnitee by the Company pursuant to Section 4 or Section 5 hereof.

(o) "**Expenses**" means any and all reasonable attorneys' fees and retainers, experts' and other professionals' fees, witness fees, court costs, transcript costs, travel expenses, duplicating, printing and binding costs, telephone charges, postage, delivery service fees and all other costs and expenses of the types customarily incurred in connection with, or as a result of, investigating, prosecuting, defending, being a witness or deponent in or otherwise participating in (including on appeal), or preparing to prosecute or defend, be a witness or deponent or otherwise participate in, any Claim. Expenses also shall include (i) Expenses incurred in connection with any appeal resulting from any Claim, including without limitation the premium, security for, and other costs relating to any cost bond, supersedes bond, or other appeal bond or its equivalent, (ii) Expenses incurred in connection with recovery under any directors' and officers' liability insurance policies maintained by the Company, regardless of whether Indemnitee is ultimately determined to be entitled to such indemnification, advancement or Expenses or insurance recovery, as the case may be and (iii) for purposes of Section 5 only, Expenses incurred by Indemnitee in connection with the interpretation, enforcement or defense of Indemnitee's rights under this Agreement, by litigation or otherwise. Expenses, however, shall not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee.

(p) "**Indemnifiable Event**" means any event or occurrence, whether occurring before, on or after the date of this Agreement, related to the fact that Indemnitee is or was a director, officer, employee or agent of the Company or any subsidiary of the Company, or is or was serving at the request of the Company as a director, officer, employee, member, manager, trustee or agent of another Enterprise or by reason of an action or inaction by Indemnitee in any such capacity (whether or not serving in such capacity at the time any Loss (as defined below) is incurred for which indemnification can be provided under this Agreement).

(q) "**Indemnitee**" shall have the meaning ascribed to it in the prefatory language above.

(r) "**Independent Counsel**" means a law firm, or a member of a law firm, that is experienced in matters of corporate law and neither presently performs, nor in the past five (5) years has performed, services for either: (i) the Company or Indemnitee (other than in connection with matters concerning other indemnitees under similar agreements) or (ii) any other party to the Claim giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement.

(s) "**Losses**" means any and all Expenses, damages, losses, liabilities, judgments, fines, penalties (whether civil, criminal or other), ERISA excise taxes, amounts paid or payable in settlement, including any interest, assessments, any federal, state, local or foreign taxes imposed as a result of the actual or deemed receipt of any payments under this Agreement and all other charges paid or payable in connection with investigating, prosecuting, defending, being a witness or deponent in or otherwise participating in (including on appeal), or preparing to prosecute, defend, be a witness or deponent or otherwise participate in, any Claim.

(t) "**Notification Date**" shall have the meaning ascribed to it in Section 10(c) below.

(u) "**Other Indemnity Provisions**" shall have the meaning ascribed to it in Section 14 below.

(v) "**Person**" means any individual, corporation, firm, partnership, joint venture, limited liability company, estate, trust, business association, organization, governmental entity or other entity and includes the meaning set forth in Sections 13(d) and 14(d) of the Exchange Act.

(w) "**Standard of Conduct Determination**" shall have the meaning ascribed to it in Section 10(b) below.

(x) "**Voting Securities**" means any securities of the Company that vote generally in the election of directors.

3. Indemnification. Subject to the terms of this Agreement, the Company shall indemnify Indemnitee, to the fullest extent permitted by law, against any and all Losses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with a Claim if Indemnitee was or is or becomes a party to or participant in, or is threatened to be made a party to or participant in, any Claim by reason of or arising in part out of an Indemnifiable Event, including, without limitation, Claims brought by or in the right of the Company, Claims brought by third parties, and Claims in which the Indemnitee is solely a witness or deponent. The parties hereto intend that this Agreement shall provide to the fullest extent permitted by law for indemnification in excess of that expressly permitted by statute, including, without limitation, any indemnification provided by the Constituent Documents, vote of the Company's stockholders or disinterested directors or applicable law.

4. Advancement of Expenses. Indemnitee shall have the right to advancement of expenses, to the fullest extent permitted by law, by the Company, prior to the final disposition of any Claim by final adjudication to which there are no further rights of appeal, of any and all Expenses actually and reasonably paid or incurred by Indemnitee in connection with any Claim arising out of an Indemnifiable Event. Indemnitee's right to such advancement is not subject to the satisfaction of any standard of conduct. Without limiting the generality or effect of the foregoing, within twenty (20) calendar days after any receipt by the Company of a statement or statements requesting such advances from Indemnitee, the Company shall, in accordance with such request, (a) pay such Expenses on behalf of Indemnitee, (b) advance to Indemnitee funds in an amount sufficient to pay such Expenses, or (c) reimburse Indemnitee for such Expenses. In connection with any request for Expense Advances, Indemnitee shall not be required to provide any documentation or information to the extent that the provision thereof would undermine or otherwise jeopardize attorney-client privilege. Execution and delivery to the Company of this Agreement by Indemnitee constitutes an undertaking by the Indemnitee, pursuant to which Indemnitee hereby agrees, to repay any amounts paid, advanced or reimbursed by the Company pursuant to this Section 4 in respect of Expenses relating to, arising out of or resulting from any Claim in respect of which it shall be determined,

pursuant to Section 10, following the final disposition of such Claim, that Indemnitee is not entitled to indemnification hereunder. No other form of undertaking shall be required other than the execution of this Agreement. Indemnitee's obligation to reimburse the Company for Expense Advances shall be unsecured and no interest shall be charged thereon.

5. Indemnification for Expenses in Enforcing Rights. To the fullest extent allowable under applicable law, the Company shall also indemnify against, and, if requested by Indemnitee, shall advance to Indemnitee (within ten days after receipt by the Company of a written request therefor) subject to and in accordance with Section 4, any Expenses actually and reasonably paid or incurred by Indemnitee in connection with any action or proceeding by Indemnitee for (a) indemnification or reimbursement or advance payment of Expenses by the Company under any provision of this Agreement, or under any other agreement or provision of the Constituent Documents now or hereafter in effect relating to Claims relating to Indemnifiable Events, and/or (b) recovery under any directors' and officers' liability insurance policies maintained by the Company. However, in the event that Indemnitee is ultimately determined not to be entitled to such indemnification or insurance recovery, as the case may be, then all amounts advanced under this Section 5 shall be repaid.

6. Partial Indemnity. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for a portion of any Losses in respect of a Claim related to an Indemnifiable Event but not for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled.

7. Contribution in the Event of Joint Liability. To the fullest extent permissible under applicable law, if the indemnification and hold harmless rights provided for in this Agreement are unavailable to Indemnitee in whole or in part for any reason whatsoever, the Company, in lieu of indemnifying and holding harmless Indemnitee, shall contribute to the amount incurred by Indemnitee the entire amount incurred by Indemnitee, whether for judgments, liabilities, fines, penalties, amounts paid or to be paid in settlement and/or for Expenses, in connection with any Claim relating to an Indemnifiable Event, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Indemnifiable Event in order to reflect (i) the relative benefits received by the Company and Indemnitee as a result of the event(s) and/or transaction(s) giving cause to such proceeding; and/or (ii) the relative fault of the Company (and its directors, officers, employees, trustees, fiduciaries and agents) and Indemnitee in connection with such event(s) and/or transaction(s).

8. Notification and Defense of Claims.

(a) Notification of Claims. Indemnitee shall notify the Company in writing of any Claim which could relate to an Indemnifiable Event or for which Indemnitee could seek Expense Advances as soon as practicable following receipt by Indemnitee of written notice thereof. The written notification to the Company shall include a brief description (based upon information then available to Indemnitee) of the nature of, and the facts underlying, such Claim. The failure by Indemnitee to timely notify the Company hereunder shall not relieve the Company from any liability hereunder other than to the extent the Company's ability to participate in the defense of such claim was materially and adversely prejudiced by such failure.

(b) Defense of Claims. The Company shall be entitled to participate in the defense of any Claim relating to an Indemnifiable Event at its own expense and, except as otherwise provided below, to the extent the Company so wishes, it may assume the defense thereof with counsel reasonably satisfactory to Indemnitee. After notice from the Company to Indemnitee of its election to assume the defense of any such Claim, the Company shall not be liable to Indemnitee under this Agreement or otherwise for any Expenses subsequently directly incurred by Indemnitee in connection with Indemnitee's defense of such Claim other than reasonable costs of investigation or as otherwise provided below. Indemnitee shall have the right to employ its own legal counsel in such

Claim, but all Expenses related to such counsel incurred after notice from the Company of its assumption of the defense shall be at Indemnitee's own expense; provided, however, that if (i) Indemnitee's employment of its own legal counsel has been authorized by the Company, (ii) Indemnitee's counsel has reasonably determined that there may be a conflict of interest between Indemnitee and the Company in the defense of such Claim, (iii) after a Change in Control, Indemnitee's employment of its own counsel has been approved by the Independent Counsel or (iv) the Company shall not in fact have employed counsel to assume the defense of such Claim, then Indemnitee shall be entitled to retain its own separate counsel (but not more than one law firm plus, if applicable, local counsel in respect of any such Claim) and all Expenses related to such separate counsel shall be borne by the Company.

9. Procedure Upon Application for Indemnification. In order to obtain indemnification pursuant to this Agreement, Indemnitee shall submit to the Company a written request therefor, including in such request such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification following the final disposition of the Claim. Indemnification shall be made insofar as the Company determines Indemnitee is entitled to indemnification in accordance with Section 10 below.

10. Determination of Right to Indemnification.

(a) Mandatory Indemnification; Indemnification as a Witness.

(i) Mandatory Indemnification. Notwithstanding any other provisions of this Agreement, to the extent that Indemnitee shall have been successful on the merits or otherwise in defense of any Claim relating to an Indemnifiable Event or in defense of any issue or matter therein, in whole or in part, including without limitation the termination of any Claim by dismissal with or without prejudice, Indemnitee shall be indemnified against all Losses relating to such successfully resolved Claim or such successfully resolved issue or matter therein, as applicable, to the fullest extent allowable by law.

(ii) Indemnification as a Witness. Notwithstanding any other provisions of this Agreement, to the extent that Indemnitee's involvement in a Claim relating to an Indemnifiable Event is to prepare to serve and serve as a witness, is or was made (or asked to respond to discovery requests) or is otherwise asked to participate in a Claim, in each case, to which Indemnitee is not a party, the Indemnitee shall be indemnified against all Losses actually and reasonably incurred in connection therewith to the fullest extent allowable by law.

(b) Standard of Conduct. To the extent that the provisions of Section 10(a) are inapplicable to a Claim related to an Indemnifiable Event that shall have been finally disposed of, any determination of whether Indemnitee has satisfied any applicable standard of conduct under Delaware law that is a legally required condition to indemnification of Indemnitee hereunder against Losses relating to such Claim and any determination that Expense Advances must be repaid to the Company (a "**Standard of Conduct Determination**") shall be made as follows:

(i) if no Change in Control has occurred, (A) by a majority vote of the Disinterested Directors, even if less than a quorum of the Board, (B) by a committee of Disinterested Directors designated by a majority vote of the Disinterested Directors, even though less than a quorum (C) if there are no such Disinterested Directors or if such Disinterested Directors so direct, by Independent Counsel in a written opinion addressed to the Board, a copy of which shall be delivered to Indemnitee or (D) if so directed by the Board, by the stockholders of the Company; and

(ii) if a Change in Control shall have occurred, (A) if the Indemnitee so requests in writing, by a majority vote of the Disinterested Directors, even if less than a quorum of the Board or (B) otherwise, by Independent Counsel in a written opinion addressed to the Board, a copy of which shall be delivered to Indemnitee.

The Company shall indemnify and hold harmless Indemnitee against and, if requested by Indemnitee in writing, shall reimburse Indemnitee for, or advance to Indemnitee, within twenty (20) calendar days of such request, any and all Expenses actually and reasonably incurred by Indemnitee in cooperating with the Person or Persons making such Standard of Conduct Determination (irrespective of the determination as to Indemnitee's entitlement to indemnification).

The Company promptly will advise Indemnitee in writing with respect to any determination that Indemnitee is or is not entitled to indemnification, including a description of any reason or basis for which indemnification has been denied.

(c) Making the Standard of Conduct Determination. The Company shall use its reasonable best efforts to cause any Standard of Conduct Determination required under Section 10(b) to be made as promptly as practicable. Subject to the last sentence of this Section 10(c), if the Person or Persons designated to make the Standard of Conduct Determination under Section 10(b) shall not have made a determination within thirty (30) calendar days after the later of (A) receipt by the Company of a written request from Indemnitee for indemnification pursuant to Section 9 (the date of such receipt being the "**Notification Date**") and (B) the selection of an Independent Counsel, if such determination is to be made by Independent Counsel, then Indemnitee shall be deemed to have satisfied the applicable standard of conduct, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a final judicial determination that any or all such indemnification is expressly prohibited under applicable law; provided, however, that such thirty (30) calendar day period may be extended for a reasonable time, not to exceed an additional fifteen (15) calendar days, if the Person or Persons making such determination in good faith requires such additional time to obtain or evaluate information relating thereto and provided, further, that the foregoing provisions of this Section 10(c) shall not apply (i) if the determination of entitlement to indemnification is to be made by the stockholders pursuant to Section 10(b)(i) of this Agreement and if (i) within fifteen (15) days after receipt by the Company of the request for such determination the Board has resolved to submit such determination to the stockholders for their consideration at an annual meeting thereof to be held within seventy-five (75) days after such receipt and such determination is made thereat, or (ii) a special meeting of stockholders is called within fifteen (15) days after such receipt for the purpose of making such determination, such meeting is held for such purpose within sixty (60) days after having been so called and such determination is made thereat. Notwithstanding anything in this Agreement to the contrary, no determination as to entitlement of Indemnitee to indemnification under this Agreement shall be required to be made prior to the final disposition of any Claim.

(d) Payment of Indemnification. If, in regard to any Losses:

(i) Indemnitee shall be entitled to indemnification pursuant to Section 10(a);

(ii) no Standard of Conduct Determination is legally required as a condition to indemnification of Indemnitee hereunder; or

(iii) Indemnitee has been determined or deemed pursuant to Section 10(b) or Section 10(c) to have satisfied the Standard of Conduct Determination,

then the Company shall pay to Indemnitee, within twenty (20) calendar days after the later of (A) the Notification Date or (B) the earliest date on which the applicable criterion specified in clause (i), (ii) or (iii) is satisfied, an amount equal to the Losses to which such Indemnitee is entitled.

(e) Selection of Independent Counsel for Standard of Conduct Determination. If a Standard of Conduct Determination is to be made by Independent Counsel pursuant to Section 10(b)(i), the Independent Counsel shall be selected by the Board of Directors, and the Company shall give written notice to Indemnitee advising Indemnitee of the identity of the Independent Counsel so selected. If a Standard of Conduct Determination is to be made by the Independent Counsel pursuant to Section 10(b)(ii), the Independent Counsel shall be selected by Indemnitee, and Indemnitee shall give written notice to the Company advising it of the identity of the Independent Counsel so selected. In either case, Indemnitee or the Company, as applicable, may, within ten (10) calendar days after receiving written notice of selection from the other, deliver to the other a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the Independent Counsel so selected does not satisfy the criteria set forth in the definition of "Independent Counsel" in Section 2, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the individual or firm so selected shall act as Independent Counsel. If such written objection is properly and timely made and substantiated, (i) the Independent Counsel so selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court has determined that such objection is without merit; and (ii) the non-objecting party may, at its option, select an alternative Independent Counsel and give written notice to the other party advising such other party of the identity of the alternative Independent Counsel so selected, in which case the provisions of the two immediately preceding sentences, the introductory clause of this sentence and numbered clause (i) of this sentence shall apply to such subsequent selection and notice. If applicable, the provisions of clause (ii) of the immediately preceding sentence shall apply to successive alternative selections. If no Independent Counsel that is permitted under the foregoing provisions of this Section 10(e) to make the Standard of Conduct Determination shall have been selected within twenty (20) calendar days after the Company gives its initial notice pursuant to the first sentence of this Section 10(e) or Indemnitee gives its initial notice pursuant to the second sentence of this Section 10(e), as the case may be, either the Company or Indemnitee may petition the Delaware Court to resolve any objection which shall have been made by the Company or Indemnitee to the other's selection of Independent Counsel and/or to appoint as Independent Counsel an individual or firm to be selected by the Court or such other person as the Court shall designate, and the individual or firm with respect to whom all objections are so resolved or the individual or firm so appointed will act as Independent Counsel. In all events, the Company shall pay all of the reasonable fees and expenses of the Independent Counsel incurred in connection with the Independent Counsel's determination pursuant to Section 10(b) and shall fully indemnify and hold harmless such Independent Counsel against any and all expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

(f) Presumptions and Defenses.

(i) Indemnitee's Entitlement to Indemnification. In making any Standard of Conduct Determination, the Person or Persons making such determination shall presume, to the fullest extent permitted by law, that Indemnitee has satisfied the applicable standard of conduct and is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 9 of this Agreement, and the Company shall, to the fullest extent permitted by law, have the burden of proof to overcome that presumption and establish that Indemnitee is not so entitled. Any Standard of Conduct Determination that is adverse to Indemnitee may be challenged by the Indemnitee in the Delaware Court. No determination by the Company (including by its directors or any Independent Counsel) that Indemnitee has not satisfied any applicable standard of conduct or failure by the Company to reach such a determination may be used as a defense to any legal proceedings brought by Indemnitee to secure indemnification or reimbursement or advance payment of Expenses by the Company hereunder or create a presumption that Indemnitee has not met any applicable standard of conduct.

(ii) Reliance as a Safe Harbor. For purposes of this Agreement, and without creating any presumption as to a lack of good faith if the following circumstances do not exist, Indemnitee shall be deemed to have acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company if Indemnitee's actions or omissions to act are taken in good faith reliance upon the records of the Company, including its financial statements, or upon information, opinions, reports or statements furnished to Indemnitee by the officers or employees of the Company or any of its subsidiaries in the course of their duties, or by committees of the Board or by any other Person (including legal counsel, accountants and financial advisors) as to matters Indemnitee reasonably believes are within such other Person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Company. In addition, the knowledge and/or actions, or failures to act, of any director, officer, agent or employee of the Company shall not be imputed to Indemnitee for purposes of determining the right to indemnity hereunder. The provisions of this Section 10(f)(ii) shall not be deemed to be exclusive or to limit in any way the other circumstances in which the Indemnitee may be deemed to have met the applicable standard of conduct set forth in this Agreement.

(iii) No Other Presumptions. For purposes of this Agreement, the termination of any Claim by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere or its equivalent, will not (except as otherwise provided in this Agreement) of itself create a presumption that Indemnitee did not meet any applicable standard of conduct, or that indemnification hereunder is otherwise not permitted.

(iv) Defense to Indemnification and Burden of Proof. It shall be a defense to any action brought by Indemnitee against the Company to enforce this Agreement (other than an action brought to enforce a claim for Losses incurred in defending against a Claim related to an Indemnifiable Event in advance of its final disposition) that it is not permissible under applicable law for the Company to indemnify Indemnitee for the amount claimed. In connection with any such action or any related Standard of Conduct Determination, the burden of proving such a defense or that the Indemnitee did not satisfy the applicable standard of conduct shall be on the Company.

11. Exclusions from Indemnification. Notwithstanding anything in this Agreement to the contrary, the Company shall not be obligated to:

(a) indemnify or advance funds to Indemnitee for Expenses or Losses with respect to Claims initiated by Indemnitee, including any Claims against the Company or its directors, officers, employees or other indemnitees, except:

(i) proceedings referenced in Section 5 above;

(ii) if the Board has authorized the Claim prior to its initiation;

(iii) if the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law; or

(iv) if such payment arises in connection with any mandatory counterclaim or cross claim brought or raised by Indemnitee in any Claim.

(b) Indemnify and advance funds Indemnitee if a final decision by a court of competent jurisdiction determines that such indemnification is prohibited by applicable law.

(c) Indemnify or advance funds Indemnitee for an accounting of profits arising from the purchase or sale by Indemnitee of securities of the Company in violation of Section 16(b) of the Exchange Act, or any similar successor statute, state law or other law.

(d) indemnify or advance funds to Indemnitee for Indemnitee's reimbursement to the Company of any bonus or other incentive-based or equity-based compensation previously received by Indemnitee or payment of any profits realized by Indemnitee from the sale of securities of the Company, as required in each case under the Exchange Act (including any such reimbursements under Section 304 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") in connection with an accounting restatement of the Company or the payment to the Company of profits arising from the purchase or sale by Indemnitee of securities in violation of Section 306 of the Sarbanes-Oxley Act).

(e) indemnify or advance funds to Indemnitee for any reimbursement of the Company by Indemnitee of any compensation pursuant to any compensation recoupment or clawback policy adopted by the Board or the compensation committee of the Board, including but not limited to any such policy adopted to comply with stock exchange listing requirements implementing Section 10D of the Exchange Act.

(f) indemnify or advance funds for which payment has actually been made to or on behalf of Indemnitee under any insurance policy or other indemnity provision, except with respect to any excess beyond the amount paid under any insurance policy or other indemnity provision.

12. Settlement of Claims. The Company shall not be liable to Indemnitee under this Agreement for any amounts paid in settlement of any threatened or pending Claim related to an Indemnifiable Event effected without the Company's prior written consent, which shall not be

unreasonably withheld. The Company shall not settle any Claim related to an Indemnifiable Event in any manner that would impose any Losses on the Indemnitee without the Indemnitee's prior written consent. The Company shall not, without the prior written consent of Indemnitee, effect any settlement of any Claim relating to an Indemnifiable Event which the Indemnitee is or could have been a party unless such settlement solely involves the payment of money and includes a complete and unconditional release of the Indemnitee from all liability on all claims that are the subject matter of such Claim.

13. Duration. All agreements and obligations of the Company contained herein shall continue during the period that Indemnitee is a director, officer, employee or agent of the Company or any subsidiary of the Company (or is serving at the request of the Company as a director, officer, employee, member, trustee or agent of another Enterprise) and shall continue thereafter (i) so long as Indemnitee may be subject to any possible Claim relating to an Indemnifiable Event (including any rights of appeal thereto) and (ii) throughout the pendency of any proceeding (including any rights of appeal thereto) commenced by Indemnitee to enforce or interpret his or her rights under this Agreement, even if, in either case, he or she may have ceased to serve in such capacity at the time of any such Claim or proceeding.

14. Non-Exclusivity. The rights of Indemnitee hereunder (i) shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Constituent Documents, any agreement, a vote of stockholders or a resolution of directors, or otherwise and (ii) shall be interpreted independently of, and without reference to, any other such rights to which Indemnitee may at any time be entitled. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by Indemnitee that is an Indemnifiable Event prior to such amendment, alteration or repeal. To the extent that a change in Delaware law, whether by statute or judicial decision, permits greater indemnification or advancement of Expenses than would be afforded currently under the Constituent Documents and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

15. Liability Insurance. For the duration of Indemnitee's service as a director or officer of the Company, and thereafter for so long as Indemnitee shall be subject to any pending Claim relating to an Indemnifiable Event, the Company shall use commercially reasonable efforts (taking into account the scope and amount of coverage available relative to the cost thereof) to continue to maintain in effect policies of directors' and officers' liability insurance providing coverage that is at least substantially comparable in scope and amount to that provided by the Company's policies of directors' and officers' liability insurance in effect on the date of this Agreement. The insurance provided pursuant to this Section 15 shall be primary insurance to the Indemnitee for any Indemnifiable Event and/or Expense to which such insurance applies. In all policies of directors' and officers' liability insurance maintained by the Company, Indemnitee shall be named as an insured in such a manner as to provide Indemnitee the same rights and benefits as are provided to the most favorably insured of the Company's directors, if Indemnitee is a director, or of the Company's officers, if Indemnitee is an officer (and not a director) by such policy. Upon request, the Company will provide to Indemnitee copies of all directors' and officers' liability insurance applications, binders, policies, declarations, endorsements and other related materials.

16. No Duplication of Payments. The Company shall not be liable under this Agreement to make any payment to Indemnitee in respect of any Losses to the extent Indemnitee has otherwise received payment under any insurance policy, the Constituent Documents, Other Indemnity

Provisions or otherwise of the amounts otherwise (including from another Enterprise) indemnifiable by the Company hereunder; provided that the foregoing shall not affect the rights of Indemnitee or the Fund Indemnitors (as defined below) as set forth in Section 17.

17. Primacy of Indemnification. The Company hereby acknowledges that Indemnitee has or may have in the future certain rights to indemnification, advancement of expenses and/or insurance provided by Investment Group of Santa Barbara and certain of its affiliates (collectively, the "**Fund Indemnitors**"). The Company hereby agrees (i) that it is the indemnitor of first resort (i.e., its obligations to Indemnitee are primary and any obligation of the Fund Indemnitors to advance expenses or to provide indemnification for the same expenses or liabilities incurred by Indemnitee are secondary), (ii) that it shall be required to advance the full amount of expenses incurred by Indemnitee and (iii) that it shall be liable for the full amount of all Losses to the extent legally permitted and as required by the terms of this Agreement, the Constituent Documents and/or Other Indemnity Provisions, without regard to any rights Indemnitee may have against the Fund Indemnitors. The Company irrevocably waives, relinquishes and releases the Fund Indemnitors from any and all claims against the Fund Indemnitors for contribution, subrogation or any other recovery of any kind in respect thereof. The Company further agrees that no advancement or payment by the Fund Indemnitors on behalf of Indemnitee with respect to any claim for which Indemnitee has sought indemnification from the Company shall affect the foregoing, and the Fund Indemnitors shall have a right of contribution and/or be subrogated to the extent of such advancement or payment to all of the rights of recovery of Indemnitee against the Company. The Company and Indemnitee agree that the Fund Indemnitors are express third party beneficiaries of the terms of this Section 17.

18. Subrogation. In the event of payment to Indemnitee under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee (other than against the Fund Indemnitors). Indemnitee shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

19. Amendments; Waivers. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be binding unless in the form of a writing signed by the party against whom enforcement of the waiver is sought, and no such waiver shall operate as a waiver of any other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver. Except as specifically provided herein, no failure to exercise or any delay in exercising any right or remedy hereunder shall constitute a waiver thereof.

20. Enforcement and Binding Effect.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to serve or continue to service as a director or officer of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving or continuing to serve as a director or officer of the Company.

(b) Without limiting any of the rights of Indemnitee under any Other Indemnity Provisions as they may be amended from time to time, this Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof; provided, however, that this Agreement is a supplement to and in furtherance of the Constituent Documents, any directors' and officers' insurance maintained by the Company and applicable law, and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder.

(c) This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company), assigns, spouses, heirs and personal and legal representatives. The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all or a substantial part of the business and/or assets of the Company, by written agreement in form and substances satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

21. Severability. The provisions of this Agreement shall be severable in the event that any of the provisions hereof (including any portion thereof) are held by a court of competent jurisdiction to be invalid, illegal, void or otherwise unenforceable, and the remaining provisions shall remain enforceable to the fullest extent permitted by law. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

22. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered by hand, against receipt, or mailed, by postage prepaid, certified or registered mail:

(a) if to Indemnitee, to the address set forth on the signature page hereto.

(b) if to the Company, to:

AppFolio, Inc.
Attn: Chief Legal Officer
70 Castilian Drive
Santa Barbara, California 93117

Notice of change of address shall be effective only when given in accordance with this Section. All notices complying with this Section shall be deemed to have been received on the date of hand delivery or on the third business day after mailing.

23. Governing Law and Forum. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware applicable to contracts made and to be performed in such state without giving effect to its principles of conflicts of laws. The Company and Indemnitee hereby irrevocably and unconditionally: (a) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Delaware Court and not in any other state or federal court in the United States or any other country, (b) consent to submit to the exclusive jurisdiction of the Delaware Court for purposes of any action or proceeding arising out of or in connection with this Agreement and (c) waive, and agree not to plead or make, any claim that the Delaware Court lacks venue or that any such action or proceeding brought in the Delaware Court has been brought in an improper or inconvenient forum.

24. Headings. The headings of the sections and paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction or interpretation thereof.

25. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original, but all of which together shall constitute one and the same Agreement.

[Remainder of Page Intentionally Left Blank; Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

COMPANY:

APPFOLIO, INC.

By: __

Name: __

Its: __

INDEMNITEE:

__

__

(Print Name)

Address: 70 Castilian Drive
Santa Barbara, CA 93117

[Signature Page to Indemnification Agreement]

Exhibit 21.1

List of Subsidiaries of the Registrant

Subsidiary	Jurisdiction
AppFolio Investment Management, Inc.	California
Dynasty Marketplace, Inc.	Delaware
AppFolio Insurance Services, Inc.	California
RentLinx LLC	Michigan
Terra Mar Insurance Company, Inc.	Hawaii

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-269664, No. 333-263096, No. 333-236818, No. 333-229970, No. 333-223231, No. 333-216274, No. 333-209792, and No. 333-206179) of AppFolio, Inc. of our report dated February 1, 2024 relating to the financial statements and the effectiveness of internal control over financial reporting which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California
February 1, 2024

EXHIBIT 31.1

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 Annual Report on Form 10-K of AppFolio, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: February 1, 2024

/s/ Shane Trigg
Shane Trigg
Chief Executive Officer

EXHIBIT 31.2

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 Annual Report on Form 10-K of AppFolio, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: February 1, 2024	/s/ Fay Sien Goon
	Fay Sien Goon
	Chief Financial Officer

EXHIBIT 32.1

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

The following certifications are hereby made in connection with the Annual Report on Form 10-K of AppFolio, Inc. (the “Company”) for the period ended December 31, 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:	February 1, 2024	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:	February 1, 2024	By:	/s/ Fay Sien Goon
			Fay Sien Goon
			Chief Financial Officer

AppFolio, Inc.
Executive Compensation Recovery Policy

Effective: 07.26.2023

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I. BACKGROUND

AppFolio, Inc. (the “Company”) has adopted this Executive Compensation Recovery Policy (this “Policy”) to comply with its obligations as required by the incentive-based recovery provisions of the Dodd-Frank Act and applicable SEC regulations and exchange listing rules.

II. RELATED LAWS

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) - 2010

Nasdaq Listing Rule 5608

Securities Exchange Act of 1934, Section 10D

III. SCOPE

This Policy applies to “Covered Executives” as defined in the Policy.

IV. POLICY

I. Purpose of Policy

The Company promotes a culture of high ethical standards and accountability and is committed to compliance with applicable laws, rules and regulations. The Board of Directors of the Company (the “Board”) has adopted this Policy, which provides for the recoupment of certain executive compensation in the event of an accounting restatement resulting from material noncompliance with financial reporting requirements under applicable federal securities laws. This Policy is designed to comply with Section 10D of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and applies only to Covered Executives (as defined below).

II. Administration of Policy

This Policy shall be administered by the Compensation Committee of the Board (the “Compensation Committee”). Any determinations made by the Compensation Committee shall be final and binding on all affected individuals.

III. Covered Executives

This Policy applies to the Company’s current and former executive officers, as determined by the Compensation Committee and in accordance with the definition of “officer” in Rule 16a-1 of the Exchange Act (i.e., Section 16 officers), and such other senior executives who may from time to time be deemed subject to this Policy by the express action of the Compensation Committee (each a “Covered Executive” and collectively, the “Covered Executives”).

IV. Recovery; Accounting Restatement

In the event the Company is required to prepare an accounting restatement of its financial statements due to the Company’s material noncompliance with any financial reporting requirement under applicable securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period, the Compensation Committee will require prompt reimbursement or forfeiture, as provided for herein, of any excess Incentive-Based Compensation (as defined below) received by any Covered Executive during the three completed fiscal years immediately preceding the date on which the Company is required to prepare such accounting restatement. Incentive-Based Compensation is deemed “received” during the period when the applicable financial reporting measure that must be achieved is attained or satisfied, versus when the award is granted, vested or ultimately paid. This Policy does not require the recovery of Incentive-Based Compensation received by an individual before beginning service as a Covered Executive.

V. Incentive-Based Compensation

For purposes of this Policy, “Incentive-Based Compensation” means compensation that is granted, earned, or vested based wholly or in part on the attainment of a financial reporting measure. The following are illustrative, non-exclusive examples of Incentive-Based Compensation each of which must be based wholly or in part on the attainment of a financial reporting measure:

- Annual bonuses and other short-term and long-term cash incentives;
- Restricted stock units;
- Stock options;
- Restricted stock;
- Performance shares;
- Performance stock units; and
- Other performance stock-based awards.

A financial reporting measure is (a) any measure that is determined and presented in accordance with the accounting principles used in preparing financial statements, or any measure derived wholly or in part from such measure, such as revenue, EBITDA, or net income, and (b) stock price and total shareholder return. The following are illustrative, non-exclusive examples of financial reporting measures:

- Revenue;
- Operating margin;
- Company stock price;
- Total shareholder return;
- EBITDA;
- Liquidity measures (e.g., working capital or operating cash flow);
- Earnings measures (e.g., earnings per share); and
- Net income.

VI. Amount Subject to Recovery

The amount to be recovered pursuant to this Policy will be the amount of Incentive-Based Compensation received by a Covered Executive that exceeds the amount of Incentive-Based Compensation that otherwise would have been received by such Covered Executive had it been determined based on the restated amounts, and must be computed without regard to any taxes paid.

For Incentive-Based Compensation based on stock price or total shareholder return, where the amount of excess Incentive-Based Compensation is not subject to mathematical recalculation directly from the information in the accounting restatement, then the Compensation Committee will make its determination based on a reasonable estimate of the effect of the accounting restatement on the applicable financial reporting measure, and the Company must maintain documentation of the determination of that reasonable estimate and provide such documentation to Nasdaq or other national securities exchange on which the Company’s securities are listed.

VII. Method of Recovery

The Compensation Committee will determine, in its sole discretion, the method for recovery of the excess Incentive-Based Compensation, which may include, without limitation:

- Requiring reimbursement of cash Incentive-Based Compensation previously paid;
- Seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer, or other disposition of any equity-based awards;
- Canceling outstanding vested or unvested equity awards; and/or
- Taking any other remedial and recovery action permitted by law, as determined by the Compensation Committee.

VIII. No Indemnification

The Company shall not indemnify any Covered Executives against the loss of any incorrectly awarded Incentive-Based Compensation.

IX. Interpretation

The Compensation Committee is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Policy. It is intended that this Policy be interpreted in a manner that is consistent with the requirements of Section 10D of the Exchange Act as well as any applicable rules or standards adopted by the Securities and Exchange Commission or any national securities exchange on which the Company's securities are listed.

X. Authority to Retain Advisors

In administering this Policy, the Compensation Committee shall have the authority to engage and obtain advice, reports or opinions from consultants, or independent legal counsel and other advisors, as it determines necessary.

XI. Effective Date

This Policy shall be effective as of the date it is adopted by the Board (the "Effective Date") and shall apply to Incentive-Based Compensation received by Covered Executives on or after the effective date of the applicable listing standard of the national securities exchange on which the Company's securities are listed (including Incentive-Based Compensation granted pursuant to arrangements existing prior to the Effective Date).

XII. Amendment; Termination

The Board may amend this Policy from time to time in its discretion and shall amend this Policy as it deems necessary to reflect final or amended regulations adopted by the Securities and Exchange Commission under Section 10D of the Exchange Act and to comply with applicable rules or standards adopted by Nasdaq or other national securities exchange on which the Company's securities are listed. The Board may terminate this Policy at any time.

XIII. Other Recovery Rights

The Compensation Committee may require that any employment agreement, equity award agreement, or similar agreement entered into on or after the Effective Date shall, as a condition to the grant of any benefit thereunder, require a Covered Executive to agree to abide by the terms of this Policy. Any right of recovery under this Policy is in addition to, and not in lieu of, any other remedies or rights of recovery that may be available to the Company pursuant to the terms of any similar policy in any employment agreement, equity award agreement, or similar agreement and any other legal remedies available to the Company.

XIV. Impracticability

The Compensation Committee shall recover any excess Incentive-Based Compensation in accordance with this Policy unless the Compensation Committee determines such recovery would be impracticable because: (a) the direct expense paid to a third party to assist in enforcing this Policy would exceed the amount to be recovered; (b) recovery would violate home country law where that law was adopted prior to November 28, 2022; or (c) recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

XV. Successors

This Policy shall be binding and enforceable against all Covered Executives and their beneficiaries, heirs, executors, administrators or other legal representatives.

## V. POLICY GOVERNANCE	## For more information about this Policy contact:
• **Managed by** AppFolio Legal • **Implemented by** AppFolio Legal	The Company's Chief Legal Officer

VII. APPROVAL & POLICY HISTORY

Date	Approved by	Description
07-26-2023	Board of Directors	Executive Compensation Recovery Policy v1.0 released via circulation to Human Resources Team and Upload to Diligent