

REALPAGE INC  
Form 10-Q  
November 08, 2011

**Table of Contents**

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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2011**

**or**

☐ **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: 001-34846**

**RealPage, Inc.**

**(Exact name of registrant as specified in its charter)**

**Delaware  
(State or other jurisdiction of  
incorporation or organization)**

**75-2788861  
(I.R.S. Employer  
Identification No.)**

**4000 International Parkway  
Carrollton, Texas  
(Address of principal executive offices)**

**75007-1951  
(Zip Code)**

**(972) 820-3000**

**(Registrant's telephone number, including area code)**

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

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

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

Large accelerated filer ☐

Accelerated  
filer ☐

Non-accelerated filer ☒

Smaller reporting  
company ☐

(Do not check if a smaller reporting  
company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<b>Class</b>	<b>Outstanding at October 31, 2011</b>
Common Stock, \$0.001 par value	71,817,310

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## INDEX

### PART I FINANCIAL INFORMATION

#### Item 1. Financial Statements

Condensed Consolidated Balance Sheets 1

Condensed Consolidated Statements of Operations 2

Condensed Consolidated Statements of Stockholders' Equity 3

Condensed Consolidated Statements of Cash Flows 4

Notes to the Condensed Consolidated Financial Statements 5

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 15

Item 3. Quantitative and Qualitative Disclosures About Market Risk 27

Item 4. Controls and Procedures 27

### PART II OTHER INFORMATION

Item 1. Legal Proceedings 28

Item 1A. Risk Factors 29

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 53

Item 6. Exhibits 53

Signatures 56

Exhibit 4.5

Exhibit 10.1

Exhibit 10.2

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.**

**REALPAGE, INC.**  
**Condensed Consolidated Balance Sheets**  
**(in thousands, except share data)**

	<b>September 30, 2011 (Unaudited)</b>	<b>December 31, 2010</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 47,491	\$ 118,010
Restricted cash	20,334	15,346
Accounts receivable, less allowance for doubtful accounts of \$1,003 and \$1,370 at September 30, 2011 and December 31, 2010, respectively	36,739	29,577
Deferred tax asset, net of valuation allowance	601	1,529
Other current assets	12,111	6,060
Total current assets	117,276	170,522
Property, equipment, and software, net	26,552	24,515
Goodwill	128,632	73,885
Identified intangible assets, net	115,141	54,361
Deferred tax asset, net of valuation allowance	2,760	17,322
Other assets	2,855	2,187
Total assets	\$ 393,216	\$ 342,792
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 8,259	\$ 4,787
Accrued expenses and other current liabilities	27,401	15,436
Current portion of deferred revenue	51,204	47,717
Current portion of long-term debt	10,768	10,781
Customer deposits held in restricted accounts	20,278	15,253
Total current liabilities	117,910	93,974
Deferred revenue	8,910	7,947
Long-term debt, less current portion	47,173	55,258
Other long-term liabilities	5,926	13,029
Total liabilities	179,919	170,208
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized and zero shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively		
Common stock, \$0.001 par value: 125,000,000 shares authorized, 72,027,632 and 68,703,366 shares issued and 71,766,288 and 68,490,277 shares	72	69

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outstanding at September 30, 2011 and December 31, 2010, respectively		
Additional paid-in capital	306,220	263,219
Treasury stock, at cost: 261,344 and 213,089 shares at September 30, 2011 and December 31, 2010, respectively	(1,741)	(958)
Accumulated deficit	(91,202)	(89,730)
Accumulated other comprehensive loss	(52)	(16)
Total stockholders' equity	213,297	172,584
Total liabilities and stockholders' equity	\$ 393,216	\$ 342,792

See accompanying notes

Table of Contents

**REALPAGE, INC.**  
**Condensed Consolidated Statements of Operations**  
**(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Revenue:</b>				
On demand	\$ 62,765	\$ 43,097	\$ 172,741	\$ 120,393
On premise	1,772	2,127	5,045	6,419
Professional and other	3,118	2,804	9,052	7,403
Total revenue	67,655	48,028	186,838	134,215
Cost of revenue(1)	27,585	20,203	78,078	56,595
<b>Gross profit</b>	40,070	27,825	108,760	77,620
<b>Operating expense:</b>				
Product development(1)	11,230	9,127	32,083	26,431
Sales and marketing(1)	17,688	9,428	44,992	25,793
General and administrative(1)	11,840	6,969	31,190	20,230
Total operating expense	40,758	25,524	108,265	72,454
<b>Operating (loss) income</b>	(688)	2,301	495	5,166
Interest expense and other, net	(684)	(1,822)	(2,582)	(4,749)
<b>(Loss) income before income taxes</b>	(1,372)	479	(2,087)	417
Income tax (benefit) expense	(266)	187	(615)	164
<b>Net (loss) income</b>	\$ (1,106)	\$ 292	\$ (1,472)	\$ 253
<b>Net loss attributable to common stockholders</b>				
Basic	\$ (1,106)	\$ (327)	\$ (1,472)	\$ (2,691)
Diluted	\$ (1,106)	\$ (327)	\$ (1,472)	\$ (2,691)
<b>Net loss per share attributable to common stockholders</b>				
Basic	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.08)
Diluted	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.08)
Weighted average shares used in computing net loss per share attributable to common stockholders				
Basic	68,792	43,636	68,096	31,878
Diluted	68,792	43,636	68,096	31,878

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

Cost of revenue	\$ 459	\$ 140	\$ 1,069	\$ 407
Product development	1,258	627	3,343	1,664
Sales and marketing	3,433	201	8,793	541

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General and administrative	1,258	391	3,025	1,133
	<i>See accompanying notes.</i>			



**Table of Contents**

**REALPAGE, INC.**  
**Condensed Consolidated Statements of Stockholders Equity**  
**(Unaudited)**

			Accumulated					Total
	Common Stock	Amount	Additional Paid-in Capital	Other Comprehensive Loss	Accumulated Deficit	Treasury Shares	Amount	Stockholders Equity
Balance as of December 31, 2010	68,703	\$ 69	\$ 263,219	\$ (16)	\$ (89,730)	(213)	\$ (958)	\$ 172,584
Foreign currency translation				(36)				(36)
Net loss					(1,472)			(1,472)
Exercise of stock options	2,223	3	8,550					8,553
Treasury stock purchase, at cost						(48)	(783)	(783)
Issuance of restricted stock	1,102		18,221					18,221
Stock-based compensation			16,230					16,230
Balance as of September 30, 2011	72,028	\$ 72	\$ 306,220	\$ (52)	\$ (91,202)	(261)	\$ (1,741)	\$ 213,297

*See accompanying notes.*

**Table of Contents**

**REALPAGE, INC.**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (1,472)	\$ 253
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	21,458	14,856
Deferred tax benefit	(1,430)	(162)
Stock-based compensation	16,230	3,745
Loss on sale of assets	398	57
Acquisition-related contingent consideration	102	39
Changes in assets and liabilities, net of assets acquired and liabilities assumed in business combinations:		
Accounts receivable	(3,900)	1,840
Customer deposits	37	(325)
Other current assets	(2,778)	(3,870)
Other assets	(587)	(72)
Accounts payable	1,473	1,621
Accrued compensation, taxes and benefits	(1,161)	(427)
Deferred revenue	1,906	(3,041)
Other current and long-term liabilities	(577)	227
Net cash provided by operating activities	29,699	14,741
<b>Cash flows from investing activities:</b>		
Purchases of property, equipment and software	(10,782)	(7,427)
Acquisition of businesses, net of cash acquired	(87,817)	(17,231)
Net cash used in investing activities	(98,599)	(24,658)
<b>Cash flows from financing activities:</b>		
(Costs) proceeds from public offerings	(775)	57,688
Proceeds from notes payable		10,000
Payments on notes payable	(8,086)	(23,562)
Proceeds from revolving credit facility, net		2,040
Payments on capital lease obligations	(438)	(1,241)
Preferred stock dividend		(666)
Issuance of common stock	8,499	664
Purchase of treasury stock	(783)	(20)
Net cash (used in) provided by financing activities	(1,583)	44,903
Net (decrease) increase in cash and cash equivalents	(70,483)	34,986
Effect of exchange rate on cash	(36)	(19)
<b>Cash and cash equivalents:</b>		

Beginning of period	118,010	4,427
End of period	\$ 47,491	\$ 39,394
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 1,957	\$ 4,288
Cash paid for income taxes, net of refunds	\$ 797	\$ 227
<b>Non-cash financing activities:</b>		
Accrued dividends and accretion of preferred stock	\$	\$ 3,030
Conversion of preferred stock to common shares	\$	\$ 73,732
Accrued property and equipment	\$ 254	\$ 1,154

*See accompanying notes.*

**Table of Contents**

**Notes to the Condensed Consolidated Financial Statements  
(Unaudited)**

**1. The Company**

RealPage, Inc., a Delaware corporation, and its subsidiaries, (the Company or we or us ) is a provider of property management solutions that enable owners and managers of single-family and a wide variety of multi-family rental property types to manage their marketing, pricing, screening, leasing, accounting, purchasing and other property operations. Our on demand software solutions are delivered through an integrated software platform that provides a single point of access and a shared repository of prospect, resident and property data. By integrating and streamlining a wide range of complex processes and interactions among the rental housing ecosystem of owners, managers, prospects, residents and service providers, our platform optimizes the property management process and improves the experience for all of these constituents. Our solutions enable property owners and managers to optimize revenues and reduce operating costs through higher occupancy, improved pricing methodologies, new sources of revenue from ancillary services, improved collections and more integrated and centralized processes.

***Public Offerings***

On August 11, 2010, our registration statement on Form S-1 (File No 333-166397) relating to our initial public offering ( IPO ) was declared effective by the Securities and Exchange Commission ( SEC ). We sold 6,000,000 shares of common stock in our initial public offering. Our common stock began trading on August 12, 2010 on the NASDAQ Global Select Stock Market under the symbol RP, and our initial public offering closed on August 17, 2010. Upon closing of our initial public offering, all outstanding shares of our preferred stock, including a portion of accrued but unpaid dividends on our outstanding shares of Series A, Series A1 and Series B convertible preferred stock, were converted into 29,567,952 shares of common stock.

In connection with the consummation of the Offering, our Board of Directors and stockholders approved our Amended and Restated Certificate of Incorporation (the Restated Certificate ), which was filed with the Delaware Secretary of State and became effective on August 17, 2010. The Restated Certificate provides for two classes of capital stock to be designated, respectively, Common Stock and Preferred Stock. The total number of shares which the Company is authorized to issue is 135,000,000 shares. 125,000,000 shares are Common Stock, par value \$0.001 per share, and 10,000,000 shares are Preferred Stock, par value \$0.001 per share.

On December 6, 2010, our registration statement on Form S-1 (File No 333-170667) relating to a public stock offering was declared effective by the SEC. We sold an additional 4,000,000 shares of common stock in the offering. The offering closed on December 10, 2010.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements and footnotes have been prepared pursuant to the rules and regulations of the SEC. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) have been condensed or omitted pursuant to those rules and regulations. We believe that the disclosures made are adequate to make the information not misleading.

The condensed consolidated financial statements included herein reflect all adjustments (consisting of normal, recurring adjustments) which are, in the opinion of management, necessary to state fairly the results for the interim periods presented. All intercompany balances and transactions have been eliminated in consolidation. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for any subsequent interim period or for the fiscal year.

It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K filed with the SEC on February 28, 2011 ( Form 10K ).

***Segment and Geographic Information***

Our chief operating decision maker is our Chief Executive Officer, who reviews financial information presented on a company-wide basis. As a result, we determined that the Company has a single reporting segment and operating unit structure.

Principally, all of our revenue for the three and nine months ended September 30, 2011 and 2010 was in North America.

Net long-lived assets held were \$26.1 million and \$24.0 million in North America and \$0.5 million and \$0.5 million in our international subsidiaries at September 30, 2011 and December 31, 2010, respectively.

## **Table of Contents**

### ***Accounting Policies and Use of Estimates***

The preparation of financial statements in conformity with GAAP requires our management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant accounting policies and estimates include: the allowance for doubtful accounts; the useful lives of intangible assets and the recoverability or impairment of tangible and intangible asset values; purchase accounting allocations and related reserves; deferred revenue; stock-based compensation; and our effective income tax rate and the recoverability of deferred tax assets, which are based upon our expectations of future taxable income and allowable deductions. Actual results could differ from these estimates. For greater detail regarding these accounting policies and estimates, refer to our Form 10-K.

### ***Revenue Recognition***

We derive our revenue from three primary sources: our on demand software solutions; our on premise software solutions; and professional and other services. We commence revenue recognition when all of the following conditions are met:

- there is persuasive evidence of an arrangement;
- the solution and/or service has been provided to the customer;
- the collection of the fees is probable; and
- the amount of fees to be paid by the customer is fixed or determinable.

For multi-element arrangements that include multiple software solutions and/or services, we allocate arrangement consideration to all deliverables that have stand-alone value based on their relative selling prices. In such circumstances, we utilize the following hierarchy to determine the selling price to be used for allocating revenue to deliverables as follows:

- Vendor specific objective evidence (VSOE), if available.* The price at which we sell the element in a separate stand-alone transaction;
- Third-party evidence of selling price (TPE), if VSOE of selling price is not available.* Evidence from us or other companies of the value of a largely interchangeable element in a transaction; and
- Estimated selling price (ESP), if neither VSOE nor TPE of selling price is available.* Our best estimate of the stand-alone selling price of an element in a transaction.

Our process for determining ESP for deliverables without VSOE or TPE considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable. Key factors primarily considered in developing ESP include prices charged by us for similar offerings when sold separately, pricing policies and approvals from standard pricing and other business objectives.

From time to time, we sell on demand software solutions with professional services. In such cases, as each element has stand alone value, we allocate arrangement consideration based on our estimated selling price of the on demand software solution and VSOE of the selling price of the professional services.

### ***On Demand Revenue***

Our on demand revenue consists of license and subscription fees, transaction fees related to certain of our software-enabled value-added services and commissions derived from us selling certain risk mitigation services.

License and subscription fees are comprised of a charge billed at the initial order date and monthly or annual subscription fees for accessing our on demand software solutions. The license fee billed at the initial order date is recognized as revenue on a straight-line basis over the longer of the contractual term or the period in which the customer is expected to benefit, which we consider to be four years. Recognition starts once the product has been activated. Revenue from monthly and annual subscription fees is recognized on a straight-line basis over the access period.

We recognize revenue from transaction fees derived from certain of our software-enabled value-added services as the related services are performed.



**Table of Contents**

As part of our risk mitigation services to the rental housing industry, we act as an insurance agent and derive commission revenue from the sale of insurance products to individuals. The commissions are based upon a percentage of the premium that the insurance company charges to the policyholder and are subject to forfeiture in instances where a policyholder cancels prior to the end of the policy. If the policy is cancelled, our commissions are forfeited as a percent of the unearned premium. As a result, we recognize the commissions related to these services ratably over the policy term as the associated premiums are earned.

***On Premise Revenue***

Revenue from our on premise software solutions is comprised of an annual term license, which includes maintenance and support. Customers can renew their annual term license for additional one-year terms at renewal price levels. We recognize the annual term license on a straight-line basis over the contract term.

In addition, we have arrangements that include perpetual licenses with maintenance and other services to be provided over a fixed term. We allocate and defer revenue equivalent to the VSOE of fair value for the undelivered elements and recognize the difference between the total arrangement fee and the amount deferred for the undelivered elements as revenue. We have determined that we do not have VSOE of fair value for our customer support and professional services in these specific arrangements. As a result, the elements within our multiple-element sales agreements do not qualify for treatment as separate units of accounting. Accordingly, we account for fees received under multiple-element arrangements with customer support or other professional services as a single unit of accounting and recognize the entire arrangement ratably over the longer of the customer support period or the period during which professional services are rendered.

***Professional and Other Revenue***

Professional & other revenue is recognized as the services are rendered for time and material contracts. Training revenues are recognized after the services are performed.

***Concentrations of Credit Risk***

Our cash accounts are maintained at various financial institutions and may, from time to time, exceed federally insured limits. The Company has not experienced any losses in such accounts.

Concentrations of credit risk with respect to accounts receivable result from substantially all of our customers being in the multi-family rental housing market. Our customers, however, are dispersed across different geographic areas. We do not require collateral from customers. We maintain an allowance for losses based upon the expected collectability of accounts receivable. Accounts receivable are written off upon determination of non-collectability following established Company policies based on the aging from the accounts receivable invoice date.

No single customer accounted for 5% or more of our revenue or accounts receivable for the three and nine months ended September 30, 2011 or 2010.

***Comprehensive (Loss) Income***

Comprehensive (loss) income consists of net (loss) income and other comprehensive loss. Other comprehensive loss is comprised of foreign currency translation losses. Our comprehensive (loss) income was as follows for the periods presented:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(in thousands, unaudited)</b>			
Net (loss) income	\$ (1,106)	\$ 292	\$ (1,472)	\$ 253
Foreign currency translation loss	(16)	(6)	(36)	(19)
Comprehensive (loss) income	\$ (1,122)	\$ 286	\$ (1,508)	\$ 234

***Recently Issued Accounting Standards***

In December 2010, the FASB issued ASU 2010-29 Business Combinations (Topic 805) Disclosure of Supplementary Pro Forma Information for Business Combinations ( ASU 2010-29 ) effective prospectively for material (either on an



individual or aggregate basis) business combinations entered into in fiscal years beginning on or after December 15, 2010 with early adoption permitted. This accounting standard update clarifies SEC registrants presenting comparative financial statements should disclose in their pro forma information revenue and earnings of the combined entity as though the current period business combinations had occurred as of the beginning of the comparable prior annual reporting period only. The update also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. We adopted ASU 2010-29 during the first quarter of 2011. These requirements will change our annual pro forma disclosures for acquisitions which have historically included the impact on all comparable periods. ASU 2010-29 also changes our annual and quarterly pro forma disclosures to include a description and the related amount of material adjustments made to pro forma results as seen in Note 3 herein.

**Table of Contents**

In June 2011, the FASB issued ASU 2011-05 Comprehensive Income (Topic 220) Presentation of Comprehensive Income ( ASU 2011-05 ) effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 with early adoption permitted. This accounting standard provides new disclosure guidance related to the presentation of the Statement of Comprehensive Income. This guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. We will adopt this accounting standard in the fourth quarter 2011. We do not anticipate that this adoption will have any impact on our financial position or results of operations.

**3. Acquisitions*****2011 Acquisitions***

In May 2011, we acquired substantially all of the assets of Compliance Depot, LLC ( Compliance Depot ) for approximately \$22.5 million which included a cash payment of \$19.2 million at closing and three deferred payments of \$1.1 million payable nine, twelve and eighteen months after the acquisition date. The acquisition of Compliance Depot expands our ability to provide vendor risk management and compliance software solutions for the rental housing industry. Acquired intangibles were recorded at fair value based on assumptions made by us. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. Acquired customer relationships have a useful life of nine years which will be amortized proportionately to the expected discounted cash flows derived from the asset. The tradenames acquired have an indefinite useful life as we do not plan to cease using the tradenames in the marketplace. All direct acquisition costs were less than \$0.1 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill and identified intangibles associated with this acquisition are deductible for tax purposes.

In July 2011, we acquired Senior-Living.com, Inc., operating under the name SeniorLiving.net ( SLN ), pursuant to an Agreement and Plan of Merger. The preliminary purchase price consisted of a cash payment of \$4.0 million at closing, additional cash payments of \$0.5 million, half of which is due on each of the first and second anniversaries of the acquisition date, and an estimated cash payment payable (acquisition-related contingent consideration) and up to 400,000 shares of our common stock, in each case payable based on the achievement of certain revenue targets as defined in the purchase agreement. At the acquisition date, we recorded a liability for the estimated fair value of the acquisition-related contingent consideration of \$0.3 million. In addition, we recorded the fair value of the common shares of \$8.4 million. These fair values were based on management's estimate of the fair value of the cash and the restricted common shares using a probability weighted discounted cash flow model on the achievement of certain revenue targets. The cash payment has a maximum value of \$0.5 million. The acquisition of SLN expands our lead generation capabilities into the senior living rental housing market. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. Acquired customer relationships have a useful life of ten years which will be amortized proportionately to the expected discounted cash flows derived from the asset. The tradenames acquired have an indefinite useful life as we do not plan to cease using the tradenames in the marketplace. All direct acquisition costs were less than \$0.1 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill and identified intangibles associated with this acquisition are not deductible for tax purposes. The liability established for the acquisition-related contingent consideration will continue to be re-evaluated and recorded at an estimated fair value based on the probabilities, as determined by management, of achieving the related targets. This evaluation will be performed until all of the targets have been met or terms of the agreement expire. As of September 30, 2011, our liability for the estimated cash payment was \$0.3 million and the estimated fair value of the common stock was \$8.4 million. During the third quarter 2011, there were no costs due to changes in the estimated fair value of the cash acquisition-related contingent consideration.

In August 2011, we acquired Multifamily Technology Solutions, Inc. ( MTS ), which owns the Internet listing service for rental properties called MyNewPlace, pursuant to an Agreement and Plan of Merger. MTS continued as the surviving corporation of the Merger and a wholly owned subsidiary of RealPage. The preliminary purchase price consisted of a cash payment of \$64.0 million, including amount placed in escrow, net of cash acquired, 294,770 shares of RealPage restricted common stock and the assumption of MTS stock options exercisable for 349,693 shares of

RealPage common stock. In addition, the purchase agreement included a put option on the restricted common shares, in which, if the average market price of our common shares falls below an established threshold, we will pay the difference between the average market price and the established threshold in cash. We established a liability of \$1.2 million for the put option which is based on its estimated fair value at the acquisition date. We also recorded the fair value of the restricted common shares and the assumed stock options of \$6.3 million and \$3.6 million, respectively. The fair value of the restricted common shares was based on management's estimate of the fair value of restricted common shares using a probability weighted discounted cash flow model. The fair values of the assumed stock options and the put option was based on the Black-Scholes option pricing model using inputs consistent with those used in the valuation of our stock options. The acquisition of MTS adds an Internet listing service for rental properties and expands our syndication and organic lead generation capabilities. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. Acquired customer relationships

**Table of Contents**

have a useful life of ten years which will be amortized proportionately to the expected discounted cash flows derived from the asset. The tradenames acquired have an indefinite useful life as we do not plan to cease using the tradenames in the marketplace. All direct acquisition costs were approximately \$0.7 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill and identified intangibles associated with this acquisition are not deductible for tax purposes. The liability established for the put option on the restricted common shares will continue to be re-evaluated and recorded at an estimated fair value based on the changes in market prices of our common stock. During the third quarter 2011, there were no costs due to changes in the estimated fair value of the acquisition-related contingent consideration. One of the minority shareholders of MTS, is a customer of the Company. In connection with the distribution of the purchase price, we paid this customer for their proportion of the purchase price. This transaction was at arm's length and is not related to the ongoing relationship with the Company.

The purchase agreement also included a portion of the cash and restricted common shares consideration to be placed into escrow. As such, we placed \$14.0 million in cash and 65,873 restricted common shares into an escrow account on the date of acquisition. One half of these amounts will be released from escrow twelve months after the acquisition date. The remaining amounts will be released eighteen months after the acquisition date.

We allocated the purchase price for MTS (preliminary), SLN (preliminary) and Compliance Depot as follows:

	MTS	SLN (in thousands)	Compliance Depot
Intangible assets:			
Developed product technologies	\$ 2,280	\$ 1,200	\$ 382
Customer relationships	27,600	2,630	9,030
Tradenames	24,800	2,560	2,230
Goodwill	33,342	8,127	13,371
Deferred revenue	(164)		(2,380)
Net deferred taxes	(15,574)	(1,347)	
Net other assets	2,663	5	(110)
Total purchase price, net of cash acquired	\$ 74,947	\$ 13,175	\$ 22,523

***2010 Acquisitions***

In November 2010, we acquired certain of the assets of Level One, LLC and L1 Technology, LLC (collectively "Level One"), subsidiaries of IAS Holdings, LLC, for approximately \$61.9 million, which included a cash payment of \$53.9 million at closing and a deferred payment of up to approximately \$8.0 million, payable in cash or the issuance of our common stock eighteen months after the acquisition date. The acquisition of Level One further expanded our ability to provide on demand leasing center services. To facilitate the acquisition, we borrowed \$30.0 million on our delayed draw term loans and utilized \$24.0 million of the net proceeds from our initial public offering. Acquired intangibles were recorded at fair value based on assumptions made by us. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. Acquired customer relationships have a useful life of nine years which will be amortized proportionately to the expected discounted cash flows derived from the asset. The tradenames acquired have an indefinite useful life as we do not plan to cease using the tradenames in the marketplace. All direct acquisition costs were approximately \$0.3 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill and identified intangibles associated with this acquisition are deductible for tax purposes.

In July 2010, we purchased 100% of the outstanding stock of eReal Estate Integration, Inc. ("eREI") for approximately \$8.6 million, net of cash acquired, which included a cash payment of \$3.8 million and an estimated cash payment payable upon the achievement of certain revenue targets (acquisition-related contingent consideration) and the issuance of 499,999 restricted common shares, which vest as certain revenue targets are achieved as defined in the

purchase agreement. At the acquisition date, we recorded a liability for the estimated fair value of the acquisition-related contingent consideration of \$0.8 million. In addition, we recorded the fair value of the restricted common shares of \$3.3 million. These fair values were based on management's estimate of the fair value of the cash and the restricted common shares using a probability weighted discounted cash flow model on the achievement of certain revenue targets. The cash payment and the related restricted common shares have a maximum value of \$1.8 million and \$4.4 million, respectively. This acquisition was financed from proceeds from our revolving line of credit and cash flows from operations. The acquisition of eREI improved our lead management and lead syndication capabilities. Acquired intangibles were recorded at fair value based on assumptions made by us. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. Acquired customer relationships have a useful life of ten years which will be amortized proportionately to the expected discounted cash flows derived from the asset. The tradenames acquired have an indefinite useful life as we do not plan to cease using the tradenames in the marketplace. All direct acquisition costs were approximately \$0.1 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the

**Table of Contents**

acquisition. Goodwill and identified intangibles associated with this transaction are not deductible for tax purposes. The liability established for the acquisition-related contingent consideration will continue to be re-evaluated and recorded at an estimated fair value based on the probabilities, as determined by management, of achieving the related targets. This evaluation will be performed until all of the targets have been met or terms of the agreement expire. As of September 30, 2011, our liability for the estimated cash payment was \$0.9 million. During the three and nine months ended September 30, 2011, we recognized (gains) and losses of \$(3,000) and \$0.1 million due to changes in the estimated fair value of the cash acquisition-related contingent consideration.

In February 2010, we acquired the assets of Domin-8 Enterprise Solutions, Inc. ( Domin-8 ). The acquisition of these assets improved our ability to serve our multi-family clients with mixed portfolios that include smaller, centrally-managed apartment communities. The aggregate purchase price at closing was \$12.9 million, net of cash acquired, which was paid upon acquisition of the assets. We acquired deferred revenue as a contractual obligation, which was recorded at its assessed fair value of \$4.5 million. The fair value of the deferred revenue was determined based on estimated costs to support acquired contracts plus a reasonable margin. The acquired intangibles were recorded at fair value based on assumptions made by us. The customer relationships have useful lives of approximately nine years and are amortized in proportion to the estimated cash flows derived from the relationship. Acquired developed product technologies have a useful life of three years and are amortized straight-line over the estimated useful life. We have determined that the tradename has an indefinite life, as we anticipate keeping the tradename for the foreseeable future given its recognition in the marketplace. Approximately \$0.9 million of transaction costs related to this acquisition were expensed as incurred. We included the operating results of this acquisition in our consolidated results of operations from the effective date of the acquisition. This acquisition was financed from the proceeds from the amended credit agreement and cash flow from operations. This acquisition made immediately available product offerings that complemented our existing products. We accounted for the acquisition by allocating the total consideration to the fair value of assets received and liabilities assumed. Goodwill and identified intangibles associated with this acquisition are deductible for tax purposes.

We allocated the purchase price for Level One, eREI and Domin-8 as follows:

	<b>Level One</b>	<b>eREI</b> <b>(in thousands)</b>	<b>Domin-8</b>
Intangible assets:			
Developed product technologies	\$ 692	\$ 5,279	\$ 3,678
Customer relationships	18,300	498	6,418
Tradenames	3,740	844	1,278
Goodwill	36,897	4,664	4,896
Deferred revenue	(352)		(4,502)
Net deferred taxes		(2,648)	
Net other assets	2,573	(14)	1,155
Total purchase price, net of cash acquired	\$ 61,850	\$ 8,623	\$ 12,923

***Pro Forma Results of Acquisitions***

The following table presents unaudited pro forma results of operations for the three and nine months ended September 30, 2011 and September 30, 2010 as if the Domin-8, eREI, Level One, Compliance Depot, SLN and MTS acquisitions had occurred at the beginning of the periods presented. The pro forma financial information includes business combination effects resulting from these acquisitions including approximately \$0.3 million, \$1.7 million, \$1.8 million and \$6.9 million of amortization charges from acquired intangible assets and approximately \$0.8 million, \$0.1 million, \$2.6 million and \$1.9 million of an income tax benefit for the related tax effects as though the aforementioned companies were combined as of the beginning of the three months ended September 30, 2011 and 2010 and the nine months ended September 30, 2011 and 2010, respectively. We prepared the pro forma financial information for the combined entities for comparative purposes only, and it is not indicative of what actual results

would have been if the acquisitions had taken place at the beginning of the periods presented, or of future results.

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>Pro</b>	<b>Pro</b>	<b>Pro</b>	<b>Pro</b>
	<b>Forma</b>	<b>Forma</b>	<b>Forma</b>	<b>Forma</b>
	<b>(in thousands)</b>			
Revenue:				
On demand	\$ 65,585	\$ 55,771	\$ 186,236	\$ 154,414
On premise	1,772	2,127	5,045	7,169
Professional and other	3,118	2,804	9,052	7,431
Total revenue	70,475	60,702	200,333	169,014
Net loss	\$ (1,300)	\$ (168)	\$ (3,905)	\$ (2,866)
Net loss attributable to common stockholders:				
Basic and diluted	(1,300)	(787)	(3,905)	(5,810)
Net loss per share attributable to common stockholders:				
Basic	\$ (0.02)	\$ (0.02)	\$ (0.06)	\$ (0.18)
Diluted	\$ (0.02)	\$ (0.02)	\$ (0.06)	\$ (0.18)

**Table of Contents****4. Property, Equipment and Software**

Property, equipment and software consist of the following:

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
	<b>(in thousands)</b>	
Leasehold improvements	\$ 8,819	\$ 8,772
Data processing and communications equipment	36,349	31,712
Furniture, fixtures, and other equipment	9,630	8,012
Software	30,207	26,617
	85,005	75,113
Less: Accumulated depreciation and amortization	(58,453)	(50,598)
Property, equipment and software, net	\$ 26,552	\$ 24,515

Depreciation and amortization expense for property, equipment and software was \$3.1 million, \$2.9 million, \$9.5 million and \$8.5 million for the three months ended September 30, 2011 and 2010 and the nine months ended September 2011 and 2010, respectively. This includes depreciation for assets purchased through capital leases.

**5. Goodwill and Other Intangible Assets**

The change in the carrying amount of goodwill for the nine months ended September 30, 2011 is as follows:

	<b>(in thousands)</b>
Balance at December 31, 2010	\$ 73,885
Goodwill acquired in 2011	54,840
Other	(93)
Balance at September 30, 2011	\$ 128,632

Other intangible assets consisted of the following at September 30, 2011 and December 31, 2010:

		<b>September 30, 2011</b>			<b>December 31, 2010</b>		
	<b>Amortization Period</b>	<b>Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>	<b>Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
		<b>(in thousands)</b>					
Finite-lived intangible assets							
Developed technologies	3 years 1-10	\$ 24,938	\$ (12,982)	\$ 11,956	\$ 21,082	\$ (7,618)	\$ 13,464
Customer relationships	years	74,183	(12,702)	61,481	34,923	(6,932)	27,991
Vendor relationships	7 years	5,650	(3,127)	2,523	5,650	(2,480)	3,170
Option to purchase building	1 year 4-5	131	(120)	11	131	(22)	109
Non-competition agreement	years	120	(120)		120	(112)	8
Total finite-lived intangible assets		105,022	(29,051)	75,971	61,906	(17,164)	44,742
Indefinite-lived intangible assets							
Tradenames		39,170		39,170	9,619		9,619



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Total intangible assets	\$ 144,192	\$ (29,051)	\$ 115,141	\$ 71,525	\$ (17,164)	\$ 54,361
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Amortization of finite-lived intangible assets was \$4.3 million, \$2.5 million, \$11.9 million and \$6.3 million for the three months ended September 30, 2011 and 2010 and the nine months ended September 2011 and 2010, respectively.

**Table of Contents****6. Debt*****Term Loan***

At December 31, 2010, under the terms of our amended credit agreement, the term loan and revolving line of credit bear interest at a stated rate of 3.5% plus LIBOR, or a stated rate of 0.75% plus Wells Fargo's prime rate (or, if greater, the federal funds rate plus 0.5% or three month LIBOR plus 1.0%). Interest on the term loans and the revolver is payable monthly, or for LIBOR loans, at the end of the applicable 1-, 2-, or 3-month interest period. Principal payments on the term loan are paid in quarterly installments equal to 3.75% of the principal amount of term loans, with the balance of all term loans and the revolver due on June 30, 2014. Debt issuance costs incurred in connection with the Credit Agreement are deferred and amortized over the remaining term of the arrangement.

In February 2011, we entered into an amendment to the Credit Agreement. Under terms of the February 2011 amendment, our revolving line of credit was increased from \$10.0 million to \$37.0 million. In addition, the interest rates on the term loan and revolving line of credit vary dependent on defined leverage ratios and range from a stated rate of 2.75% – 3.25% plus LIBOR or a stated rate of 0.0% – 0.5% plus Wells Fargo's prime rate (or, if greater, the federal funds rate plus 0.5% or three month LIBOR plus 1.0%). Principal payments on the term loan and outstanding revolver balance remain consistent with our amended credit agreement.

As of September 30, 2011, we have total outstanding debt of \$57.9 million and \$37.0 million available under our revolving line of credit. We have unamortized debt issuance costs of \$1.1 million and \$1.3 million at September 30, 2011 and December 31, 2010, respectively. As of September 30, 2011, we are in compliance with our debt covenants.

**7. Share-based Compensation**

On March 1, 2011, we granted 449,850 options with an exercise price of \$24.03 which vest over four years with 75% vesting over 15 quarters and the remaining 25% vesting on the 16<sup>th</sup> quarter. We also granted 299,900 shares of restricted stock at \$24.03 which vest ratably over four years. Both stock options and restricted stock were granted under the 2010 Equity Plan.

On April 1, 2011, we granted 17,535 shares of restricted stock at \$28.52 which vest ratably over four years to our Board of Directors under the 2010 Equity Plan.

On May 10, 2011, we granted 147,950 options with an exercise price of \$29.50 which vest over four years with 75% vesting over 15 quarters and the remaining 25% vesting on the 16<sup>th</sup> quarter. We also granted 98,800 shares of restricted stock at \$29.50 which vest ratably over four years. Both stock options and restricted stock were granted under the 2010 Equity Plan. In connection with our strategic acquisition of Compliance Depot in May 2011, we granted 17,500 shares of restricted stock at \$29.50 to certain employees of Compliance Depot which vest as certain revenue targets are achieved.

In connection with our acquisition of SLN on August 9, 2011, we granted an employee 67,500 options with an exercise price of \$24.03 and 49,500 shares of restricted stock. The options vest over four years with 75% vesting over 15 quarters and the remaining 25% vesting on the 16<sup>th</sup> quarter. The restricted shares vest over four years with 0% vesting in the first two years and 12.5% vesting quarterly thereafter. Both stock options and restricted stock were granted under the 2010 Equity Plan.

On August 9, 2011, we granted 266,700 options with an exercise price of \$24.03 which vest over four years with 75% vesting over 15 quarters and the remaining 25% vesting on the 16<sup>th</sup> quarter. We also granted 177,900 shares of restricted stock which vest ratably over four years. Both stock options and restricted stock were granted under the 2010 Equity Plan.

In connection with our acquisition of MTS, on August 24, 2011, we assumed 349,693 options granted from MTS's 2005 Equity Incentive Plan (MTS Plan). Assumed options were converted to equivalent share-based awards of RealPage based on the ratio of our fair market value of stock to the fair market value of MTS's stock on the acquisition date. The number of shares and ratio of exercise price to market price were equitably adjusted to preserve the intrinsic value of the award as of immediately prior to the acquisition. The conversion was accounted for as a modification under the provisions of GAAP which did not result in an incremental increase in the fair value of the assumed option awards. As of September 30, 2011, we had 344,183 assumed options outstanding under the MTS Plan. The majority of assumed options vest over a four-year period at a rate of 25% or 20% after one year and then monthly on a straight-line basis thereafter while others vest ratably over a four-year period. Options granted generally are

exercisable up to 10 years. No further options will be granted under the MTS Plan.

On August 29, 2011, in connection with our acquisition of MTS, we granted certain employees 249,300 options with an exercise price of \$19.73 which vest which vest over four years with 75% vesting over 15 quarters and the remaining 25% vesting on the 16th quarter and also granted 146,200 shares of restricted stock which vest ratably over four years. These stock options and restricted shares were granted under the 2010 Equity Plan.

**Table of Contents**

**8. Commitments and Contingencies**

***Guarantor Arrangements***

We have agreements whereby we indemnify our officers and directors for certain events or occurrences while the officer or director is or was serving at our request in such capacity. The term of the indemnification period is for the officer or director's lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have a director and officer insurance policy that reduces our exposure and enables us to recover a portion of any future amounts paid. As a result of our insurance policy coverage, we believe the estimated fair value of these indemnification agreements is minimal. Accordingly, we had no liabilities recorded for these agreements as of September 30, 2011 or December 31, 2010.

In the ordinary course of our business, we enter into standard indemnification provisions in our agreements with our customers. Pursuant to these provisions, we indemnify our customers for losses suffered or incurred in connection with third-party claims that our products infringed upon any U.S. patent, copyright, trademark or other intellectual property right. Where applicable, we generally limit such infringement indemnities to those claims directed solely to our products and not in combination with other software or products. With respect to our products, we also generally reserve the right to resolve such claims by designing a non-infringing alternative, by obtaining a license on reasonable terms, or by terminating our relationship with the customer and refunding the customer's fees.

The potential amount of future payments to defend lawsuits or settle indemnified claims under these indemnification provisions is unlimited in certain agreements; however, we believe the estimated fair value of these indemnity provisions is minimal, and, accordingly, we had no liabilities recorded for these agreements as of September 30, 2011 or December 31, 2010.

***Litigation***

From time to time, in the normal course of our business, we are a party to litigation matters and claims. Litigation can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict and our view of these matters may change in the future as the litigation and events related thereto unfold. We expense legal fees as incurred. Insurance recoveries associated with legal costs incurred are recorded when they are deemed probable of recovery. We record a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. An unfavorable outcome in any legal matter, if material, could have an adverse effect on our operations, financial position, liquidity and results of operations.

On January 24, 2011, Yardi Systems, Inc. ( "Yardi" ) filed a lawsuit in the U.S. District Court for the Central District of California against RealPage, Inc. and DC Consulting, Inc. and filed a First Amended Complaint on August 12, 2011. On March 28, 2011, we filed an answer and counterclaims, on May 18, 2011, we filed amended counterclaims, on September 2, 2011, we filed Second Amended Counterclaims and on September 12, 2011, we filed an answer to Yardi's First Amended Complaint. Yardi has also filed a pending motion to dismiss several of our counterclaims which we have opposed. Trial in this case is currently set for August 2012. This case is at an early stage and we are not able to predict its outcome. For additional information regarding this lawsuit, see "Legal Proceedings" in Item 1 of Part II of this report.

We are involved in other litigation matters not listed above but we do not consider the matters to be material either individually or in the aggregate at this time. Our view of the matters not listed may change in the future as the litigation and events related thereto unfold.

**9. Net Loss Per Share**

Net loss per share is presented in conformity with the two-class method required for participating securities. In August 2010, all of the Company's outstanding redeemable convertible preferred stock converted into common stock in connection with our IPO. Prior to the conversion, holders of Series A Preferred, Series A1 Preferred, Series B Preferred and Series C Preferred were each entitled to receive 8% per annum cumulative dividends, payable prior and in preference to any dividends on any other shares of our capital stock. In the event a dividend was paid on common stock, holders of Series A Preferred, Series A1 Preferred, Series B Preferred, Series C Preferred and non-vested restricted stock were entitled to a proportionate share of any such dividend as if they were holders of common shares (on an as-if converted basis). Holders of Series A Preferred, Series A1 Preferred, Series B Preferred, Series C

Preferred and non-vested restricted stock did not share in the loss of the Company.

For the period prior to the conversion of the redeemable convertible preferred stock, net loss per share information is computed using the two-class method. Under the two-class method, basic net income per share attributable to common stockholders is computed by dividing the net income attributable to common stockholders by the weighted average number of common shares outstanding during the period. Net loss attributable to common stockholders is determined by allocating undistributed earnings, calculated as net loss less current period Series A Preferred, Series A1 Preferred, Series B Preferred and Series C Preferred cumulative dividends, between the holders of common stock and Series A Preferred, Series A1 Preferred, Series B Preferred and Series C Preferred. Diluted net income per share attributable to common stockholders is computed by using the weighted average number of common shares outstanding, including potential dilutive shares of common stock assuming the dilutive effect of outstanding stock options using the treasury stock method. Weighted average shares from common share equivalents in the amount of 8,521 shares and 3,476,622 shares and 239,804 shares and 2,036,796 shares were excluded from the dilutive shares outstanding because their effect was anti-dilutive for the three and nine months ended September 30, 2011 and 2010, respectively.

**Table of Contents**

The following table presents the calculation of basic and diluted net loss per share attributable to common stockholders:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(in thousands, except per share amounts)</b>			
Numerator:				
Net (loss) income	\$ (1,106)	\$ 292	\$ (1,472)	\$ 253
8% cumulative dividends on participating preferred stock		(619)		(2,944)
Net loss attributable to common stockholders basic and diluted	\$ (1,106)	\$ (327)	\$ (1,472)	\$ (2,691)
Denominator:				
Basic:				
Weighted average common shares used in computing basic net loss per share	68,792	43,636	68,096	31,878
Diluted:				
Weighted average common shares used in computing basic net loss per share	68,792	43,636	68,096	31,878
Add weighted average effect of dilutive securities:				
Stock options				
Restricted stock				
Weighted average common shares used in computing diluted net loss per share	68,792	43,636	68,096	31,878
Net loss per common share:				
Basic	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.08)
Diluted	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.08)

**10. Income Taxes**

We make estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. Our tax provision for interim periods is derived using an estimate of our annual effective rate, adjusted for any material items.

The acquisition of the stock of SLN and MTS resulted in an additional net deferred tax liability of \$16.9 million. This net liability includes a deferred tax liability of \$23.8 million related to indefinite lived intangibles, a deferred tax asset, net of valuation allowance, of \$6.4 million related to net operating loss carryforwards and other miscellaneous deferred tax assets of \$0.5 million. These net operating loss carryforwards are subject to a Section 382 limitation. The limitation on these pre-acquisition net operating loss carryforwards will fully expire in 2020.

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

*This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (which Sections were adopted as part of the Private Securities Litigation Reform Act of 1995). Statements preceded by, followed by or that otherwise include the words anticipates, believes, could, seeks, estimates, expects, intends, may, plans, potential, predicts, projects, should, will, would or similar expressions and the negatives of those terms are generally forward-looking in nature and not historical facts. These forward looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any anticipated results, performance or achievements. Except as required by law, we disclaim any intention, and undertake no obligation, to revise any forward-looking statements, whether as a result of new information, a future event, or otherwise. For risks and uncertainties that could impact our forward-looking statements, please see Part II Item 1A, Risk Factors herein.*

**Overview**

RealPage, Inc., a Delaware corporation, and its subsidiaries, (the Company or we or us ) is a leading provider of on demand software solutions for the rental housing industry. Our broad range of property management solutions enables owners and managers of single-family and a wide variety of multi-family rental property types to manage their marketing, pricing, screening, leasing, accounting, purchasing and other property operations. Our on demand software solutions are delivered through an integrated software platform that provides a single point of access and a shared repository of prospect, resident and property data. By integrating and streamlining a wide range of complex processes and interactions among the rental housing ecosystem of owners, managers, prospects, residents and service providers, our platform helps optimize the property management process and improves the experience for all of these constituents.

Our solutions enable property owners and managers to increase revenues and reduce operating costs through higher occupancy, improved pricing methodologies, new sources of revenue from ancillary services, improved collections and more integrated and centralized processes. As of September 30, 2011, over 7,600 customers used one or more of our on demand software solutions to help manage the operations of approximately 6.4 million rental housing units. Our customers include each of the ten largest multi-family property management companies in the United States, ranked as of January 1, 2011 by the National Multi Housing Council, based on number of units managed.

We sell our solutions through our direct sales organization. Our total revenues were approximately \$67.7 million, \$48.0 million, \$186.8 million and \$134.2 million for the three months ended September 30, 2011 and 2010 and the nine months ended September 2011 and 2010, respectively. In the same periods, we had operating (loss) income of approximately \$(0.7) million, \$2.3 million, \$0.5 million and \$5.2 million, respectively, and net (loss) income of approximately \$(1.1) million, \$0.3 million, \$(1.5) million and \$0.3 million, respectively.

Our company was formed in 1998 to acquire Rent Roll, Inc., which marketed and sold on premise property management systems for the conventional and affordable multi-family rental housing markets. In September 2001, we released OneSite, our first on demand property management system. Since 2002, we have expanded our on demand software solutions to include a number of software-enabled value-added services that provide complementary sales and marketing, asset optimization, risk mitigation, billing and utility management and spend management capabilities. In connection with this expansion, we have allocated greater resources to the development and infrastructure needs of developing and increasing sales of our suite of on demand software solutions. In addition, since July 2002, we have completed 17 acquisitions of complementary technologies to supplement our internal product development and sales and marketing efforts and expand the scope of our solutions, the types of rental housing properties served by our solutions and our customer base.

On August 11, 2010, our registration statement on Form S-1 (File No 333-166397) relating to our initial public offering was declared effective by the SEC. We sold 6,000,000 shares of common stock in our initial public offering. Our common stock began trading on August 12, 2010 on the NASDAQ Global Select Stock Market under the symbol RP, and the offering closed on August 17, 2010. Upon closing of our initial public offering, all outstanding shares of our convertible preferred stock, including a portion of accrued but unpaid dividends on our outstanding shares of Series A, Series A1 and Series B convertible preferred stock, were converted into 29,567,952 shares of common

stock.

On December 6, 2010, our registration statement on Form S-1 (File No 333-170667) relating to a public stock offering was declared effective by the SEC. We sold an additional 4,000,000 shares of common stock in the offering. The offering closed on December 10, 2010.



## **Table of Contents**

### **New Product Family**

In August 2011, we announced our new product family, LeaseStar, which will consolidate and integrate products and services related to our acquisitions of eREI, LevelOne, SeniorLiving.net, MTS and our suite of products and services historically branded as Crossfire. We believe the LeaseStar product family will unify major organic and paid lead channels into a single marketplace where consumers can find a rental unit and transact business by viewing real time availability, pricing, pre-qualify and lease online.

### **Recent Acquisitions**

In July 2010, we acquired 100% of the outstanding stock of eReal Estate Integration, Inc. ( eREI ). eREI's core products provide phone and Internet lead tracking and lead management services, as well as syndication services that push property content to search engines, Internet listing services and classified listed websites. The addition of these products improved our lead management and lead syndication capabilities within our CrossFire product family. The purchase price of eREI was approximately \$8.6 million, which included a cash payment of \$3.8 million at close, an estimated cash payment payable upon the achievement of certain revenue targets and the issuance of 499,999 restricted common shares, which vest as certain revenue targets are achieved, as defined in the purchase agreement.

In November 2010, we acquired certain of the assets of Level One, LLC and L1 Technology, LLC, ( Level One ), subsidiaries of IAS Holdings, LLC. Level One services property management companies by providing centralized lead capture services designed to enable owners to lease more apartments, reduce overall marketing spend and free up on-site leasing staff. We are in the process of integrating Level One with our CrossFire product family. We continue to market the Level One brand. Level One's services are utilized in the management of approximately one million rental property units. The purchase price of Level One was approximately \$61.9 million, which included a cash payment of \$53.9 million and a deferred payment of up to approximately \$8.0 million, payable in cash or the issuance of our common stock eighteen months after the acquisition date. To facilitate the acquisition, we borrowed \$30.0 million under our delayed draw term loans and utilized \$24.0 million of the net proceeds from our initial public offering.

In May 2011, we acquired substantially all of the assets of Compliance Depot LLC ( Compliance Depot ) for approximately \$22.5 million which included a cash payment of \$19.2 million and deferred payments of \$1.1 million payable six, twelve and eighteen months after the acquisition date. The acquisition of Compliance Depot expands our ability to provide vendor risk management and compliance software for the rental housing industry. Interfacing with vendors through a branded platform, Compliance Depot allows property managers and owners to: track compliance with vendor obligations to carry workers compensation and general liability insurance, identify vendor bankruptcy filings, liens, criminal records, collections and professional license verification, confirm federal regulation compliance, such as The Patriot Act; as well as manage contractual agreements and federal and state tax documents.

In July 2011, we acquired Senior-Living.com, Inc., operating under the name SeniorLiving.net ( SLN ), for a purchase price consisting of a cash payment of \$4.0 million at closing, additional cash payments of \$0.5 million, half of which is due on each of the first and second anniversaries of the acquisition date, and a deferred earn out payment of up to \$0.5 million in cash and up to 400,000 shares of our common stock, in each case payable based on the achievement of specified milestones on or before June 30, 2014. The acquisition of SLN expands our lead generation capabilities into the senior living rental housing market.

In August 2011, we acquired Multifamily Technology Solutions, Inc. ( MTS ), which owns the Internet listing service for rental properties called MyNewPlace, pursuant to an Agreement and Plan of Merger. MTS continued as the surviving corporation of the Merger and a wholly owned subsidiary of RealPage. We acquired MTS for a purchase price of \$74.9 million, net of cash acquired, comprised of approximately \$64.0 million in cash, 294,770 shares of RealPage restricted common stock and the assumption of MTS stock options exercisable for 349,693 shares of RealPage common stock. The acquisition of MTS adds a pay-for-performance Internet listing service, expands our suite of SAAS lead generation and management tools and service delivery capabilities.

### **Critical Accounting Policies and Estimates**

The preparation of our condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. We base these estimates and assumptions on historical experience or on various other factors that we believe to be reasonable

and appropriate under the circumstances. We reconsider and evaluate our estimates and assumptions on an on-going basis. Accordingly, actual results may differ significantly from these estimates

We believe that the following critical accounting policies involve our more significant judgments, assumptions and estimates, and therefore, could have the greatest potential impact on our condensed consolidated financial statements:

- Revenue recognition;
- Accounts receivable;
- Business combinations;
- Goodwill and other intangible assets with indefinite lives;
- Impairment of long-lived assets
- Intangible assets;

## **Table of Contents**

Stock-based compensation;  
Income taxes; and  
Capitalized product development costs.

A full discussion of our critical accounting policies, which involve significant management judgment, appears in our Form 10-K under Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates. For further information regarding our business, industry trends, accounting policies and estimates, and risks and uncertainties, refer to our Form 10-K.

## **Key Components of Our Results of Operations**

### ***Revenue***

We derive our revenue from three primary sources: our on demand software solutions; our on premise software solutions; and our professional and other services.

*On demand revenue.* Revenue from our on demand software solutions is comprised of license and subscription fees for accessing our on demand software solutions, typically licensed for one year terms, commission income for sales of renter's insurance policies, and transaction fees for certain on demand software solutions, such as payment processing, spend management and billing services. We typically price our on demand software solutions based primarily on the number of units the customer manages with our solutions. For our insurance and transaction-based solutions, we price based on a fixed commission rate of earned premiums or a fixed rate per transaction, respectively.

*On premise revenue.* Our on premise software solutions are distributed to our customers and maintained locally on the customers' hardware. Revenue from our on premise software solutions is comprised of license fees under term and perpetual license agreements. Typically, we have licensed our on premise software solutions pursuant to term license agreements with an initial term of one year that includes maintenance and support. Customer can renew their term license agreement for additional one-year terms at renewal price levels. In February 2010, we completed a strategic acquisition of assets that include on premise software solutions that were historically marketed and sold pursuant to perpetual license agreements and related maintenance agreements.

We no longer actively market our legacy on premise software solutions (i.e. RentRoll and HUDManager) to new customers, and only market and support our acquired on premise software solutions. We expect on premise revenue to continue to decline over time as we transition acquired on premise customers to our on demand property management systems.

*Professional and other revenue.* Revenue from professional and other services consists of consulting and implementation services, training and other ancillary services. Professional and other services engagements are typically time and material based.

### ***Cost of Revenue***

Cost of revenue consists primarily of personnel costs related to our operations, support services, training and implementation services, expenses related to the operation of our data center and fees paid to third-party service providers. Personnel costs include salaries, bonuses, stock-based compensation and employee benefits. Cost of revenue also includes an allocation of facilities costs, overhead costs and depreciation, as well as amortization of acquired technology related to strategic acquisitions and amortization of capitalized development costs. We allocate facilities, overhead costs and depreciation based on headcount.

### ***Operating Expenses***

We classify our operating expenses into three categories: product development, sales and marketing, and general and administrative. Our operating expenses primarily consist of personnel costs, which include compensation, employee benefits and payroll taxes, costs for third-party contracted development, marketing, legal, accounting and consulting services and other professional service fees. Personnel costs for each category of operating expenses include salaries, bonuses, stock-based compensation and employee benefits for employees in that category. In addition, our operating expenses include an allocation of our facilities costs, overhead costs and depreciation based on headcount for that category, as well as amortization of purchased intangible assets resulting from our acquisitions.

*Product development.* Product development expense consists primarily of personnel costs for our product development employees and executives and fees to contract development vendors. Our product development efforts are focused primarily on increasing the functionality and enhancing the ease of use of our on demand software solutions and expanding our suite of on demand software solutions. We established a product development and service

center in Hyderabad, India and a product development center in Manila, Philippines in 2008 and 2011, respectively, to take advantage of strong technical talent at lower personnel costs compared to the United States.

## **Table of Contents**

*Sales and marketing.* Sales and marketing expense consists primarily of personnel costs for our sales, marketing and business development employees and executives, travel and entertainment and marketing programs. Marketing programs consist of advertising, tradeshow, user conferences, public relations, industry sponsorships and affiliations and product marketing. Additionally, sales and marketing expense includes amortization of certain purchased intangible assets, including customer relationships and key vendor and supplier relationships obtained in connection with our acquisitions.

*General and administrative.* General and administrative expense consists of personnel costs for our executive, finance and accounting, human resources, management information systems and legal personnel, as well as legal, accounting and other professional service fees and other corporate expenses.

### **Key Business Metrics**

In addition to traditional financial measures, we monitor our operating performance using a number of financially and non-financially derived metrics that are not included in our condensed consolidated financial statements. We monitor the key performance indicators as follows:

*On demand revenue.* This metric represents the license and subscription fees for accessing our on demand software solutions, typically licensed for one year terms, commission income from sales of renter's insurance policies and transaction fees for certain of our on demand software solutions. We consider on demand revenue to be a key business metric because we believe the market for our on demand software solutions represents the largest growth opportunity for our business.

*On demand revenue as a percentage of total revenue.* This metric represents on demand revenue for the period presented divided by total revenue for the same period. We use on demand revenue as a percentage of total revenue to measure our success in executing our strategy to increase the penetration of our on demand software solutions and expand our recurring revenue streams attributable to these solutions. We expect our on demand revenue to remain a significant percentage of our total revenue although the actual percentage may vary from period to period due to a number of factors, including the timing of acquisitions, professional and other revenue and on premise perpetual license sales and maintenance fees resulting from our February 2010 acquisition.

*Ending on demand units.* This metric represents the number of rental housing units managed by our customers with one or more of our on demand software solutions at the end of the period. We use ending on demand units to measure the success of our strategy of increasing the number of rental housing units managed with our on demand software solutions. Property unit counts are provided to us by our customers as new sales orders are processed. Property unit counts may be adjusted periodically as information related to our customers' properties is updated or supplemented, which could result in adjusting the number of units previously reported.

*Non-GAAP on demand revenue.* This metric represents on demand revenue adjusted to reverse the effect of the write down of deferred revenue associated with purchase accounting for strategic acquisitions. We use this metric to evaluate our on demand revenue as we believe its inclusion provides a more accurate depiction of on demand revenue arising from our strategic acquisitions.

*Non-GAAP on demand revenue per average on demand unit.* This metric represents on demand revenue for the period presented divided by average on demand units for the same period. For interim periods, the calculation is performed on an annualized basis. We calculate average on demand units as the average of the beginning and ending on demand units for each quarter in the period presented. We monitor this metric to measure our success in increasing the number of on demand software solutions utilized by our customers to manage their rental housing units, our overall revenue and profitability. Non-GAAP on demand revenue per average on demand unit for the interim periods presented are annualized.

*Adjusted EBITDA.* We define this metric as net income (loss) plus depreciation and asset impairment; amortization of intangible assets; interest expense, net; income tax expense (benefit); stock-based compensation expense, acquisition-related expense and purchase accounting adjustment. In 2011, Adjusted EBITDA excludes litigation related expenses pertaining to the Yardi litigation as discussed in Part II, Item 1 Legal Proceedings. Beginning in the second quarter of 2011, Adjusted EBITDA includes acquisition-related deferred revenue adjustments. We believe that the use of Adjusted EBITDA is useful in evaluating our operating performance because it excludes certain non-cash expenses, including depreciation, amortization and stock-based compensation. Adjusted EBITDA is not determined in

accordance with accounting principles generally accepted in the United States, or GAAP, and should not be considered as a substitute for or superior to financial measures determined in accordance with GAAP. For further discussion regarding Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income, refer to Reconciliation of Quarterly Non-GAAP Financial Measures herein. Our Adjusted EBITDA grew from approximately \$9.1 million and \$24.3 million for the three and nine months ended September 30, 2010 to approximately \$15.0 million and \$40.9 million for the three and nine months ended September 30, 2011 as a result of our efforts to expand market share and increase revenue.

**Table of Contents****Results of Operations**

The following tables set forth our results of operations for the specified periods. The period-to-period comparison of financial results is not necessarily indicative of future results.

**Condensed Consolidated Statements of Operations Data**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Revenue:</b>				
On demand	\$ 62,765	\$ 43,097	\$ 172,741	\$ 120,393
On premise	1,772	2,127	5,045	6,419
Professional and other	3,118	2,804	9,052	7,403
 Total revenue	 67,655	 48,028	 186,838	 134,215
Cost of revenue(1)	27,585	20,203	78,078	56,595
 <b>Gross profit</b>	 40,070	 27,825	 108,760	 77,620
<b>Operating expense:</b>				
Product development(1)	11,230	9,127	32,083	26,431
Sales and marketing(1)	17,688	9,428	44,992	25,793
General and administrative(1)	11,840	6,969	31,190	20,230
 Total operating expense	 40,758	 25,524	 108,265	 72,454
 <b>Operating (loss) income</b>	 (688)	 2,301	 495	 5,166
Interest expense and other, net	(684)	(1,822)	(2,582)	(4,749)
 <b>(Loss) income before income taxes</b>	 (1,372)	 479	 (2,087)	 417
 Income tax expense	 (266)	 187	 (615)	 164
 <b>Net (loss) income</b>	 \$ (1,106)	 \$ 292	 \$ (1,472)	 \$ 253
 <b>Net (loss) income attributable to common stockholders</b>				
Basic	\$ (1,106)	\$ (327)	\$ (1,472)	\$ (2,691)
Diluted	\$ (1,106)	\$ (327)	\$ (1,472)	\$ (2,691)
 <b>Net income (loss) per share attributable to common stockholders</b>				
Basic	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.08)
Diluted	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.08)
Weighted average shares used in computing net loss per share attributable to common stockholders				
Basic	68,792	43,636	68,096	31,878
Diluted	68,792	43,636	68,096	31,878

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

Cost of revenue	\$ 459	\$ 140	\$ 1,069	\$ 407
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Product development	1,258	627	3,343	1,664
Sales and marketing	3,433	201	8,793	541
General and administrative	1,258	391	3,025	1,133

The following table sets forth our results of operations for the specified periods as a percentage of our revenue for those periods. The period-to-period comparison of financial results is not necessarily indicative of future results.

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(as a percentage of total revenue)</b>		<b>(as a percentage of total revenue)</b>	
Revenue:				
On demand	92.8%	89.7%	92.5%	89.7%
On premise	2.6	4.4	2.7	4.8
Professional and other	4.6	5.8	4.8	5.5
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue	40.8	42.1	41.8	42.2
Gross profit	59.2	57.9	58.2	57.8
Operating expense:				
Product development	16.6	19.0	17.2	19.7
Sales and marketing	26.1	19.6	24.0	19.2
General and administrative	17.5	14.5	16.7	15.1
Total operating expenses	60.2	53.1	57.9	54.0



**Table of Contents**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(as a percentage of total revenue)</b>		<b>(as a percentage of total revenue)</b>	
Operating (loss) income	(1.0)	4.8	0.3	3.8
Interest expense and other, net	(1.0)	(3.8)	(1.4)	(3.5)
Net (loss) income before taxes	(2.0)	1.0	(1.1)	(0.3)
Income tax expense (benefit)	(0.4)	0.4	(0.3)	0.1
Net (loss) income	(1.6)	0.6	(0.8)	0.2

**Three and Nine Months Ended September 30, 2011 compared to Three and Nine Months Ended September 30, 2010**

***Revenue***

	<b>Three Months Ended September 30,</b>				<b>Nine Months Ended September 30,</b>			
	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>% Change</b>	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>% Change</b>
	<b>(in thousands, except dollar per unit data)</b>							
Revenue:								
On demand	\$ 62,765	\$ 43,097	\$ 19,668	45.6%	\$ 172,741	\$ 120,393	\$ 52,348	43.5%
On premise	1,772	2,127	(355)	(16.7)	5,045	6,419	(1,374)	(21.4)
Professional and other	3,118	2,804	314	11.2	9,052	7,403	1,649	22.3
Total revenue	67,655	\$ 48,028	\$ 19,627	40.9	186,838	\$ 134,215	\$ 52,623	39.2
On demand unit metrics:								
Ending on demand units	7,074	5,567	1,507	27.1	7,074	5,567	1,507	27.1
Average on demand units	6,727	5,387	1,340	24.9	6,370	5,059	1,311	25.9
Non-GAAP on demand revenue	\$ 63,041	\$ 43,097	\$ 19,944	46.3	\$ 173,261	\$ 120,393	\$ 52,868	43.9
Non-GAAP on demand revenue per average on demand unit	\$ 37.49	\$ 32.00	\$ 5.49	17.2	\$ 36.27	\$ 31.73	\$ 4.54	14.3

*On demand revenue.* Our on demand revenue increased \$19.7 million, or 45.6%, for the three months ended September 30, 2011 as compared to same period in 2010, primarily due to an increase in rental property units managed with our on demand solutions and an increase in the number of our on demand solutions utilized by our existing customer base, combined with revenue contributed from our Level One, Compliance Depot, SLN and MTS strategic acquisitions.

Our on demand revenue increased \$52.3 million, or 43.5%, for the nine months ended September 30, 2011 as compared to same period in 2010, primarily due to an increase in rental property units managed with our on demand

solutions and an increase in the number of our on demand solutions utilized by our existing customer base, combined with revenue contributed from our Level One, Compliance Depot, SLN and MTS strategic acquisitions.

*On premise revenue.* On premise revenue decreased \$0.4 million, or 16.7%, for the three months ended September 30, 2011 as compared to the same period in 2010. We have completed the effort of migrating our legacy on premise customer base (i.e. RentRoll and HUDManager) to our on demand property management systems. We no longer actively market our legacy on premise software solutions to new customers, and only market and support our acquired on premise software solutions. We expect on premise revenue to continue to decline over time as we transition acquired on premise customers to our on demand property management systems.

On premise revenue decreased \$1.4 million, or 21.4%, for the nine months ended September 30, 2011 as compared to the same period in 2010. We have completed the effort of migrating our legacy on premise customer base (i.e. RentRoll and HUDManager) to our on demand property management systems. We no longer actively market our legacy on premise software solutions to new customers, and only market and support our acquired on premise software solutions. We expect on premise revenue to continue to decline over time as we transition acquired on premise customers to our on demand property management systems.

*Professional and other revenue.* Professional and other services revenue increased \$0.3 million, or 11.2%, for the three months ended September 30, 2011 as compared to the same period in 2010, primarily attributable to installation and implementation support services, training services, partially offset by a decrease in consulting-related revenues.

Professional and other services revenue increased \$1.6 million, or 22.3%, for the nine months ended September 30, 2011 as compared to the same period in 2010, primarily due to an increase in revenue from installation and implementation support services, training services and OneSite consulting services offset by a decrease in other consulting-related revenues.

*Total revenue.* Our total revenue increased \$19.6 million, or 40.9%, for the three months ended September 30, 2011 as compared to the same period in 2010, primarily due to an increase in rental property units managed with our on demand solutions and improved penetration of our on demand solutions into our existing customer base.

**Table of Contents**

Our total revenue increased \$52.6 million, or 39.2%, for the nine months ended September 30, 2011 as compared to the same period in 2010, primarily due to an increase in rental property units managed with our on demand solutions and improved penetration of our on demand solutions into our existing customer base.

*On demand unit metrics.* As of September 30, 2011, one or more of our on demand solutions was utilized in the management of 7.1 million rental property units, representing an increase of 1.5 million units, or 27.1% as compared to September 30, 2010. The increase in the number of rental property units managed by one or more of our on demand solutions was due to new customer sales and marketing efforts and our Level One, Compliance Depot and MTS acquisitions contributing approximately 13.9% of ending on demand units as of September 30, 2011.

For the three months ended September 30, 2011, our annualized non-GAAP on demand revenue per average on demand unit was \$37.49 representing an increase of \$5.49, or 17.2%, as compared to the three months ended September 30, 2010, primarily due to improved penetration of our on demand solutions (including our strategic acquisitions) into our customer base.

For the nine months ended September 30, 2011, our annualized non-GAAP on demand revenue per average on demand unit was \$36.27 representing an increase of \$4.54, or 14.3%, as compared to the nine months ended September 30, 2010, primarily due to improved penetration of our on demand solutions (including our strategic acquisitions) into our customer base.

**Cost of Revenue**

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011	2010	Change	Change % (in thousands)	2011	2010	Change	Change %
Cost of revenue	\$ 23,834	\$ 16,895	\$ 6,939	41.1%	\$ 66,911	\$ 47,683	\$ 19,228	40.3%
Depreciation and amortization	3,751	3,308	443	13.4	11,167	8,912	2,255	25.3
Total cost of revenue	\$ 27,585	\$ 20,203	\$ 7,382	36.5	\$ 78,078	\$ 56,595	\$ 21,483	38.0

*Cost of revenue.* Total cost of revenue increased \$7.4 million, or 36.5%, for the three months ended September 30, 2011 as compared to the same period in 2010. The increase in cost of revenue was primarily due to: a \$2.5 million increase from costs related to investments in infrastructure and other support services to support the increased sales of our solutions; a \$4.2 million increase in personnel expense of which \$4.0 million was added as a result of our Level One, Compliance Depot, SLN and MTS acquisitions; a \$0.3 million increase in non-cash amortization of acquired technology as a result of our Level One, Compliance Depot, SLN and MTS acquisitions; a \$0.1 million increase in property and equipment depreciation expense resulting from expanding our infrastructure to support revenue delivery activities; and a \$0.3 million increase in stock-based compensation related to our professional services and datacenter operations personnel. Cost of revenue as a percentage of total revenue was 40.8% for the three months ended September 30, 2011 as compared to 42.1% for the same period in 2010. The decrease in cost of revenue as a percentage of total revenue is the result of higher profitability from our core multi-family business which had year-over-year margin expansion as the business continues to scale, partially offset by costs added through acquisitions.

Total cost of revenue increased \$21.5 million, or 38.0%, for the nine months ended September 30, 2011 as compared to the same period in 2010. The increase in cost of revenue was primarily due to: a \$5.4 million increase from costs related to investments in infrastructure and other support services to support the increased sales of our solutions; a \$13.1 million increase in personnel expense of which \$10.2 million was added as a result of our Level One, Compliance Depot, SLN and MTS acquisitions; a \$1.8 million increase in non-cash amortization of acquired technology as a result of our Level One, Compliance Depot, SLN and MTS acquisitions; a \$0.5 million increase in property and equipment depreciation expense resulting from expanding our infrastructure to support revenue delivery

activities; and a \$0.7 million increase in stock-based compensation related to our professional services and datacenter operations personnel. Cost of revenue as a percentage of total revenue was 41.8% for the nine months ended September 30, 2011 as compared to 42.2% for the same period in 2010. The decrease in cost of revenue as a percentage of total revenue is the result of higher profitability from our core multi-family business which had year-over-year margin expansion as the business continues to scale, partially offset by costs added through acquisitions.

***Operating Expenses***

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011	2010	Change	% Change (in thousands)	2011	2010	Change	% Change
Product development	\$ 10,795	\$ 8,560	\$ 2,235	26.1%	\$ 30,701	\$ 24,746	\$ 5,955	24.1%
Depreciation and amortization	435	567	(132)	(23.3)	1,382	1,685	(303)	(18.0)
Total product development expense	\$ 11,230	\$ 9,127	\$ 2,103	23.0	\$ 32,083	\$ 26,431	\$ 5,652	21.4

**Table of Contents**

*Product development.* Total product development expense increased \$2.1 million, or 23.0%, for the three months ended September 30, 2011 as compared to the same period in 2010. The increase in product development expense was primarily due to: a \$1.0 million increase in personnel expense of which \$0.8 million related to product development groups added as a result of our Level One, Compliance Depot, SLN and MTS acquisitions; a \$0.1 million increase from consulting fees; a \$0.6 million increase in stock-based compensation related to product development personnel; and a \$0.4 million increase in other general product development expense.

Total product development expense increased \$5.7 million, or 21.4%, for the nine months ended September 30, 2011 as compared to the same period in 2010. The increase in product development expense was primarily due to: a \$3.3 million increase in personnel expense of which \$1.2 million related to product development groups added as a result of our Level One, Compliance Depot, SLN and MTS acquisitions; \$0.2 million increase from consulting fees; a \$1.7 million increase in stock-based compensation related to product development personnel; and a \$0.5 million increase in other general product development expense.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011	2010	Change	% Change (in thousands)	2011	2010	Change	% Change
Sales and marketing	\$ 15,017	\$ 8,357	\$ 6,660	79.7%	\$ 37,718	\$ 22,636	\$ 15,082	66.6%
Depreciation and amortization	2,671	1,071	1,600	149.4	7,274	3,157	4,117	130.4
Total sales and marketing expense	\$ 17,688	\$ 9,428	\$ 8,260	87.6	\$ 44,992	\$ 25,793	\$ 19,199	74.4

*Sales and marketing.* Total sales and marketing expense increased \$8.3 million, or 87.6%, for the three months ended September 30, 2011 as compared to the same period in 2010. The increase in sales and marketing expense was primarily due to a \$3.2 million increase in stock-based compensation primarily related to sales and marketing personnel from our Level One acquisition and additional stock-based awards granted during the period. Personnel expense increased \$1.9 million as we have increased our sales force head count to 161 as of September 30, 2011 which includes sales personnel added as a result of our 2011 acquisitions. Additional factors contributing to the increase include a \$1.6 million increase in non-cash amortization of acquired technology as a result of our Level One, Compliance Depot, SLN and MTS Depot acquisitions; a \$1.1 million increase in marketing program expense; and a \$0.5 million increase in travel related expenses.

Total sales and marketing expense increased \$19.2 million, or 74.4%, for the nine months ended September 30, 2011 as compared to the same period in 2010. The increase in sales and marketing expense was primarily due to a \$8.3 million increase in stock-based compensation primarily related to sales and marketing personnel from our Level One acquisition and additional stock-based awards granted during the period. Personnel expense increased \$4.7 million as we have increased our sales force head count to 161 as of September 30, 2011 which includes sales personnel added as a result of our 2011 acquisitions. Additional factors contributing to the increase include a \$4.3 million increase in non-cash amortization of acquired technology as a result of our Level One, Compliance Depot, SLN and MTS acquisitions; a \$1.3 million increase from marketing program expense; a \$1.1 million increase in travel related expenses; offset by a \$0.5 million decrease in other general sales and marketing expense.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011	2010	Change	% Change (in thousands)	2011	2010	Change	% Change
	\$ 11,255	\$ 6,603	\$ 4,652	70.5%	\$ 29,555	\$ 19,128	\$ 10,427	54.5%

General and administrative								
Depreciation and amortization	585	366	219	59.8	1,635	1,102	533	48.4
Total general and administrative expense	\$ 11,840	\$ 6,969	\$ 4,871	69.9	\$ 31,190	\$ 20,230	\$ 10,960	54.2

*General and administrative.* Total general and administrative expense increased \$4.9 million, or 69.9%, for the three months ended September 30, 2011 as compared to the same period in 2010. The increase in general and administrative expense was primarily due to: a \$1.6 million increase in personnel expense related to accounting, management information systems, internal audit, business development, legal, and human resources staff to support the growth in our business as well as provide the necessary organizational structure to support public company requirements; a \$0.2 million increase in depreciation expense; a \$0.8 million increase in professional fees; a \$0.5 million increase in facilities expense; a \$0.9 million increase in stock-based compensation related to general and administrative personnel; a \$0.6 million increase in legal expenses related to the Yardi litigation; and a \$0.3 million increase in other general and administrative expense.

Total general and administrative expense increased \$11.0 million, or 54.2%, for the nine months ended September 30, 2011 as compared to the same period in 2010. The increase in general and administrative expense was primarily due to: a \$3.6 million increase in personnel expense related to accounting, management information systems, internal audit, business development, legal, and human resources staff to support the growth in our business as well as provide the necessary organizational structure to support public company requirements; a \$0.5 million increase in depreciation expense; a \$1.2 million increase in professional fees; a \$1.3 million increase in facilities expenses; a \$0.6 million increase in travel related expenses; a \$0.4 million increase in sales and property taxes; a \$1.9 million increase in stock-based compensation related to general and administrative personnel; a \$1.0 million increase in legal expenses related to the Yardi litigation; and a \$0.5 million increase in other general and administrative expense.

## **Table of Contents**

### ***Interest Expense and Other, Net***

Interest expense and other, net, decreased \$1.1 million, or 62.5%, for the three months ended September 30, 2011 as compared to the same period in 2010 primarily due to a decrease associated with the early extinguishment of our preferred stockholder notes payable in connection with our initial public offering combined with the effect of lower interest rates under our amended credit agreement. See *Long-term Debt Obligations* for further discussion regarding our amended credit agreement.

Interest expense and other, net, decreased \$2.2 million, or 45.6%, for the nine months ended September 30, 2011 as compared to the same period in 2010 primarily due to a decrease associated with the early extinguishment of our preferred stockholder notes payable in connection with our initial public offering combined with the effect of lower interest rates under our amended credit agreement. See *Long-term Debt Obligations* for further discussion regarding our amended credit agreement. This decrease was offset by an increase in other losses of \$0.4 million related to the sale of a non-operating asset held for sale.

### ***Provision for Taxes***

We compute our provision for income taxes on a quarterly basis by applying the estimated annual effective tax rate to income from recurring operations and other taxable items. Our income tax benefit of \$0.3 million and \$0.6 million in the three and nine months ended September 30, 2011, respectively, consists primarily of the U.S. federal benefit of net losses before taxes, foreign taxes and various state taxes that are considered income taxes for financial reporting purposes but are assessed on adjusted gross revenue rather than adjusted net income.

### ***Reconciliation of Non-GAAP Financial Measures***

*Adjusted EBITDA.* We define Adjusted EBITDA as net income plus depreciation and asset impairment, amortization of intangible assets, interest expense, net, income tax expense, stock-based compensation expense, acquisition-related expense and purchase accounting adjustment. In 2011, Adjusted EBITDA excludes litigation related expenses pertaining to the Yardi litigation as discussed in Part II, Item 1 *Legal Proceedings*. Beginning in June, 2011, Adjusted EBITDA includes acquisition-related deferred revenue adjustments. We believe that the use of Adjusted EBITDA is useful to investors and other users of our financial statements in evaluating our operating performance because it provides them with an additional tool to compare business performance across companies and across periods. We believe that:

Adjusted EBITDA provides investors and other users of our financial information consistency and comparability with our past financial performance, facilitates period-to-period comparisons of operations and facilitates comparisons with our peer companies, many of which use similar non-GAAP financial measures to supplement their GAAP results; and

it is useful to exclude certain non-cash charges, such as depreciation and asset impairment, amortization of intangible assets and stock-based compensation and non-core operational charges, such as acquisition-related expense, from Adjusted EBITDA because the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations and these expenses can vary significantly between periods as a result of new acquisitions, full amortization of previously acquired tangible and intangible assets or the timing of new stock-based awards, as the case may be.

*Total non-GAAP revenue.* Total non-GAAP revenue consists of total revenue, adjusted to reverse the effect of the write down of deferred revenue associated with purchase accounting for strategic acquisitions. This effect is added back to total revenue because we believe its inclusion provides a more accurate depiction of total revenue arising from strategic acquisitions.

*Non-GAAP on demand revenue.* Non-GAAP on demand revenue consists of on demand revenue, adjusted to reverse the effect of the write down of deferred revenue associated with purchase accounting for strategic acquisitions. This effect is added back to on demand revenue because we believe its inclusion provides a more accurate depiction of total on demand revenue arising from strategic acquisitions.

We use these non-GAAP financial measures in conjunction with traditional GAAP operating performance measures as part of our overall assessment of our performance, for planning purposes, including the preparation of our annual operating budget, to evaluate the effectiveness of our business strategies and to communicate with our board of

directors concerning our financial performance.

We do not place undue reliance on these non-GAAP financial measures as our only measure of operating performance. These non-GAAP financial measures should not be considered as a substitute for other measures of liquidity or financial performance reported in accordance with GAAP. There are limitations to using non-GAAP financial measures, including that other companies may calculate these measures differently than we do, that they do not reflect our capital expenditures or future requirements for capital expenditures and that they do not reflect changes in, or cash requirements for, our working capital. We compensate for the inherent limitations associated with using these measures through disclosure of these limitations, presentation of our financial statements in accordance with GAAP and reconciliation of these measures to the most directly comparable GAAP measure.



**Table of Contents**

The following provides a reconciliation of net (loss) income to Adjusted EBITDA:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(in thousands)</b>			
Net (loss) income	\$ (1,106)	\$ 292	\$ (1,472)	\$ 253
Acquisition-related deferred revenue adjustment	276		520	
Depreciation, asset impairment and loss on sale of asset	2,696	2,606	8,570	7,657
Amortization of intangible assets	4,749	2,760	13,286	7,256
Interest expense, net	684	1,823	2,199	4,759
Income tax expense (benefit)	( 266)	187	(615)	164
Litigation related expense	605		961	
Stock-based compensation expense	6,408	1,359	16,230	3,745
Acquisition-related expense	969	60	1,199	453
Adjusted EBITDA	\$ 15,015	\$ 9,087	\$ 40,878	\$ 24,287

The following provides a reconciliation of revenue to non-GAAP revenue:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(in thousands)</b>			
Revenue:				
On demand	\$ 62,765	\$ 43,097	\$ 172,741	\$ 120,393
Add: Acquisition-related deferred revenue adjustment	276		520	
Non-GAAP on demand revenue	\$ 63,041	\$ 43,097	\$ 173,261	\$ 120,393
On premise	1,772	2,127	5,045	6,419
Professional and other	3,118	2,804	9,052	7,403
Total non-GAAP revenue	\$ 67,931	\$ 48,028	\$ 187,358	\$ 134,215

**Liquidity and Capital Resources**

On August 11, 2010, our registration statement on Form S-1 (File No. 333-166397) relating to our initial public offering was declared effective by the SEC. We sold 6,000,000 shares of common stock in our initial public offering, resulting in proceeds, net of transaction expenses, of \$57.5 million. On December 3, 2010, our registration statement on Form S-1 (File No 333-170667) relating to a public stock offering was declared effective by the SEC. We sold an additional 4,000,000 shares of common stock in the offering resulting in net proceeds, net of transaction expenses, of \$98.4 million.

Our primary sources of liquidity as of September 30, 2011 consisted of \$47.5 million of cash and cash equivalents, \$37.0 million available under our revolving line of credit and \$3.1 million of current assets less current liabilities (excluding \$47.5 of cash and cash equivalents and \$51.2 million of deferred revenue).

Our principal uses of liquidity have been to fund our operations, working capital requirements, capital expenditures and acquisitions and to service our debt obligations. We expect that working capital requirements, capital expenditures and acquisitions will continue to be our principal needs for liquidity over the near term. In addition, we have made

several acquisitions in which a portion of the cash purchase price is payable at various times through 2014.

We believe that our existing cash and cash equivalents, working capital (excluding deferred revenue and cash and cash equivalents) and our cash flow from operations, will be sufficient to fund our operations and planned capital expenditures and service our debt obligations for at least the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the timing and size of acquisitions, the expansion of our sales and marketing activities, the timing and extent of spending to support product development efforts, the timing of introductions of new solutions and enhancements to existing solutions and the continuing market acceptance of our solutions. We may enter into acquisitions of, complementary businesses, applications or technologies, in the future, which could require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us, or at all. As of December 31, 2010, we had federal and state net operating loss carry-forwards of \$81.0 million and \$1.7 million, respectively, which are exclusive of net operating loss carry-forwards related to SLN and MTS. These carryforwards may be available to offset potential payments of future federal and state income tax liabilities and which, if unused, expire at various dates through 2030 for both federal and state income tax purposes.

**Table of Contents**

The following table sets forth cash flow data for the periods indicated therein:

	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Net cash provided by operating activities	\$ 29,699	\$ 14,741
Net cash used in investing activities	(98,599)	(24,658)
Net cash (used in) provided by financing activities	(1,583)	44,903

***Net Cash Provided by Operating Activities***

In the nine months ended September 30, 2011, we generated \$29.7 million of net cash from operating activities, which consisted of a net loss of \$1.5 million and changes in working capital of \$(5.6) million, offset by net non-cash income of \$37.7 million representing an increase of \$19.1 million or 102.6%, compared to the same period in 2010. The primary driver in our improvement in cash generated from operating activities was the improvement in income before net non-cash charges of \$17.4 million compared to the same period in 2010. Net non-cash charges to income primarily consisted of depreciation, amortization and stock-based compensation expense. The use of operating cash flow resulting from the changes in working capital was primarily due to an increase in accounts receivable, other assets and payments of accrued benefits and other current liabilities, offset by general timing differences in other deferred revenue and accounts payable.

***Net Cash Used in Investing Activities***

In the nine months ended September 30, 2011, our investing activities used \$98.6 million. Investing activities consisted of \$87.8 million related to 2011 acquisitions and prior years' acquisition-related commitment payments and \$10.8 million of capital expenditures. The increase in cash used in investing activities as of September 30, 2011 compared to September 30, 2010 relates to our 2011 acquisitions and consideration paid net of cash acquired for our second quarter 2011 acquisition combined with an increase in capital spending year over year.

Capital expenditures in the nine months ended September 30, 2011 and 2010 were primarily related to investments in technology infrastructure to support our growth initiatives.

***Net Cash Used in Financing Activities***

Our financing activities provided \$1.6 million in the nine months ended September 30, 2011, representing a decrease of \$46.5 million, as compared to the same period of 2010. Cash used in financing activities as of September 30, 2011 was primarily due to aggregate principal payments of \$8.1 million for scheduled term debt maturities, capital lease payments of \$0.4 million offset by net proceeds of \$7.7 million from stock issuances under our stock based compensation plans.

Cash provided by financing activities during the nine months ended September 30, 2011 and 2010 was used as a funding source for acquisitions and for capital expenditures related to the expansion of our technology infrastructure.

***Contractual Obligations, Commitments and Contingencies******Contractual Obligations***

Our contractual obligations relate primarily to borrowings and interest payments under credit facilities, capital leases, operating leases and purchase obligations. There have been no material changes in our contractual obligations outside the normal course of business from our disclosures within our Form 10-K.

***Long-Term Debt Obligations***

At December 31, 2010, under the terms of our amended credit agreement, the term loan and revolving line of credit bear interest at a stated rate of 3.5% plus LIBOR, or a stated rate of 0.75% plus Wells Fargo's prime rate (or, if greater, the federal funds rate plus 0.5% or three month LIBOR plus 1.0%). Interest on the term loans and the revolver is payable monthly, or for LIBOR loans, at the end of the applicable 1-, 2-, or 3-month interest period. Principal payments on the term loan will be paid in quarterly installments equal to 3.75% of the principal amount of term loans, with the balance of all term loans and the revolver due on June 30, 2014. Debt issuance costs incurred in connection with the Credit Agreement are deferred and amortized over the remaining term of the arrangement.



## **Table of Contents**

In February 2011, we entered into an amendment to the credit agreement. Under terms of the February 2011 amendment, our revolving line of credit was increased from \$10.0 million to \$37.0 million. In addition, the interest rates on the term loan and revolving line of credit vary dependent on defined leverage ratios and range from a stated rate of 2.75% – 3.25% plus LIBOR or a stated rate of 0.0% – 0.5% plus Wells Fargo's prime rate (or, if greater, the federal funds rate plus 0.5% or three month LIBOR plus 1.0%). Principal payments on the term loan and outstanding revolver balance remain consistent with our amended credit agreement.

Our credit facility contains customary covenants which limit our and certain of our subsidiaries' ability to, among other things, incur additional indebtedness or guarantee indebtedness of others; create liens on our assets; enter into mergers or consolidations; dispose of assets; prepay indebtedness or make changes to our governing documents and certain of our agreements; pay dividends and make other distributions on our capital stock, and redeem and repurchase our capital stock; make investments, including acquisitions; enter into transactions with affiliates; and make capital expenditures. Our credit facility additionally contains customary affirmative covenants, including requirements to, among other things, take certain actions in the event we form or acquire new subsidiaries; hold annual meetings with our lenders; provide copies of material contracts and amendments to our lenders; locate our collateral only at specified locations; and use commercially reasonable efforts to ensure that certain material contracts permits the assignment of the contract to our lenders; subject in each case to customary exceptions and qualifications.

We are also required to comply with a fixed charge coverage ratio, which is a ratio of our EBITDA to our fixed charges as determined in accordance with the credit facility, of 1.25:1.00 as of December 31, 2010 and each 12-month period thereafter, and a senior leverage ratio, which is a ratio of the outstanding principal balance of our term loan plus our outstanding revolver usage to our EBITDA as determined in accordance with the credit facility, of 1.85:1.00 for each period from July 31, 2010 until October 31, 2010, then 2.35:1.00 for each period until December 31, 2010, with step-downs until July 31, 2011, when the ratio is set at 1.50:1.00 for such period and thereafter. Under terms of the February 2011 amendment, our senior leverage ratio must be at or below 2.75:1.00 for all fiscal quarters after December 31, 2010.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet financing arrangements and we do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

## **Table of Contents**

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in interest rates. We do not hold or issue financial instruments for trading purposes.

We had cash and cash equivalents of \$47.5 million and \$118.0 million at September 30, 2011 and December 31, 2010, respectively.

We hold cash and cash equivalents for working capital purposes. We do not have material exposure to market risk with respect to investments, as our investments consist primarily of highly liquid investments purchased with original maturities of three months or less. We do not use derivative financial instruments for speculative or trading purposes; however, we may adopt specific hedging strategies in the future. Any declines in interest rates, however, will reduce future interest income.

We had total outstanding debt of \$57.9 million and \$66.0 at September 30, 2011 and December 31, 2010, respectively. The interest rate on this debt is variable and adjusts periodically based on the three-month LIBOR rate. If the LIBOR rate changes by 1%, our annual interest expense would change by approximately \$0.6 million.

### **Item 4. Controls and Procedures.**

#### **Evaluation of Disclosure Controls and Procedures**

Pursuant to Rule 13a-15(b) and Rule 15d-15(b) under the Securities Exchange Act of 1934, as amended (the Exchange Act), we carried out an evaluation, with the participation of our management, and under the supervision of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in ensuring that information required to be disclosed in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management's assessment of the effectiveness of our disclosure controls and procedures is expressed at the level of reasonable assurance because management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives.

#### **Management's Report on Internal Control over Financial Reporting and Attestation Report of the Registered Accounting Firm**

The SEC, as required by Section 404 of the Sarbanes-Oxley Act, adopted rules requiring every company that files reports with the SEC to include a management report on such company's internal control over financial reporting in its annual report. In addition, our independent registered public accounting firm must attest to our internal control over financial reporting. Our Form 10-K does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of our independent registered public accounting firm due to a transition period established by SEC rules applicable to newly public companies. Management will be required to provide an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2011. We believe we will have adequate resources and expertise, both internal and external, in place to meet this requirement. However, there is no guarantee that our efforts will result in management's ability to conclude, or our independent registered public accounting firm to attest, that our internal control over financial reporting is effective as of December 31, 2011.

#### **Changes in Internal Controls**

There were no significant changes in the Company's internal control over financial reporting during the three months ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **Inherent Limitations of Internal Controls**

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of

the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in

## **Table of Contents**

decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

From time to time, we have been and may be involved in various legal proceedings arising from our ordinary course of business.

On January 24, 2011, Yardi Systems, Inc. filed a lawsuit in the U.S. District Court for the Central District of California against RealPage, Inc. and DC Consulting, Inc. Yardi filed a First Amended Complaint on August 12, 2011. The lawsuit alleges claims for relief for violation of the Computer Fraud and Abuse Act, violation of the California Comprehensive Data Access and Fraud Act, violation of the Digital Millennium Copyright Act, copyright infringement, trade secret misappropriation, unfair competition, and inducement of breach of contract. Yardi seeks injunctive relief, punitive damages, recovery of all profits attributable to Defendants' allegedly wrongful acts and infringements, statutory damages, exemplary damages, prejudgment interest, and attorneys' fees and costs. The First Amended Complaint alleges, among other things, that RealPage took Yardi employee, client and independent consultant credentials and used them to access Yardi's computer system and steal Yardi's trade secrets and copyrighted software, related support documentation, price lists and other proprietary information. In addition, the First Amended Complaint alleges that RealPage improperly obtained administrative-level access to Yardi's software and copied it onto RealPage's servers for its own competitive purposes, used these unauthorized software copies to discover the allegedly proprietary programming, functionality and feature set of Yardi's software, to compete unfairly against Yardi, to create unauthorized derivative works from Yardi's software, and to enhance RealPage's own products and services. Yardi alleges that in doing so, and in offering to indemnify our customers, RealPage induced Cloud customers to violate their confidentiality and other agreements with Yardi. On March 28, 2011, RealPage filed an answer to Yardi's Complaint, and on September 12, 2011, RealPage answered the First Amended Complaint. RealPage has also filed counterclaims against Yardi, first in connection with its March 28 answer and then in First Amended Counterclaims filed on May 18, 2011. On September 2, 2011, following the Court's order granting in part and denying in part Yardi's motion to dismiss certain of RealPage's causes of action without prejudice, RealPage filed Second Amended Counterclaims. RealPage's counterclaims allege that Yardi and its agents wrongfully obtained and used our trade secrets and engaged in anti-competitive behavior with respect to certain of our clients. RealPage's counterclaims seek relief for misappropriation of trade secrets, Sherman Act (antitrust) violations and California Cartwright Act violations, intentional interference with contract, intentional interference with prospective economic advantage, and violation of California's unfair competition statute. RealPage seeks damages, punitive damages, injunctive relief and all profits, gains and advantages that Yardi received as a result of its wrongful conduct along with attorneys' fees and costs. Yardi filed a Motion to Dismiss RealPage's Second Amended Counterclaims on September 30, 2011. RealPage has opposed the motion. Trial in this case is currently set for August 2012. Because this lawsuit is at an early stage, it is not possible to predict its outcome. We intend to defend this case and pursue our counterclaims vigorously. However, even if we were successful in defending against Yardi's claims or in prevailing on our counterclaims, the proceedings could result in significant costs and divert our management's attention.

In March 2010, the District Attorney of Ventura County, California issued an administrative subpoena to us seeking certain information related to our provision of utility billing services in the State of California. A representative of the District Attorney has informed us that the subpoena was issued in connection with a general investigation of industry practices with respect to utility billing in California. Utility billing is subject to regulation by state law and various state administrative agencies, including, in California, the California Public Utility Commission, or the CPUC, and the Division of Weights and Measures, or the DWM. We have provided the District Attorney with the information



requested in the subpoena. In late August 2010, we received limited, follow-up requests for information to which we have responded. The District Attorney's office has not initiated an administrative or other enforcement action against us, nor have they asserted any violations of the applicable regulations by us. Given the early stage of this investigation, it is difficult to predict its outcome and whether the District Attorney will pursue an administrative or other enforcement action against us in the State of California and what the result of any such action would be. However, penalties or assessments of violations of regulations promulgated by the CPUC or DWM or other regulators may be calculated on a per occurrence basis. Due to the large number of billing transactions we process for our customers in California, our potential liability in an enforcement action could be significant. If the District Attorney ultimately pursues an administrative or other enforcement action against us, we believe that we have meritorious defenses to the potential claims and would defend them vigorously. However, even if we were successful in defending against such claims, the proceedings could result in significant costs and divert management's attention.

## **Table of Contents**

On March 26, 2010, Smarter Agent, LLC, a provider of mobile real estate applications, filed a complaint against our subsidiary, Multifamily Technology Solutions, Inc., and multiple other defendants for patent infringement in the U.S. District Court for the District of Delaware. The complaint alleges, among other things, that our mobile technology infringes three patents held by Smarter Agent purporting to cover: a Global positioning-based real estate database access device and method, a Position-based information access device and method and a Position-based information access device and method of searching, and seeks injunctive relief, unspecified damages, enhanced damages, prejudgment interest, and attorneys' fees and costs. We have denied the allegations and asserted counterclaims seeking declarations that we are not infringing the patents and that the patents are invalid. In November 2010, the U.S. Patent and Trademark Office granted our petition for re-examination of the three patents-in-suit and its first office action found all claims invalid. Smarter Agent has submitted arguments to overcome the objections, but the U.S. Patent and Trademark Office has finally rejected one of the patents, with final action on the other two still pending. In March 2011, the court stayed the litigation pending the completion of the re-examination proceedings and any related appeals. Because this lawsuit is at an early stage, it is not possible to predict its outcome. We intend to defend this case and pursue our counterclaims vigorously. However, even if we were successful in defending against such claims or in prevailing on our counterclaims, the proceedings could result in significant costs and divert management's attention.

### **Item 1A. Risk Factors.**

#### **Risks Related to Our Business**

*Our quarterly operating results have fluctuated in the past and may fluctuate in the future, which could cause our stock price to decline.*

Our quarterly operating results may fluctuate as a result of a variety of factors, many of which are outside of our control. Fluctuations in our quarterly operating results may be due to a number of factors, including the risks and uncertainties discussed elsewhere in this filing. Some of the important factors that could cause our revenues and operating results to fluctuate from quarter to quarter include:

- the extent to which on demand software solutions maintain current and achieve broader market acceptance;

- our ability to timely introduce enhancements to our existing solutions and new solutions;

- our ability to increase sales to existing customers, attract new customers and retain existing customers;

- changes in our pricing policies or those of our competitors;

- the variable nature of our sales and implementation cycles;

- general economic, industry and market conditions in the rental housing industry that impact the financial condition of our current and potential customers;

- the amount and timing of our investment in research and development activities;

- technical difficulties, service interruptions, data or document losses or security breaches;

- Internet usage trends among consumers, and the methodologies internet search engines utilized to direct those consumers to websites such as in our LeaseStar product family;

- our ability to hire and retain qualified key personnel, including the rate of expansion of our sales force and IT department;

- changes in the legal, regulatory or compliance environment related to the rental housing industry, including without limitation fair credit reporting, payment processing, privacy, utility billing, insurance, the Internet,

e-commerce, licensing, HIPAA and HITECH;

the amount and timing of operating expenses and capital expenditures related to the expansion of our operations and infrastructure;

**Table of Contents**

the timing of revenue and expenses related to recent and potential acquisitions or dispositions of businesses or technologies;

our ability to integrate acquisition operations in a cost-effective and timely manner;

litigation and settlement costs, including unforeseen costs;

public company reporting requirements; and

new accounting pronouncements and changes in accounting standards or practices, particularly any affecting the recognition of subscription revenue or accounting for mergers and acquisitions.

Fluctuations in our quarterly operating results or guidance that we provide may lead analysts to change their long-term model for valuing our common stock, cause us to face short-term liquidity issues, impact our ability to retain or attract key personnel or cause other unanticipated issues, all of which could cause our stock price to decline. As a result of the potential variations in our quarterly revenue and operating results, we believe that quarter-to-quarter comparisons of our revenues and operating results may not be meaningful and the results of any one quarter should not be relied upon as an indication of future performance.

***We have a history of operating losses and may not maintain profitability in the future.***

We have not been consistently profitable on a quarterly or annual basis. Although we have net income for the year ended December 31, 2010 and 2009, we experienced net losses of \$3.2 million and \$3.1 million in 2008 and 2007, respectively. Net income for 2009 included a discrete tax benefit of approximately \$27.0 million as a result of our net deferred tax assets valuation allowance. As of September 30, 2011, our accumulated deficit was \$91.2 million. While we have experienced significant growth over recent quarters, we may not be able to sustain or increase our growth or profitability in the future. We expect to make significant future expenditures related to the development and expansion of our business. As a result of increased general and administrative expenses due to the additional operational and reporting costs associated with being a public company, we will need to generate and sustain increased revenue to achieve future profitability expectations. We may incur significant losses in the future for a number of reasons, including the other risks and uncertainties described in this filing. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays and other unknown factors that may result in losses in future periods. If these losses exceed our expectations or our growth expectations are not met in future periods, our financial performance will be affected adversely.

***If we are unable to manage the growth of our diverse and complex operations, our financial performance may suffer.***

The growth in the size, dispersed geographic locations, complexity and diversity of our business and the expansion of our product lines and customer base has placed, and our anticipated growth may continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. We increased our number of employees from 532 as of December 31, 2006 to 2,132 as of September 30, 2011. We increased our number of on demand customers from 1,469 as of December 31, 2006 to over 7,600 as of September 30, 2011. We increased the number of on demand product centers that we offer from 20 as of December 31, 2006 to 46 as of September 30, 2011. In addition, in the past, we have grown and expect to continue to grow through acquisitions. Our ability to effectively manage our anticipated future growth will depend on, among other things, the following:

successfully supporting and maintaining a broad range of solutions;

maintaining continuity in our senior management and key personnel;

attracting, retaining, training and motivating our employees, particularly technical, customer service and sales personnel;

enhancing our financial and accounting systems and controls;

enhancing our information technology infrastructure, processes and controls; and  
managing expanded operations in geographically dispersed locations.

**Table of Contents**

If we do not manage the size, complexity and diverse nature of our business effectively, we could experience product performance issues, delayed software releases and longer response times for assisting our customers with implementation of our solutions and could lack adequate resources to support our customers on an ongoing basis, any of which could adversely affect our reputation in the market and our ability to generate revenue from new or existing customers.

***The nature of our platform is complex and highly integrated, and if we fail to successfully manage releases or integrate new solutions, it could harm our revenues, operating income and reputation.***

We manage a complex platform of solutions that consists of our property management systems, integrated software-enabled value-added services and web-based advertising and lease generation services. Many of our solutions include a large number of product centers that are highly integrated and require interoperability with other RealPage products, as well as products and services of third-party service providers. Additionally, we typically deploy new releases of the software underlying our on demand software solutions on a bi-weekly, monthly or quarterly schedule depending on the solution. Due to this complexity and the condensed development cycles under which we operate, we may experience errors in our software, corruption or loss of our data or unexpected performance issues from time to time. For example, our solutions may face interoperability difficulties with software operating systems or programs being used by our customers, or new releases, upgrades, fixes or the integration of acquired technologies may have unanticipated consequences on the operation and performance of our other solutions. If we encounter integration challenges or discover errors in our solutions late in our development cycle, it may cause us to delay our launch dates. Any major integration or interoperability issues or launch delays could have a material adverse effect on our revenues, operating income and reputation.

***Our business depends substantially on customers renewing and expanding their subscriptions for our solutions and any increase in customer cancellations or decline in customer renewals or expansions would harm our future operating results.***

With the exception of some of our LeaseStar and Propertyware solutions, which are typically month-to-month, we generally license our solutions pursuant to customer agreements with a term of one year. Our customers have no obligation to renew these agreements after their term expires, or to renew these agreements at the same or higher annual contract value. In addition, under specific circumstances, our customers have the right to cancel their customer agreements before they expire, for example, in the event of an uncured breach by us, or in some circumstances, by giving 30 days' notice or paying a cancellation fee. In addition, customers often purchase a higher level of professional services in the initial term than they do in renewal terms to ensure successful activation. As a result, our ability to grow is dependent in part on customers purchasing additional solutions or professional services after the initial term of their customer agreement. Though we maintain and analyze historical data with respect to rates of customer renewals, upgrades and expansions, those rates may not accurately predict future trends in customer renewals. Our customers' renewal rates may decline or fluctuate for a number of reasons, including, but not limited to, their level of satisfaction with our solutions, our pricing, our competitors' pricing, reductions in our customers' spending levels or reductions in the number of units managed by our customers. Additionally, we believe one of our competitors, Yardi, is able to exert significant coercive power over its large customer base because of the high switching costs its customers face and that it uses this coercive power to require its customers to sign agreements that prohibit the Yardi customers from using the products and services of competing property management software providers, including RealPage. We have filed federal claims to enjoin Yardi from this anticompetitive practice. That suit is described in Item 1 herein. If our customers cancel or amend their agreements with us during their term, do not renew their agreements, renew on less favorable terms or do not purchase additional solutions or professional services in renewal periods, our revenue may grow more slowly than expected or decline and our profitability may be harmed.

Additionally, we have experienced, and expect to continue to experience, some level of customer turnover as properties are sold and the new owners and managers of properties previously owned or managed by our customers do not continue to use our solutions. We cannot predict the amount of customer turnover we will experience in the future. However, we have experienced slightly higher rates of customer turnover with our recently acquired Propertyware property management system, primarily because it serves smaller properties than our OneSite property management system, and we may experience higher levels of customer turnover to the extent Propertyware grows as a percentage

of our revenues. If we experience increased customer turnover, our financial performance and operating results could be adversely affected.

We have also experienced, and expect to continue to experience, some number of consolidations of our customers with other parties. If one of our customers consolidates with a party who is not a customer, our customer may decide not to continue to use our solutions. In addition, if one of our customers is consolidated with another customer, the acquiring customer may have negotiated lower prices for our solutions or may use fewer of our solutions than the acquired customer. In each case, the consolidated entity may attempt to negotiate lower prices for using our solutions as a result of their increased size. These consolidations may cause us to lose customers or require us to reduce prices as a result of enhanced customer leverage, which could cause our financial performance and operating results to be adversely affected.

## **Table of Contents**

***Because we generally recognize subscription revenue over the term of the applicable customer agreement, a decline in subscription renewals or new service agreements may not be reflected immediately in our operating results.***

We generally recognize revenue from customers ratably over the terms of their customer agreements which, with the exception of our month-to-month advertising, lease generation and Propertyware agreements, are typically one year. As a result, much of the revenue we report in each quarter is deferred revenue from customer agreements entered into during previous quarters. Consequently, a decline in new or renewed customer agreements in any one quarter will not be fully reflected in our revenue or our results of operations until future periods. Accordingly, this revenue recognition model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.

***We may not be able to continue to add new customers and retain and increase sales to our existing customers, which could adversely affect our operating results.***

Our revenue growth is dependent on our ability to continually attract new customers while retaining and expanding our service offerings to existing customers. Growth in the demand for our solutions may be inhibited and we may be unable to sustain growth in our customer base for a number of reasons, including, but not limited to:

- our failure to develop new or additional solutions:

- our inability to market our solutions in a cost-effective manner to new customers or in new vertical or geographic markets;

- our inability to expand our sales to existing customers;

- the inability of our LeaseStar product family to grow traffic to its websites, resulting in lower levels of lead and lease/move-in traffic to customers;

- our inability to build and promote our brand;

- perceived security, integrity, reliability, quality or compatibility problems with our solutions; and

- Yardi's interference with our existing and prospective customer relationships, including its coercive use of agreements requiring its locked-in customer base not to use our products and services.

A substantial amount of our past revenue growth was derived from purchases of upgrades and additional solutions by existing customers. Our costs associated with increasing revenue from existing customers are generally lower than costs associated with generating revenue from new customers. Therefore, a reduction in the rate of revenue increase from our existing customers, even if offset by an increase in revenue from new customers, could reduce our profitability and have a material adverse effect on our operating results.

***If we are not able to integrate past or future acquisitions successfully, our operating results and prospects could be harmed.***

We have acquired new technology and domain expertise through multiple acquisitions, including our most recent acquisitions of Compliance Depot in May 2011, SeniorLiving.net in July 2011 and Multifamily Technology Solutions, Inc. in August 2011. We expect to continue making acquisitions. The success of our future acquisition strategy will depend on our ability to identify, negotiate, complete and integrate acquisitions. Acquisitions are inherently risky, and any acquisitions we complete may not be successful. Any acquisitions we pursue would involve numerous risks, including the following:

- difficulties in integrating and managing the operations and technologies of the companies we acquire;

- diversion of our management's attention from normal daily operations of our business;

- our inability to maintain the key employees, the key business relationships and the reputations of the businesses we acquire;



the acquisitions may generate insufficient revenue to offset our increased expenses associated with acquisitions;

our responsibility for the liabilities of the businesses we acquire, including, without limitation, liabilities arising out of their failure to maintain effective data security, data integrity, disaster recovery and privacy controls prior to the acquisition;

## Table of Contents

difficulties in complying with new regulatory standards to which we were not previously subject;

delays in our ability to implement internal standards, controls, procedures and policies in the businesses we acquire; and

adverse effects of acquisition activity on the key performance indicators we use to monitor our performance as a business.

Our current acquisition strategy includes the acquisition of companies that offer property management systems that may not interoperate with our software-enabled value-added services. In order to integrate and fully realize the benefits of such acquisitions, we expect to build application interfaces that enable such customers to use a wide range of our solutions while they continue to use their legacy management systems. In addition, over time we expect to migrate the acquired company's customers to our on demand property management systems to retain them as customers and to be in a position to offer them our solutions on a cost-effective basis. These efforts may be unsuccessful or entail costs that result in losses or reduced profitability.

We may be unable to secure the equity or debt funding necessary to finance future acquisitions on terms that are acceptable to us, or at all. If we finance acquisitions by issuing equity or convertible debt securities, our existing stockholders will likely experience ownership dilution, and if we finance future acquisitions with debt funding, we will incur interest expense and may have to comply with additional financing covenants or secure that debt obligation with our assets.

***If we are unable to successfully develop or acquire and sell enhancements and new solutions, our revenue growth will be harmed and we may not be able to meet profitability expectations.***

The industry in which we operate is characterized by rapidly changing customer requirements, technological developments and evolving industry standards. Our ability to attract new customers and increase revenue from existing customers will depend in large part on our ability to successfully develop, bring to market and sell enhancements to our existing solutions and new solutions that effectively respond to the rapid changes in our industry. Any enhancements or new solutions that we develop or acquire may not be introduced to the market in a timely or cost-effective manner and may not achieve the broad market acceptance necessary to generate the revenue required to offset the operating expenses and capital expenditures related to development or acquisition. If we are unable to timely develop or acquire and sell enhancements and new solutions that keep pace with the rapid changes in our industry, our revenue will not grow as expected and we may not be able to maintain or meet profitability expectations.

***We derive a substantial portion of our revenue from a limited number of our solutions and failure to maintain demand for these solutions or diversify our revenue base through increasing demand for our other solutions could negatively affect our operating results.***

Historically, a majority of our revenue was derived from sales of our OneSite property management system and our LeasingDesk software-enabled value-added service. If we are unable to develop enhancements to these solutions to maintain demand for these solutions or to diversify our revenue base by increasing demand for our other solutions, our operating results could be negatively impacted.

***We use a small number of data centers to deliver our solutions. Any disruption of service at our facilities could interrupt or delay our customers' access to our solutions, which could harm our operating results.***

The ability of our customers to access our service is critical to our business. We currently serve a majority of our customers from a primary data center located in Carrollton, Texas. We also maintain a secondary data center in downtown Dallas, Texas, approximately 20 miles from our primary data center. Services of our most recent acquisitions are provided from data centers located in San Francisco, California, South Carolina, Texas and Winnipeg, Canada, many of which are operated by third party data vendors. We plan to maintain a data center in San Francisco for LeaseStar and certain other solutions and intend to migrate all other data services to our primary and secondary data centers in Carrollton and Dallas. Until this migration is complete, we have no assurances that the policies and procedures in place at our Carrollton and Dallas data centers will be followed at data centers operated by third party vendors. Any event resulting in extended interruption or delay in our customers' access to our services or their data could harm our operating results. There can be no certainty that the measures we have taken to eliminate single points

of failure in the primary and secondary data centers will be effective to prevent or minimize interruptions to our operations. Our facilities are vulnerable to interruption or damage from a number of sources, many of which are beyond our control, including, without limitation:

extended power loss;

telecommunications failures from multiple telecommunication or other internet service providers;

natural disaster or an act of terrorism;

## Table of Contents

software and hardware errors, or failures in our own systems or in other systems;

network environment disruptions such as computer viruses, hacking and similar problems in our own systems and in other systems;

theft and vandalism of equipment;

actions or events arising from human error; and

actions or events caused by or related to third parties.

The occurrence of an extended interruption of services at one or more of our data centers could result in lengthy interruptions in our services. Since January 1, 2007, we have experienced two extended service interruptions lasting more than eight hours caused by equipment and hardware failures. Our service level agreements require us to refund a prorated portion of the access fee if we fail to satisfy our service level commitments related to availability. Refunds for breach of this service level commitment have resulted in immaterial payments to customers in the past. An extended service outage could result in refunds to our customers and harm our customer relationships. In addition, under our some of our advertising and lease generation agreements, we are generally paid for performance and would be unable to perform services under those agreements in the event of a service interruption.

We attempt to mitigate these risks at our data centers through various business continuity efforts, including redundant infrastructure, 24 x 7 x 365 system activity monitoring, backup and recovery procedures, use of a secure off-site storage facility for backup media, separate test systems and change management and system security measures, but our precautions may not protect against all potential problems. Our secondary data center is equipped with physical space, power, storage and networking infrastructure and Internet connectivity to support the solutions we provide in the event of the interruption of services at our primary data center. Even with this secondary data center, however, our operations would be interrupted during the transition process should our primary data center experience a failure. Moreover, both our primary and secondary data centers are located in the greater metropolitan Dallas area. As a result, any regional disaster could affect both data centers and result in a material disruption of our services.

For customers who specifically pay for accelerated disaster recovery services, we replicate their data from our primary data center to our secondary data center with the necessary stand-by servers and disk storage available to provide services within two hours of a disaster. This process is currently audited by some of our customers who pay for this service on an annual basis. For customers who do not pay for such services, our current service level agreements with our customers require that we provide disaster recovery within 72 hours.

Disruptions at our data centers could cause disruptions in our services and data or document loss or corruption. This could damage our reputation, cause us to issue credits to customers, subject us to potential liability or costs related to defending against claims or cause customers to terminate or elect not to renew their agreements, any of which could negatively impact our revenues.

***We provide service level commitments to our customers, and our failure to meet the stated service levels could significantly harm our revenue and our reputation.***

Our customer agreements provide that we maintain certain service level commitments to our customers relating primarily to product functionality, network uptime, critical infrastructure availability and hardware replacement. For example, our service level agreements generally require that our solutions are available 98% of the time during coverage hours (normally 6:00 a.m. through 10:00 p.m. Central time daily) 365 days per year. If we are unable to meet the stated service level commitments, we may be contractually obligated to provide customers with refunds or credits. Additionally, if we fail to meet our service level commitments a specified number of times within a given time frame or for a specified duration, our customers may terminate their agreement with us or extend the term of their agreement at no additional fee. As a result, a failure to deliver services for a relatively short duration could cause us to issue credits or refunds to a large number of affected customers or result in the loss of customers. In addition, we cannot assure you that our customers will accept these credits, refunds, termination or extension rights in lieu of other legal

remedies that may be available to them. Our failure to meet our commitments could also result in substantial customer dissatisfaction or loss. Because of the loss of future revenues through the issuance of credits or the loss of customers or other potential liabilities, our revenue could be significantly impacted if we cannot meet our service level commitments to our customers.

## **Table of Contents**

### ***We face intense competitive pressures and our failure to compete successfully could harm our operating results.***

The market for many of our solutions is intensely competitive, fragmented and rapidly changing. Some of these markets have relatively low barriers to entry. With the introduction of new technologies and market entrants, we expect competition to intensify in the future. Increased competition generally could result in pricing pressures, reduced sales and reduced margins. Often we compete to sell our solutions against existing systems that our potential customers have already made significant expenditures to install.

Our competitors vary depending on our product and service. In the market for property management software, or multi-tenant enterprise resource planning ( ERP ), we face substantial competitive pressure from Yardi and its Voyager products. Because of Yardi's large installed customer base and the high switching costs they face, many customers are essentially locked-in to Voyager. We also face competition from AMSI Property Management (owned by Infor Global Solutions, Inc.) and MRI Software LLC. In the single-family market, our ERP systems compete primarily with AppFolio, Inc., DIY Real Estate Solutions (recently acquired by Yardi Systems, Inc.), Property Boss Solutions and Rent Manager (owned by London Computer Systems, Inc.).

In the market for vertically-integrated cloud computing for multifamily real estate owners and property managers ( the vertical cloud market ), our only substantial competition is from Yardi. Our ability to compete in the vertical cloud market is compromised by anticompetitive restrictions imposed by Yardi on its Voyager customers which prevent Voyager customers from using the vertical cloud product of their choice.

We offer a number of software-enabled value-added services that compete with a disparate and large group of competitors. In the applicant screening market, our principal competitors are ChoicePoint Inc. (a subsidiary of Reed Elsevier Group plc), CoreLogic, Inc. (formerly First Advantage Corporation, an affiliate of The First American Corporation), TransUnion Rental Screening Solutions, Inc. (a subsidiary of TransUnion LLC), Yardi Systems, Inc. (following its recent acquisition of RentGrow Inc., an applicant screening provider), On-Site.com and many other smaller regional and local screening companies. In the insurance market, our principal competitors are Assurant, Inc., Bader Company, CoreLogic, Inc. and a number of national insurance underwriters (including GEICO Corporation, The Allstate Corporation, State Farm Fire and Casualty Company, Farmers Insurance Exchange, Nationwide Mutual Insurance Company and United Services Automobile Association) that market renters insurance. There are many smaller screening and insurance providers in the risk mitigation area that we encounter less frequently, but they nevertheless present a competitive presence in the market.

In the customer relationship management, or CRM, market, we compete with providers of contact center and call tracking services, including Call Source Inc., Yardi Systems, Inc. (which recently announced its intention to build a contact center) and numerous regional and local contact centers. In addition, we compete with lead tracking solution providers, including Call Source Inc., Lead Tracking Solutions (a division of O.C. Concepts, Inc.) and Who's Calling, Inc. In addition, we compete with content syndication providers Realty DataTrust Corporation, RentSentinel.com (owned by Yield Technologies, Inc.), and rentbits.com, Inc. Finally, we compete with companies providing web portal services, including Apartments24-7.com, Inc., Ellipse Communications, Inc., Property Solutions International, Inc., Spherexx.com and Yardi Systems, Inc. Certain Internet listing services also offer websites for their customers, usually as a free value add to their listing service.

In the marketing services market, we compete with G5 Search Marketing, Inc Spherexx LLC, ReachLocal, Inc. and Yodle, Inc.

In the Internet listing service market, we compete with ForRent (a division of Dominion Enterprises), Apartment Guide (a division of Primedia Inc.), Rent.com (a division of eBay Inc.), Apartments.com (a division of Classified Ventures, LLC, Apartment Finder (a division of Network Communications, Inc.), and Move, Inc.

In the Senior Living market, we compete against A Place for Mom, Inc., SeniorsForLiving, Inc., Care.com, Inc., Caring, Inc., Care Patrol Franchise Systems, LLC, Aging with Grace, LLC and SeniorHomes.com (owned by Moseo, Corp.).

In the utility billing market, we compete at a national level with American Utility Management, Inc., Conservice, LLC, ista North America, Inc., NWP Services Corporation and Yardi Systems, Inc. (following its recent acquisition of Energy Billing Systems, Inc.). Many other smaller utility billing companies compete for smaller rental properties or in regional areas.

In the revenue management market, we compete with PROS Holdings, Inc., The Rainmaker Group, Inc. and Yardi Systems, Inc.

In the spend management market, we compete with Site Stuff, Inc. (owned by Yardi Systems, Inc.), AvidXchange, Inc., Nexus Systems, Inc., Ariba, Inc. and Oracle Corporation.

In the payment processing market, we compete with Chase Paymentech Solutions, LLC (a subsidiary of JPMorgan Chase & Co.), First Data Corporation, Fiserv, Inc., MoneyGram International, Inc., NWP Services Corporation, Property Solutions International, Inc., RentPayment.com (a subsidiary of Yapstone, Inc.), Yardi Systems, Inc. and a number of national banking institutions.

**Table of Contents**

In addition, many of our existing or potential customers have developed or may develop their own solutions that may be competitive with our solutions. We also may face competition for potential acquisition targets from our competitors who are seeking to expand their offerings.

With respect to all of our competitors, we compete based on a number of factors, including total cost of ownership, ease of implementation, product functionality and scope, performance, security, scalability and reliability of service, brand and reputation, sales and marketing capabilities and financial resources. Some of our existing competitors and new market entrants may enjoy substantial competitive advantages, such as greater name recognition, longer operating histories, a larger installed customer base and larger marketing budgets, as well as greater financial, technical and other resources. In addition, any number of our existing competitors or new market entrants could combine or consolidate to become a more formidable competitor with greater resources. As a result of such competitive advantages, our existing and future competitors may be able to:

- develop superior products or services, gain greater market acceptance and expand their offerings more efficiently or more rapidly;

- adapt to new or emerging technologies and changes in customer requirements more quickly;

- take advantage of acquisition and other opportunities more readily;

- adopt more aggressive pricing policies and devote greater resources to the promotion of their brand and marketing and sales of their products and services; and

- devote greater resources to the research and development of their products and services.

If we are not able to compete effectively, our operating results will be harmed.

We integrate our software-enabled value-added services with competitive ERP applications for some of our customers. Our application infrastructure, marketed to our customers as The RealPage Cloud, is based on an open architecture that enables third-party applications to access and interface with applications hosted in The RealPage Cloud through our RealPage Exchange platform. Likewise, through this platform our RealPage Cloud services are able to access and interface with other third-party applications, including third-party property management systems. We also provide services to assist in the implementation, training, support and hosting with respect to the integration of some of our competitors' applications with our solutions. We sometimes rely on the cooperation of our competitors to implement solutions for our customers. However, frequently our reliance on the cooperation of our competitors can result in delays in integration. There is no assurance that our competitors, even if contractually obligated to do so, will continue to cooperate with us or will not prospectively alter their obligations to do so. We also occasionally develop interfaces between our software-enabled value-added services and competitor ERP systems without their cooperation or consent. There is no assurance that our competitors will not alter their applications in ways that inhibit integration or assert that their intellectual property rights restrict our ability to integrate our solutions with their applications. On January 24, 2011, Yardi Systems, Inc. filed a lawsuit in the U.S. District Court for the Central District of California against RealPage, Inc. and DC Consulting, Inc. Yardi filed a First Amended Complaint on August 12, 2011. The lawsuit alleges claims for relief for violation of the Computer Fraud and Abuse Act, violation of the California Comprehensive Data Access and Fraud Act, violation of the Digital Millennium Copyright Act, copyright infringement, trade secret misappropriation, unfair competition, and inducement of breach of contract. Yardi seeks injunctive relief, punitive damages, recovery of all profits attributable to Defendants' allegedly wrongful acts and infringements, statutory damages, exemplary damages, prejudgment interest, and attorneys' fees and costs. The First Amended Complaint alleges, among other things, that RealPage took Yardi employee, client and independent consultant credentials and used them to access Yardi's computer system and steal Yardi's trade secrets and copyrighted software, related support documentation, price lists and other proprietary information. In addition, the First Amended Complaint alleges that RealPage improperly obtained administrative-level access to Yardi's software and copied it onto RealPage's servers for its own competitive purposes, used these unauthorized software copies to discover the allegedly proprietary programming, functionality and feature set of Yardi's software, to compete unfairly against



Yardi, to create unauthorized derivative works from Yardi's software, and to enhance RealPage's own products and services. Yardi alleges that in doing so, and in offering to indemnify our customers, RealPage induced Cloud customers to violate their confidentiality and other agreements with Yardi. On March 28, 2011, RealPage filed an answer to Yardi's Complaint, and on September 12, 2011, RealPage answered the First Amended Complaint. RealPage has also filed counterclaims against Yardi, first in connection with its March 28 answer and then in First Amended Counterclaims filed on May 18, 2011. On September 2, 2011, following the Court's order granting in part and denying in part Yardi's motion to dismiss certain of RealPage's causes of action without prejudice, RealPage filed Second Amended Counterclaims. RealPage's counterclaims

**Table of Contents**

allege that Yardi and its agents wrongfully obtained and used our trade secrets and engaged in anti-competitive behavior with respect to certain of our clients. RealPage's counterclaims seek relief for misappropriation of trade secrets, Sherman Act (antitrust) violations and California Cartwright Act violations, intentional interference with contract, intentional interference with prospective economic advantage, and violation of California's unfair competition statute. RealPage seeks damages, punitive damages, injunctive relief and all profits, gains and advantages that Yardi received as a result of its wrongful conduct along with attorneys' fees and costs. Yardi filed a Motion to Dismiss RealPage's Second Amended Counterclaims on September 30, 2011. RealPage has opposed the motion. Trial in this case is currently set for August 2012. Because this lawsuit is at an early stage, it is not possible to predict its outcome. We intend to defend this case and pursue our counterclaims vigorously. However, even if we were successful in defending against Yardi's claims or in prevailing on our counterclaims, the proceedings could result in significant costs and divert our management's attention. Prior to filing this lawsuit, Yardi Systems, Inc. contacted us and certain of our customers and expressed concerns about our hosting such competitor's applications in The RealPage Cloud and our performance of certain consulting services. We believe that we are lawfully hosting and accessing Yardi's applications in The RealPage Cloud for purposes authorized by our customers and within our customers' contractual rights. However, if Yardi or other competitors do not continue to cooperate with us, alter their applications in ways that inhibit or restrict the integration of our solutions or assert that their intellectual property rights restrict our ability to integrate our solutions with their applications and we are not able to find alternative ways to integrate our solutions with our competitors' applications, our business would be harmed. Yardi has also expressed its concern that we may misappropriate its intellectual property by hosting its applications for our mutual customers in The RealPage Cloud.

***We face competition to attract consumers to our LeaseStar product websites and mobile applications, which could impair our ability to continue to grow the number of users who use our websites and mobile applications, which would harm our business, results of operations and financial condition.***

The success of our LeaseStar product family depends in part on our ability to continue to attract additional consumers to our websites and mobile applications. Our existing and potential competitors include companies that could devote greater technical and other resources than we have available, have a more accelerated time frame for deployment and leverage their existing user bases and proprietary technologies to provide products and services that consumers might view as superior to our offerings. Any of our future or existing competitors may introduce different solutions that attract consumers or provide solutions similar to our own but with better branding or marketing resources. If we are unable to continue to grow the number of consumers who use our website and mobile applications, our business, results of operations and financial condition would be harmed.

***We may be unable to compete successfully against our existing or future competitors in attracting advertisers, which could harm our business, results of operations and financial condition.***

In our LeaseStar product family, we compete to attract advertisers with media sites, including websites dedicated to providing real estate listings and other rental housing related services to real estate professionals and consumers, and major Internet portals, general search engines and social media sites, as well as other online companies. We also compete for a share of advertisers' overall marketing budgets with traditional media such as television, magazines, newspapers and home/apartment guide publications, particularly with respect to advertising dollars spent at the local level by real estate professionals to advertise their qualifications and listings. Large companies with significant brand recognition have large numbers of direct sales personnel and substantial proprietary advertising inventory and web traffic, which may provide a competitive advantage. To compete successfully for advertisers against future and existing competitors, we must continue to invest resources in developing our advertising platform and proving the effectiveness and relevance of our advertising products and services. Pressure from competitors seeking to acquire a greater share of our advertisers' overall marketing budget could adversely affect our pricing and margins, lower our revenue, and increase our research and development and marketing expenses. If we are unable to compete successfully against our existing or future competitors, our business, financial condition or results of operations would be harmed.

***Variability in our sales and activation cycles could result in fluctuations in our quarterly results of operations and cause our stock price to decline.***

The sales and activation cycles for our solutions, from initial contact with a potential customer to contract execution and activation, vary widely by customer and solution. We do not recognize revenue until the solution is activated. While most of our activations follow a set of standard procedures, a customer's priorities may delay activation and our ability to recognize revenue, which could result in fluctuations in our quarterly operating results.

***Many of our customers are price sensitive, and if market dynamics require us to change our pricing model or reduce prices, our operating results will be harmed.***

Many of our existing and potential customers are price sensitive, and recent adverse global economic conditions have contributed to increased price sensitivity in the multi-family housing market and the other markets that we serve. As market dynamics change, or as new and existing competitors introduce more competitive pricing or pricing models, we may be unable to renew our agreements with existing customers or customers of the businesses we acquire or attract new customers at the same price or based on the same pricing model as previously used. As a result, it is possible that we may be required to change our pricing model, offer price incentives or reduce our prices, which could harm our revenue, profitability and operating results.

## **Table of Contents**

***If we do not effectively expand and train our sales force, we may be unable to add new customers or increase sales to our existing customers and our business will be harmed.***

We continue to be substantially dependent on our sales force to obtain new customers and to sell additional solutions to our existing customers. We believe that there is significant competition for sales personnel with the skills and technical knowledge that we require. Our ability to achieve significant revenue growth will depend, in large part, on our success in recruiting, training and retaining sufficient numbers of sales personnel to support our growth. New hires require significant training and, in most cases, take significant time before they achieve full productivity. Our recent hires and planned hires may not become as productive as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the markets where we do business or plan to do business. If we are unable to hire and train sufficient numbers of effective sales personnel, or the sales personnel are not successful in obtaining new customers or increasing sales to our existing customer base, our business will be harmed.

***Material defects or errors in the software we use to deliver our solutions could harm our reputation, result in significant costs to us and impair our ability to sell our solutions.***

The software applications underlying our solutions are inherently complex and may contain material defects or errors, particularly when first introduced or when new versions or enhancements are released. We have from time to time found defects in the software applications underlying our solutions and new errors in our existing solutions may be detected in the future. Any errors or defects that cause performance problems or service interruptions could result in:

a reduction in new sales or subscription renewal rates;

unexpected sales credits or refunds to our customers, loss of customers and other potential liabilities;

delays in customer payments, increasing our collection reserve and collection cycle;

diversion of development resources and associated costs;

harm to our reputation and brand; and

unanticipated litigation costs.

Additionally, the costs incurred in correcting defects or errors could be substantial and could adversely affect our operating results.

***Failure to effectively manage the development of our solutions and data processing efforts outside the United States could harm our business.***

Our success depends, in part, on our ability to process high volumes of customer data and enhance existing solutions and develop new solutions rapidly and cost effectively. We currently maintain an office in Hyderabad, India where we employ development and data processing personnel. We are currently opening an office in Manila, Philippines. We believe that performing these activities in Hyderabad and Manila increases the efficiency and decreases the costs of our development and data processing efforts. However, managing and staffing international operations requires management's attention and financial resources. The level of cost-savings achieved by our international operations may not exceed the amount of investment and additional resources required to manage and operate these international operations. Additionally, if we experience problems with our workforce or facilities in Hyderabad or Manila, our business could be harmed due to delays in product release schedules or data processing services.

***We rely on third-party technologies and services that may be difficult to replace or that could cause errors, failures or disruptions of our service, any of which could harm our business.***

We rely on a number of third-party providers, including, but not limited to, computer hardware and software vendors and database providers, to deliver our solutions. We currently utilize equipment, software and services from Akami Inc., Avaya Inc., Cisco Systems, Inc., Compellent Technologies, Inc., Dell Inc., EMC Corporation, Microsoft Corporation, Oracle Corporation and salesforce.com, inc., as well as many other smaller providers. Our OneSite Accounting service relies on a SaaS-based accounting system developed and maintained by a third-party service provider.



**Table of Contents**

We host this application in our data centers and provide supplemental development resources to extend this accounting system to meet the unique requirements of the rental housing industry. Our shared cloud portfolio reporting service utilizes software licensed from IBM. We expect to utilize additional service providers as we expand our platform. Although the third-party technologies and services that we currently require are commercially available, such technologies and services may not continue to be available on commercially reasonable terms, or at all. Any loss of the right to use any of these technologies or services could result in delays in the provisioning of our solutions until alternative technology is either developed by us, or, if available, is identified, obtained and integrated, and such delays could harm our business. It also may be time consuming and costly to enter into new relationships. Additionally, any errors or defects in the third-party technologies we utilize or delays or interruptions in the third-party services we rely on could result in errors, failures or disruptions of our services, which also could harm our business.

***We depend upon third-party service providers for important payment processing functions. If these third-party service providers do not fulfill their contractual obligations or choose to discontinue their services, our business and operations could be disrupted and our operating results would be harmed.***

We rely on several large payment processing organizations to enable us to provide payment processing services to our customers, including electronic funds transfers, or EFT, check services, bank card authorization, data capture, settlement and merchant accounting services and access to various reporting tools. These organizations include Bank of America Merchant Services, Paymentech, LLC, Jack Henry & Associates, Inc., JPMorgan Chase Bank, N.A. and Wells Fargo, N.A. We also rely on third-party hardware manufacturers to manufacture the check scanning hardware our customers utilize to process transactions. Some of these organizations and service providers are competitors who also directly or indirectly sell payment processing services to customers in competition with us. With respect to these organizations and service providers, we have significantly less control over the systems and processes than if we were to maintain and operate them ourselves. In some cases, functions necessary to our business are performed on proprietary third-party systems and software to which we have no access. We also generally do not have long-term contracts with these organizations and service providers. Accordingly, the failure of these organizations and service providers to renew their contracts with us or fulfill their contractual obligations and perform satisfactorily could result in significant disruptions to our operations and adversely affect operating results. In addition, businesses that we have acquired, or may acquire in the future, typically rely on other payment processing service providers. We may encounter difficulty converting payment processing services from these service providers to our payment processing platform. If we are required to find an alternative source for performing these functions, we may have to expend significant money, time and other resources to develop or obtain an alternative, and if developing or obtaining an alternative is not accomplished in a timely manner and without significant disruption to our business, we may be unable to fulfill our responsibilities to customers or meet their expectations, with the attendant potential for liability claims, damage to our reputation, loss of ability to attract or maintain customers and reduction of our revenue or profits.

***We face a number of risks in our payment processing business that could result in a reduction in our revenues and profits.***

In connection with our payment processing services, we collect resident funds and subsequently remit these resident funds to our customers after varying holding periods. These funds are settled through our sponsor bank, and in the case of EFT, our Originating Depository Financial Institution, or ODFI. Currently, we rely on Wells Fargo, N.A. and JPMorgan Chase Bank, N.A. as our sponsor banks. In the future, we expect to enter into similar sponsor bank relationships with one or more other national banking institutions. The custodial balances that we hold for our customers at our sponsor bank are identified in our consolidated balance sheets as restricted cash and the corresponding liability for these custodial balances is identified as customer deposits. Our payment processing business and related maintenance of custodial accounts subjects us to a number of risks, including, but not limited to:

- liability for customer costs related to disputed or fraudulent merchant transactions if those costs exceed the amount of the customer reserves we have established to make such payments;

- limits on the amount of custodial balances that any single ODFI will underwrite;

reliance on bank sponsors and card payment processors and other service providers to process bank card transactions;

failure by us or our bank sponsors to adhere to applicable laws and regulatory requirements or the standards of the credit card associations;

incidences of fraud or a security breach or our failure to comply with required external audit standards; and

our inability to increase our fees at times when credit card associations increase their merchant transaction processing fees.

## **Table of Contents**

If any of these risks related to our payment processing business were to occur, our business or financial results could be negatively affected. Additionally, with respect to the processing of EFTs, we are exposed to financial risk. EFTs between a resident and our customer may be returned for insufficient funds, or NSF's, or rejected. These NSF's and rejects are charged back to the customer by us. However, if we or our sponsor banks are unable to collect such amounts from the customer's account or if the customer refuses or is unable to reimburse us for the chargeback, we bear the risk of loss for the amount of the transfer. While we have not experienced material losses resulting from chargebacks in the past, there can be no assurance that we will not experience significant losses from chargebacks in the future. Any increase in chargebacks not paid by our customers may adversely affect our financial condition and results of operations.

***If our security measures are breached and unauthorized access is obtained to our customers' or their residents' data, we may incur significant liabilities, our solutions may be perceived as not being secure and customers may curtail or stop using our solutions.***

The solutions we provide involve the collection, storage and transmission of confidential personal and proprietary information regarding our customers and our customers' current and prospective residents. Specifically, we collect, store and transmit a variety of customer data including, but not limited to, the demographic information and payment histories of our customers' prospective and current residents. Additionally, we collect and transmit sensitive financial data such as credit card and bank account information. If our data security or data integrity measures are breached as a result of third-party actions or fail due to any employees' or contractors' errors or malfeasance or otherwise, and someone obtains unauthorized access to this information or the data is otherwise compromised, we could incur significant liability to our customers and to their prospective or current residents or significant fines and sanctions by processing networks or governmental bodies, any of which could result in harm to our business and damage to our reputation.

We also rely upon our customers as users of our system to promote security of the system and the data within it, such as administration of customer-side access credentialing and control of customer-side display of data. On occasion, our customers have failed to perform these activities in such a manner as to prevent unauthorized access to data. To date, these breaches have not resulted in claims against us or in material harm to our business, but we cannot be certain that the failure of our customers in future periods to perform these activities will not result in claims against us, which could expose us to potential litigation and harm to our reputation.

There can be no certainty that the measures we have taken to protect the privacy and integrity of our customers' and their current or prospective residents' data are adequate to prevent or remedy unauthorized access to our system. Because techniques used to obtain unauthorized access to, or to sabotage, systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures. Experienced computer programmers seeking to intrude or cause harm, or hackers, may attempt to penetrate our service infrastructure from time to time. A hacker who is able to penetrate our service infrastructure could misappropriate proprietary or confidential information or cause interruptions in our services. We might be required to expend significant capital and resources to protect against, or to remedy, problems caused by hackers, and we may not have a timely remedy against a hacker who is able to penetrate our service infrastructure. In addition to purposeful breaches, the inadvertent transmission of computer viruses could expose us to security risks. If an actual or perceived breach of our security occurs or if our customers and potential customers perceive vulnerabilities, the market perception of the effectiveness of our security measures could be harmed and we could lose sales and customers.

***If we are unable to cost-effectively scale or adapt our existing architecture to accommodate increased traffic, technological advances or changing customer requirements, our operating results could be harmed.***

As we continue to increase our customer base, the number of users accessing our on demand software solutions over the Internet will continue to increase. Increased traffic could result in slow access speeds and response times. Since our customer agreements typically include service availability commitments, slow speeds or our failure to accommodate increased traffic could result in breaches of our customer agreements. In addition, the market for our solutions is characterized by rapid technological advances and changes in customer requirements. In order to accommodate increased traffic and respond to technological advances and evolving customer requirements, we expect that we will be required to make future investments in our network architecture. If we do not implement future



upgrades to our network architecture cost-effectively, or if we experience prolonged delays or unforeseen difficulties in connection with upgrading our network architecture, our service quality may suffer and our operating results could be harmed.

***Because certain solutions we provide depend on access to customer data, decreased access to this data or the failure to comply with applicable privacy laws and regulations or address privacy concerns applicable to such data could harm our business.***

Certain of our solutions depend on our continued access to our customers' data regarding their prospective and current residents, including data compiled by other third-party service providers who collect and store data on behalf of our customers. Federal and state governments and agencies have adopted, or are considering adopting, laws and regulations regarding the collection, use and disclosure of such data. Any decrease in the availability of such data from our customers, or other third parties that collect and store such data on behalf of our customers, and the costs of compliance with, and other burdens imposed by, applicable legislative and regulatory initiatives may limit our ability to collect, aggregate or use this data. Any limitations on our ability to collect, aggregate or use such data could reduce demand for certain of our solutions. Additionally, any inability to adequately address privacy concerns, even if unfounded, or comply with applicable privacy laws, regulations and policies, could result in liability to us or damage to our reputation and could inhibit sales and market acceptance of our solutions and harm our business.

## **Table of Contents**

***The market for on demand software solutions in the rental housing industry is new and continues to develop, and if it does not develop further or develops more slowly than we expect, our business will be harmed.***

The market for on demand SaaS software solutions in the rental housing industry delivered via the Internet through a web browser is rapidly growing but still relatively immature compared to the market for traditional on premise software installed on a customer's local personal computer or server. It is uncertain whether the on demand delivery model will achieve and sustain high levels of demand and market acceptance, making our business and future prospects difficult to evaluate and predict. While our existing customer base has widely accepted this new model, our future success will depend, to a large extent, on the willingness of our potential customers to choose on demand software solutions for business processes that they view as critical. Many of our potential customers have invested substantial effort and financial resources to integrate traditional enterprise software into their businesses and may be reluctant or unwilling to switch to on demand software solutions. Some businesses may be reluctant or unwilling to use on demand software solutions because they have concerns regarding the risks associated with security capabilities, reliability and availability, among other things, of the on demand delivery model. Additionally, we believe that one of our competitors, Yardi, is able to exert significant coercive power over its large customer base because of the high switching costs its customers face and that it uses this coercive power to require its customers to sign agreements that prohibit the Yardi customers from using the products and services of competing property management software providers, including RealPage. We have filed suit to enjoin Yardi from this anticompetitive practice. That suit is described in Item 1 herein. Finally, if potential customers do not consider on demand software solutions to be beneficial, then the market for these solutions may not further develop, or it may develop more slowly than we expect, either of which would adversely affect our operating results.

***If use of the Internet and mobile technology, particularly with respect to online rental housing products and services, does not continue to increase as rapidly as we anticipate, our business could be harmed.***

Our future success is substantially dependent on the continued use of the Internet and mobile technology as effective media of business and communication by our customers and consumers. Internet and mobile technology use may not continue to develop at historical rates, and consumers may not continue to use the Internet or mobile technology as media for information exchange. Further, these media may not be accepted as viable long-term outlets for rental housing information for a number of reasons, including actual or perceived lack of security of information and possible disruptions of service or connectivity. If consumers begin to access rental housing information through other media and we fail to innovate, our business may be negatively impacted.

***Economic trends that affect the rental housing market may have a negative effect on our business.***

Our customers include a range of organizations whose success is intrinsically linked to the rental housing market. Economic trends that negatively affect the rental housing market may adversely affect our business. The recent downturn in the global economy has caused volatility in the real estate markets, generally, including the rental housing market, and increases in the rates of mortgage defaults and bankruptcy. Continued instability or downturns affecting the rental housing market may have a material adverse effect on our business, prospects, financial condition and results of operations by:

- reducing the number of occupied sites and units on which we earn revenue;

- preventing our customers from expanding their businesses and managing new properties;

- causing our customers to reduce spending on our solutions;

- subjecting us to increased pricing pressure in order to add new customers and retain existing customers;

- causing our customers to switch to lower-priced solutions provided by our competitors or internally developed solutions;

- delaying or preventing our collection of outstanding accounts receivable; and

causing payment processing losses related to an increase in customer insolvency.

## **Table of Contents**

***If customers and other advertisers reduce or end their advertising spending on our LeaseStar products and we are unable to attract new advertisers, our business would be harmed.***

Some components of our LeaseStar product family depend on advertising generated through sales to real estate agents and brokerages, property owners and other advertisers relevant to rental housing. Our ability to attract and retain advertisers, and ultimately to generate advertising revenue, depends on a number of factors, including:

- increasing the number of consumers of our LeaseStar products and services;
- competing effectively for advertising dollars with other online media companies;
- continue to develop our advertising products and services;
- keeping pace with changes in technology and with our competitors; and
- offering an attractive return on investment to our advertiser customers for their advertising spending with us.

***Reductions in lead generation could have a negative effect on our operating results.***

We could face reductions in leads generated for our clients if third party originators of such leads were to elect to suspend sending leads to us. Reductions in leads generated could reduce the value of our lead generation services, make it difficult for us to add new lead generation services customers, retain existing lead generation services customers and maintain or increase sales levels to our existing lead generation services customers and could adversely affect our operating results.

***We may require additional capital to support business growth, and this capital might not be available.***

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges or opportunities, including the need to develop new solutions or enhance our existing solutions, enhance our operating infrastructure or acquire businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Debt financing secured by us in the future could involve additional restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges or opportunities could be significantly limited.

***Our debt obligations contain restrictions that impact our business and expose us to risks that could adversely affect our liquidity and financial condition.***

On September 3, 2009, we entered into a credit facility with Wells Fargo Capital Finance, LLC (formerly Wells Fargo Foothill, LLC) and Comerica Bank. As amended on February 23, 2011, the credit facility provides for borrowings of up to \$103.0 million, subject to a borrowing formula, including a revolving facility of up to \$37.0 million, with a sublimit of \$10.0 million for the issuance of letters of credit on our behalf, and a term loan facility of up to \$66.0 million. In November 2010, we borrowed \$30.0 million on our delayed draw term loans to facilitate our acquisition of Level One. At September 30, 2011, we had approximately \$57.9 million of outstanding indebtedness under the term loan facility. Our interest expense in three and nine months ended September 30, 2011 and 2010 for the credit facility was approximately \$0.5 million, \$1.8 million, \$0.5 million and \$2.1 million, respectively.

Advances under the credit facility may be voluntarily prepaid, and must be prepaid with the proceeds of certain dispositions, extraordinary receipts, indebtedness and equity, with excess cash flow and in full upon a change in control. Reductions of the revolver, voluntary prepayments and mandatory prepayments from the proceeds of indebtedness and equity are each subject to a prepayment premium of 1.0% prior to June 22, 2011, 0.5% on or after June 22, 2011 and prior to June 22, 2012 and 0% thereafter. Such prepayments will be applied first to reduce the term loan, and then to reduce availability under the revolver.

All of our obligations under the loan facility are secured by substantially all of our property. All of our existing and future domestic subsidiaries are required to guaranty our obligations under the credit facility, other than certain immaterial subsidiaries and our payment processing subsidiary, RealPage Payment Processing Services, Inc. Our foreign subsidiaries may, under certain circumstances, be required to guaranty our obligations under the credit facility.

Such guarantees by existing and future subsidiaries are and will be secured by substantially all of the property of such subsidiaries.

Our credit facility contains customary covenants, which limit our and certain of our subsidiaries' ability to, among other things:

incur additional indebtedness or guarantee indebtedness of others;

create liens on our assets;

enter into mergers or consolidations;

dispose of assets;

## **Table of Contents**

prepay indebtedness or make changes to our governing documents and certain of our agreements;

pay dividends and make other distributions on our capital stock, and redeem and repurchase our capital stock;

make investments, including acquisitions;

enter into transactions with affiliates; and

make capital expenditures.

Our credit facility also contains customary affirmative covenants, including, among other things, requirements to: take certain actions in the event we form or acquire new subsidiaries; hold annual meetings with our lenders; provide copies of material contracts and amendments to our lenders; locate our collateral only at specified locations; and use commercially reasonable efforts to ensure that certain material contracts permit the assignment of the contract to our lenders; subject in each case to customary exceptions and qualifications. We are also required to comply with a fixed charge coverage ratio, which is a ratio of our EBITDA to our fixed charges as determined in accordance with the credit facility, of 1.25:1.00 for each 12-month period ending at the end of a fiscal quarter thereafter, and a senior leverage ratio, which is a ratio of the outstanding principal balance of our term loan plus our outstanding revolver usage to our EBITDA as determined in accordance with the credit facility, of 1.85:1.00 for each period from July 31, 2010 until October 31, 2010, then 2.35:1.00 for each period until December 31, 2010, then 2.75:1.00 for each fiscal quarter thereafter.

The credit facility contains customary events of default, subject to customary cure periods for certain defaults, that include, among others, non-payment defaults, covenant defaults, material judgment defaults, bankruptcy and insolvency defaults, cross-defaults to certain other material indebtedness, inaccuracy of representations and warranties and a failure to meet certain liquidity thresholds both before and after we make cash payments for earnouts and holdbacks in connection with acquisition transactions.

If we experience a decline in cash flow due to any of the factors described in this **Risk Factors** section or otherwise, we could have difficulty paying interest and principal amounts due on our indebtedness and meeting the financial covenants set forth in our credit facility. If we are unable to generate sufficient cash flow or otherwise obtain the funds necessary to make required payments under our credit facility, or if we fail to comply with the requirements of our indebtedness, we could default under our credit facility. In addition, to date we have obtained waivers under our credit facility, but such waivers were not related to a decline in our cash flow. As a result of our ongoing communications with the lenders under our credit facility, our lenders were aware of the transactions and circumstances leading up to these waivers and we expected to receive their approval with regard to such transactions and circumstances, whether in the form of a consent, waiver, amendment or otherwise. The waivers under the credit facility were in connection with procedural requirements under our credit agreement related to: two acquisition transactions we entered into in September 2009; an update to the credit agreement schedules to include certain arrangements we have in place, and had in place at the time of closing of the credit facility, with our subsidiary that serves as a special purpose vehicle for processing payments, including a guaranty made by us for the benefit of our subsidiary in favor of Wells Fargo Bank; the payment of cash dividends of approximately \$16,000 more than the amount agreed to by the lenders; and with respect to our fixed charge coverage ratio as a result of payments approved by our board of directors and discussed with our lenders for a cash dividend paid in December 2009 and for payments on promissory notes held by holders of our preferred stock in connection with a prior declared dividend. While we view each of these as one-time events, and while we were able to successfully negotiate waivers for such defaults and amendments to our credit facility to ensure such events would be in compliance with the terms of the credit facility consistent with our ongoing discussions with our lenders about these events, we may in the future fail to comply with the terms of our credit facility and be unable to negotiate a waiver of any such defaults with our lenders. Any default that is not cured or waived could result in the acceleration of the obligations under the credit facility, an increase in the applicable interest rate under the credit facility and a requirement that our subsidiaries that have guaranteed the credit facility pay the obligations in full, and

would permit our lender to exercise remedies with respect to all of the collateral that is securing the credit facility, including substantially all of our and our subsidiary guarantors' assets. Any such default could have a material adverse effect on our liquidity and financial condition.

Even if we comply with all of the applicable covenants, the restrictions on the conduct of our business could adversely affect our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions and other corporate opportunities that may be beneficial to the business. Even if the credit facility were terminated, additional debt we could incur in the future may subject us to similar or additional covenants.

We also have equipment capital lease obligations, which totaled approximately \$0.2 million as of September 30, 2011. If we are unable to generate sufficient cash flow from our operations or cash from other sources in order to meet the payment obligations under these equipment leases, we may lose the right to possess and operate the equipment used in our business, which would substantially impair our ability to provide our solutions and could have a material adverse effect on our liquidity or results of operations.

## **Table of Contents**

### ***Assertions by a third party that we infringe its intellectual property, whether successful or not, could subject us to costly and time-consuming litigation or expensive licenses.***

The software and technology industries are characterized by the existence of a large number of patents, copyrights, trademarks and trade secrets and by frequent litigation based on allegations of infringement, misappropriation, misuse and other violations of intellectual property rights. We have received in the past, and may receive in the future, communications from third parties claiming that we have infringed or otherwise misappropriated the intellectual property rights of others. Our technologies may not be able to withstand any third-party claims against their use. Since we currently have no patents, we may not use patent infringement as a defensive strategy in such litigation. Additionally, although we have licensed from other parties proprietary technology covered by patents, we cannot be certain that any such patents will not be challenged, invalidated or circumvented. If such patents are invalidated or circumvented, this may allow existing and potential competitors to develop products and services that are competitive with, or superior to, our solutions.

Many of our customer agreements require us to indemnify our customers for certain third-party claims, such as intellectual property infringement claims, which could increase our costs as a result of defending such claims and may require that we pay damages if there were an adverse ruling or settlement related to any such claims. These types of claims could harm our relationships with our customers, may deter future customers from purchasing our solutions or could expose us to litigation for these claims. Even if we are not a party to any litigation between a customer and a third party, an adverse outcome in any such litigation could make it more difficult for us to defend our intellectual property in any subsequent litigation in which we are a named party.

One of our competitors, Yardi Systems, Inc., contacted us and certain of our customers and expressed its concern that we may misappropriate its intellectual property by hosting its applications for our mutual customers in The RealPage Cloud. On January 24, 2011, Yardi Systems, Inc. filed a lawsuit in the U.S. District Court for the Central District of California against RealPage, Inc. and DC Consulting, Inc. Yardi filed a First Amended Complaint on August 12, 2011. The lawsuit alleges claims for relief for violation of the Computer Fraud and Abuse Act, violation of the California Comprehensive Data Access and Fraud Act, violation of the Digital Millennium Copyright Act, copyright infringement, trade secret misappropriation, unfair competition, and inducement of breach of contract. Yardi seeks injunctive relief, punitive damages, recovery of all profits attributable to Defendants' allegedly wrongful acts and infringements, statutory damages, exemplary damages, prejudgment interest, and attorneys' fees and costs. The First Amended Complaint alleges, among other things, that RealPage took Yardi employee, client and independent consultant credentials and used them to access Yardi's computer system and steal Yardi's trade secrets and copyrighted software, related support documentation, price lists and other proprietary information. In addition, the First Amended Complaint alleges that RealPage improperly obtained administrative-level access to Yardi's software and copied it onto RealPage's servers for its own competitive purposes, used these unauthorized software copies to discover the allegedly proprietary programming, functionality and feature set of Yardi's software, to compete unfairly against Yardi, to create unauthorized derivative works from Yardi's software, and to enhance RealPage's own products and services. Yardi alleges that in doing so, and in offering to indemnify our customers, RealPage induced Cloud customers to violate their confidentiality and other agreements with Yardi. On March 28, 2011, RealPage filed an answer to Yardi's Complaint, and on September 12, 2011 RealPage answered the First Amended Complaint. RealPage has also filed counterclaims against Yardi, first in connection with its March 28 answer and then in First Amended Counterclaims filed on May 18, 2011. On September 2, 2011, following the Court's order granting in part and denying in part Yardi's motion to dismiss certain of RealPage's causes of action without prejudice, RealPage filed Second Amended Counterclaims. RealPage's counterclaims allege that Yardi and its agents wrongfully obtained and used our trade secrets and engaged in anti-competitive behavior with respect to certain of our clients. RealPage's counterclaims seek relief for misappropriation of trade secrets, Sherman Act (antitrust) violations and California Cartwright Act violations, intentional interference with contract, intentional interference with prospective economic advantage, and violation of California's unfair competition statute. RealPage seeks damages, punitive damages, injunctive relief and all profits, gains and advantages that Yardi received as a result of its wrongful conduct along with attorneys' fees and costs. Yardi filed a Motion to Dismiss RealPage's Second Amended Counterclaims on September 30, 2011. RealPage has opposed the motion. Trial in this case is currently set for August 2012. Because this lawsuit is at an early stage, it



is not possible to predict its outcome. We intend to defend this case and pursue our counterclaims vigorously. However, even if we were successful in defending against Yardi's claims or in prevailing on our counterclaims, the proceedings could result in significant costs and divert our management's attention.

On March 26, 2010, Smarter Agent, LLC, a provider of mobile real estate applications, filed a complaint against our subsidiary, Multifamily Technology Solutions, Inc., and multiple other defendants for patent infringement in the U.S. District Court for the District of Delaware. The complaint alleges, among other things, that our mobile technology infringes three patents held by Smarter Agent purporting to cover: a Global positioning-based real estate database access device and method, a Position-based information access device and method and a Position-based information access device and method of searching, and seeks injunctive relief, unspecified damages, enhanced damages, prejudgment interest, and attorneys' fees and costs. We have denied the allegations and asserted counterclaims seeking declarations that we are not infringing the patents and that the patents are invalid. In November 2010, the U.S. Patent and Trademark Office granted our petition for re-examination of the three patents-in-suit and its first office action found all claims invalid. Smarter Agent has submitted arguments to overcome the objections, but the U.S. Patent and Trademark Office has finally rejected one of the patents, with final action on the other two still pending. In March 2011, the court stayed the litigation pending the completion of the re-examination proceedings and any related appeals. Because this lawsuit is at an early stage, it is not possible to predict its outcome. We intend to defend this case and pursue our counterclaims vigorously. However, even if we were successful in defending against such claims or in prevailing on our counterclaims, the proceedings could result in significant costs and divert management's attention.

## **Table of Contents**

The Yardi Systems litigation, Smarter Agent, LLC litigation or other similar litigation could force us to stop selling, incorporating or using our solutions that include the challenged intellectual property or redesign those solutions that use the technology. In addition, we may have to pay damages if we are found to be in violation of a third party's rights. We may have to procure a license for the technology, which may not be available on reasonable terms, if at all, may significantly increase our operating expenses or may require us to restrict our business activities in one or more respects. As a result, we may also be required to develop alternative non-infringing technology, which could require significant effort and expense. There is no assurance that we would be able to develop alternative solutions or, if alternative solutions were developed, that they would perform as required or be accepted in the relevant markets. In some instances, if we are unable to offer non-infringing technology, or obtain a license for such technology, we may be required to refund some or the entire license fee paid for the infringing technology by our customers.

Our exposure to risks associated with the use of intellectual property may be increased as a result of acquisitions, as we have a lower level of visibility into the development process with respect to acquired technology or the care taken to safeguard against infringement risks. Third parties may make infringement and similar or related claims after we have acquired technology that had not been asserted prior to our acquisition.

***Any failure to protect and successfully enforce our intellectual property rights could compromise our proprietary technology and impair our brands.***

Our success depends significantly on our ability to protect our proprietary rights to the technologies we use in our solutions. If we are unable to protect our proprietary rights adequately, our competitors could use the intellectual property we have developed to enhance their own products and services, which could harm our business. We rely on a combination of copyright, service mark, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection. We currently have no issued patents or pending patent applications and may be unable to obtain patent protection in the future. In addition, if any patents are issued in the future, they may not provide us with any competitive advantages, may not be issued in a manner that gives us the protection that we seek and may be successfully challenged by third parties. Unauthorized parties may attempt to copy or otherwise obtain and use the technologies underlying our solutions. Monitoring unauthorized use of our technologies is difficult, and we do not know whether the steps we have taken will prevent unauthorized use of our technology. If we are unable to protect our proprietary rights, we may find ourselves at a competitive disadvantage to others who have not incurred the substantial expense, time and effort required to create similar innovative products.

We cannot assure you that any future service mark or trademark registrations will be issued for pending or future applications or that any registered service marks or trademarks will be enforceable or provide adequate protection of our proprietary rights. If we are unable to secure new marks, maintain already existing marks and enforce the rights to use such marks against unauthorized third-party use, our ability to brand, identify and promote our solutions in the marketplace could be impaired, which could harm our business.

We customarily enter into agreements with our employees, contractors and certain parties with whom we do business to limit access to and disclosure of our proprietary information. The steps we have taken, however, may not prevent unauthorized use or the reverse engineering of our technology. Moreover, we may be required to release the source code of our software to third parties under certain circumstances. For example, some of our customer agreements provide that if we cease to maintain or support a certain solution without replacing it with a successor solution, then we may be required to release the source code of the software underlying such solution. In addition, others may independently develop technologies that are competitive to ours or infringe our intellectual property. Enforcement of our intellectual property rights also depends on our legal actions being successful against these infringers, but these actions may not be successful, even when our rights have been infringed. Furthermore, the legal standards relating to the validity, enforceability and scope of protection of intellectual property rights in Internet-related industries are uncertain and still evolving.

Additionally, if we sell our solutions internationally in the future, effective patent, trademark, service mark, copyright and trade secret protection may not be available or as robust in every country in which our solutions are available. As a result, we may not be able to effectively prevent competitors outside the United States from infringing or otherwise misappropriating our intellectual property rights, which could reduce our competitive advantage and ability to

compete or otherwise harm our business.

***We may be unable to halt the operations of websites that aggregate or misappropriate data from our LeaseStar websites.***

From time to time, third parties have misappropriated data from our LeaseStar websites through website scraping, robots or other means and aggregated this data on their websites with data from other companies. In addition, copycat websites have misappropriated data on our network and attempted to imitate our brand or the functionality of our website. When we have become aware of such websites, we have employed technological or legal measures in an attempt to halt their operations. However, we may be unable to detect all such websites in a timely manner and, even if we could, technological and legal measures may be insufficient to halt their operations. In some cases, particularly in the case of websites operating outside of the United States, our available remedies may not be adequate to protect us against the impact of the operation of such websites. Regardless of whether we can successfully enforce our rights against the operators of these websites, any measures that we may take could require us to expend significant financial or other resources, which could harm our business, results of operations or financial condition. In addition, to the extent that such activity creates confusion among consumers or advertisers, our brand and business could be harmed.

## **Table of Contents**

### ***Current and future litigation against us could be costly and time consuming to defend.***

We are from time to time subject to legal proceedings and claims that arise in the ordinary course of business, including claims brought by our customers in connection with commercial disputes, claims brought by our customers current or prospective residents, including potential class action lawsuits based on asserted statutory or regulatory violations, and employment claims made by our current or former employees. Litigation, regardless of its outcome, may result in substantial costs and may divert management's attention and our resources, which may harm our business, overall financial condition and operating results. In addition, legal claims that have not yet been asserted against us may be asserted in the future. Insurance may not cover such claims, may not be sufficient for one or more such claims and may not continue to be available on terms acceptable to us, or at all. A claim brought against us that is uninsured or underinsured could result in unanticipated costs, thereby harming our operating results.

On January 24, 2011, Yardi Systems, Inc. filed a lawsuit in the U.S. District Court for the Central District of California against RealPage, Inc. and DC Consulting, Inc. Yardi filed a First Amended Complaint on August 12, 2011. The lawsuit alleges claims for relief for violation of the Computer Fraud and Abuse Act, violation of the California Comprehensive Data Access and Fraud Act, violation of the Digital Millennium Copyright Act, copyright infringement, trade secret misappropriation, unfair competition, and inducement of breach of contract. Yardi seeks injunctive relief, punitive damages, recovery of all profits attributable to Defendants' alleged wrongful acts and infringements, statutory damages, exemplary damages, prejudgment interest, and attorneys' fees and costs. The First Amended Complaint alleges, among other things, that RealPage took Yardi employee, client and independent consultant credentials, and used them to access Yardi's computer system and steal Yardi's trade secrets and copyrighted software, related support documentation, price lists and other proprietary information. In addition, the First Amended Complaint alleges that RealPage improperly obtained administrative-level access to Yardi's software and copied it onto RealPage's servers for its own competitive purposes, used these unauthorized software copies to discover the allegedly proprietary programming, functionality and feature set of Yardi's software, to compete unfairly against Yardi, to create unauthorized derivative works from Yardi's software, and to enhance RealPage's own products and services. Yardi alleges that in doing so, and in offering to indemnify our customers, RealPage induced Cloud customers to violate their confidentiality and other agreements with Yardi. On March 28, 2011, RealPage filed an answer to Yardi's Complaint, and on September 12, 2011 RealPage answered the First Amended Complaint. RealPage has also filed counterclaims against Yardi, first in connection with its March 28 answer and then in First Amended Counterclaims filed on May 18, 2011. On September 2, 2011, following the Court's order granting in part and denying in part Yardi's motion to dismiss certain of RealPage's causes of action without prejudice, RealPage filed Second Amended Counterclaims. RealPage's counterclaims allege that Yardi and its agents wrongfully obtained and used our trade secrets and engaged in anti-competitive behavior with respect to certain of our clients. RealPage's counterclaims seek relief for misappropriation of trade secrets, Sherman Act (antitrust) violations and California Cartwright Act violations, intentional interference with contract, intentional interference with prospective economic advantage, and violation of California's unfair competition statute. RealPage seeks damages, punitive damages, injunctive relief and all profits, gains and advantages that Yardi received as a result of its wrongful conduct along with attorneys' fees and costs. Yardi filed a Motion to Dismiss RealPage's Second Amended Counterclaims on September 30, 2011. RealPage has opposed the motion. Trial in this case is currently set for August 2012. Because this lawsuit is at an early stage, it is not possible to predict its outcome. We intend to defend this case and pursue our counterclaims vigorously. However, even if we were successful in defending against Yardi's claims or in prevailing on our counterclaims, the proceedings could result in significant costs and divert our management's attention.

In March 2010, the District Attorney of Ventura County, California issued an administrative subpoena to us seeking certain information related to our provision of utility billing services in the State of California. A representative of the District Attorney has informed us that the subpoena was issued in connection with a general investigation of industry practices with respect to utility billing in California. Utility billing is subject to regulation by state law and various state administrative agencies, including, in California, the California Public Utility Commission, or the CPUC, and the Division of Weights and Measures, or the DWM. We have provided the District Attorney with the information requested in the subpoena. In late August 2010, we received limited, follow-up requests for information to which we have responded. The District Attorney's office has not initiated an administrative or other enforcement action against

us, nor have they asserted any violations of the applicable regulations by us. Given the early stage of this investigation, it is difficult to predict its outcome and whether the District Attorney will pursue an administrative or other enforcement action against us in the State of California and what the result of any such action would be. However, penalties or assessments of violations of regulations promulgated by the CPUC or DWM or other regulators may be calculated on a per occurrence basis. Due to the large number of billing transactions we process for our customers in California, our potential liability in an enforcement action could be significant. If the District Attorney ultimately pursues an administrative or other enforcement action against us, we believe that we have meritorious defenses to the potential claims and would defend them vigorously. However, even if we were successful in defending against such claims, the proceedings could result in significant costs and divert management's attention.

On March 26, 2010, Smarter Agent, LLC, a provider of mobile real estate applications, filed a complaint against our subsidiary, Multifamily Technology Solutions, Inc., and multiple other defendants for patent infringement in the U.S. District Court for the District of Delaware. The complaint alleges, among other things, that our mobile technology infringes three patents held by Smarter Agent purporting to cover: a Global positioning-based real estate database access device and method, a Position-based

**Table of Contents**

information access device and method and a Position-based information access device and method of searching, and seeks injunctive relief, unspecified damages, enhanced damages, prejudgment interest, and attorneys' fees and costs. We have denied the allegations and asserted counterclaims seeking declarations that we are not infringing the patents and that the patents are invalid. In November 2010, the U.S. Patent and Trademark Office granted our petition for re-examination of the three patents-in-suit and its first office action found all claims invalid. Smarter Agent has submitted arguments to overcome the objections, but the U.S. Patent and Trademark Office has finally rejected one of the patents, with final action on the other two still pending. In March 2011, the court stayed the litigation pending the completion of the re-examination proceedings and any related appeals. Because this lawsuit is at an early stage, it is not possible to predict its outcome. We intend to defend this case and pursue our counterclaims vigorously. However, even if we were successful in defending against such claims or in prevailing on our counterclaims, the proceedings could result in significant costs and divert management's attention.

***We could be sued for contract, warranty or product liability claims, and such lawsuits may disrupt our business, divert management's attention and our financial resources or have an adverse effect on our financial results.***

We provide warranties to customers of certain of our solutions and services, relating primarily to product functionality, network uptime, critical infrastructure availability and hardware replacement. General errors, defects, inaccuracies or other performance problems in the software applications underlying our solutions or inaccuracies in or loss of the data we provide to our customers could result in financial or other damages to our customers. Additionally, errors associated with any delivery of our services, including utility billing, could result in financial or other damages to our customers. There can be no assurance that any limitations of liability set forth in our contracts would be enforceable or would otherwise protect us from liability for damages. We maintain general liability insurance coverage, including coverage for errors and omissions, in amounts and under terms that we believe are appropriate. There can be no assurance that this coverage will continue to be available on terms acceptable to us, or at all, or in sufficient amounts to cover one or more large product liability claims, or that the insurer will not deny coverage for any future claim. The successful assertion of one or more large product liability claims against us that exceeds available insurance coverage, could have a material adverse effect on our business, prospects, financial condition and results of operations.

***If we fail to develop our brands cost-effectively, our financial condition and operating results could be harmed.***

We market our solutions under discrete brand names. We believe that developing and maintaining awareness of our brands is critical to achieving widespread acceptance of our existing and future solutions and is an important element in attracting new customers and retaining our existing customers. Additionally, we believe that developing these brands in a cost-effective manner is critical in meeting our expected margins. In the past, our efforts to build our brands have involved significant expenses and we intend to continue to make expenditures on brand promotion. Brand promotion activities may not yield increased revenue, and even if they do, any increased revenue may not offset the expenses we incurred in building our brands. If we fail to cost-effectively build and maintain our brands, we may fail to attract new customers or retain our existing customers, and our financial condition and results of operations could be harmed.

***If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, our ability to operate our business and investors' views of us.***

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. Our 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 in accordance with GAAP. We are in the process of documenting, reviewing and improving our internal controls and procedures for compliance with Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, which requires annual management assessment of the effectiveness of our internal control over financial reporting and a report by our independent auditors. Both we and our independent auditors will be testing our internal controls in connection with the audit of our financial statements for the year ending December 31, 2011 and, as part of that testing, may identify areas for further attention and improvement. If we fail to maintain proper and effective internal controls, our ability to

produce accurate and timely financial statements could be impaired, which could harm our operating results, harm our ability to operate our business and reduce the trading price of our stock.

***Changes in, or errors in our interpretations and applications of, financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and affect our reported results of operations.***

A change in accounting standards or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices or errors in our interpretations and applications of financial accounting standards or practices may adversely affect our reported financial results or the way in which we conduct our business.

## **Table of Contents**

***We have incurred, and will incur, increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which could harm our operating results.***

As a public company, we have incurred, and will incur, significant legal, accounting, investor relations and other expenses that we did not incur as a private company, including costs associated with public company reporting requirements. We also have incurred and will incur costs associated with current corporate governance requirements, including requirements under Section 404 and other provisions of the Sarbanes-Oxley Act, as well as rules implemented by the Securities Exchange Commission and The NASDAQ Stock Market LLC. We expect these rules and regulations to increase our legal and financial compliance costs substantially and to make some activities more time-consuming and costly. We also expect that, as a public company, it will be more expensive for us to obtain director and officer liability insurance and that it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as our executive officers.

***Government regulation of the rental housing industry, including background screening services and utility billing, the Internet and e-commerce is evolving, and changes in regulations or our failure to comply with regulations could harm our operating results.***

The rental housing industry is subject to extensive and complex federal, state and local regulations. Our services and solutions must work within the extensive and evolving regulatory requirements applicable to our customers and third-party service providers, including, but not limited to, those under the Fair Credit Reporting Act, the Fair Housing Act, the Deceptive Trade Practices Act, the DPPA, the Gramm-Leach-Bliley Act, the Fair and Accurate Credit Transactions Act, the Privacy Rules, Safeguards Rule and Consumer Report Information Disposal Rule promulgated by the Federal Trade Commission, or FTC, the regulations of the United States Department of Housing and Urban Development, or HUD, HIPAA/HITECH and complex and divergent state and local laws and regulations related to data privacy and security, credit and consumer reporting, deceptive trade practices, discrimination in housing, utility billing and energy and gas consumption. These regulations are complex, change frequently and may become more stringent over time. Although we attempt to structure and adapt our solutions and service offerings to comply with these complex and evolving laws and regulations, we may be found to be in violation. If we are found to be in violation of any applicable laws or regulations, we could be subject to administrative and other enforcement actions as well as class action lawsuits or demands for client reimbursement. Additionally, many applicable laws and regulations provide for penalties or assessments on a per occurrence basis. Due to the nature of our business, the type of services we provide and the large number of transactions processed by our solutions, our potential liability in an enforcement action or class action lawsuit could be significant. In addition, entities such as HUD and the FTC have the authority to promulgate rules and regulations that may impact our customers and our business. We believe increased regulation is likely in the area of data privacy, and laws and regulations applying to the solicitation, collection, processing or use of personally identifiable information or consumer information could affect our customers' ability to use and share data, potentially reducing demand for our on demand software solutions.

Some of our LeaseStar products operate under the real estate brokerage laws of numerous states and require maintaining licenses in many of these states. Brokerage laws in these states could change, affecting our ability to provide some LeaseStar products in these states.

We deliver our on demand software solutions over the Internet and sell and market certain of our solutions over the Internet. As Internet commerce continues to evolve, increasing regulation by federal, state or foreign agencies becomes more likely. Taxation of products or services provided over the Internet or other charges imposed by government agencies or by private organizations for accessing the Internet may also be imposed. Any regulation imposing greater fees for Internet use or restricting information exchange over the Internet could result in a decline in the use of the Internet and the viability of on demand software solutions, which could harm our business and operating results.

***Our LeasingDesk insurance business is subject to governmental regulation which could reduce our profitability or limit our growth.***

We hold insurance agent licenses from a number of individual state departments of insurance and are subject to state governmental regulation and supervision in connection with the operation of our LeasingDesk insurance business. This state governmental supervision could reduce our profitability or limit the growth of our LeasingDesk insurance



business by increasing the costs of regulatory compliance, limiting or restricting the solutions we provide or the methods by which we provide them or subjecting us to the possibility of regulatory actions or proceedings. Our continued ability to maintain these insurance agent licenses in the jurisdictions in which we are licensed depends on our compliance with the rules and regulations promulgated from time to time by the regulatory authorities in each of these jurisdictions. Furthermore, state insurance departments conduct periodic examinations, audits and investigations of the affairs of insurance agents.

In all jurisdictions, the applicable laws and regulations are subject to amendment or interpretation by regulatory authorities. Generally, such authorities are vested with relatively broad discretion to grant, renew and revoke licenses and approvals and to implement regulations. Accordingly, we may be precluded or temporarily suspended from carrying on some or all of the activities of our LeasingDesk insurance business or otherwise be fined or penalized in a given jurisdiction. No assurances can be given that our LeasingDesk insurance business can continue to be conducted in any given jurisdiction as it has been conducted in the past.

**Table of Contents**

***We generate commission revenue from the insurance policies we sell as a registered insurance agent and if insurance premiums decline or if the insureds experience greater than expected losses, our revenues could decline and our operating results could be harmed.***

Through our wholly owned subsidiary, Multifamily Internet Ventures LLC, a managing general insurance agency, we generate commission revenue from offering liability and renter's insurance. Additionally, Multifamily Internet Ventures LLC has recently commenced the sale of additional insurance products, including auto and other personal lines insurance, to residents that buy renter's insurance from us. These policies are ultimately underwritten by various insurance carriers. Some of the property owners and managers that participate in our programs opt to require residents to purchase rental insurance policies and agree to grant to Multifamily Internet Ventures LLC exclusive marketing rights at their properties. If demand for residential rental housing declines, property owners and managers may be forced to reduce their rental rates and to stop requiring the purchase of rental insurance in order to reduce the overall cost of renting. If property owners or managers cease to require renter's insurance, elect to offer policies from competing providers or insurance premiums decline, our revenues from selling insurance policies will be adversely affected.

Additionally, one type of commission paid by insurance carriers to Multifamily Internet Ventures LLC is contingent commission, which is based on claims experienced at the properties for which the residents purchase insurance. In the event that claims by the insureds increase unexpectedly, the contingent commission we typically earn will be adversely affected. As a result, our quarterly operating results could fall below the expectations of analysts or investors, in which event our stock price may decline.

Multifamily Internet Ventures LLC is required to maintain a 50-state general agency insurance license as well as individual insurance licenses for each sales agent involved in the solicitation of insurance products. Both the agency and individual licenses require compliance with state insurance regulations, payment of licensure fees, and continuing education programs. In the event that regulatory compliance requirements are not met, Multifamily Internet Ventures LLC could be subject to license suspension or revocation, state Department of Insurance audits, and regulatory fines. As a result, our ability to engage in the business of insurance could be restricted, and our operating revenue will be adversely affected.

***Our ability to use net operating losses to offset future taxable income may be subject to certain limitations.***

In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, a corporation that undergoes an ownership change is subject to limitations on its ability to utilize its pre-change net operating losses, or NOLs, to offset future taxable income. Our ability to utilize NOLs of companies that we may acquire in the future may be subject to limitations. Future changes in our stock ownership, some of which are outside of our control, could result in an ownership change under Section 382 of the Internal Revenue Code. For these reasons, we may not be able to utilize a material portion of the NOLs reflected on our balance sheet, even if we maintain profitability.

***If we are required to collect sales and use taxes on the solutions we sell in additional taxing jurisdictions, we may be subject to liability for past sales and our future sales may decrease.***

States and some local taxing jurisdictions have differing rules and regulations governing sales and use taxes, and these rules and regulations are subject to varying interpretations that may change over time. We review these rules and regulations periodically and currently collect and remit sales taxes in taxing jurisdictions where we believe we are required to do so. However, additional state and/or local taxing jurisdictions may seek to impose sales or other tax collection obligations on us, including for past sales. A successful assertion that we should be collecting additional sales or other taxes on our solutions could result in substantial tax liabilities for past sales, discourage customers from purchasing our solutions or may otherwise harm our business and operating results. This risk is greater with regard to solutions acquired through acquisitions.

We may also become subject to tax audits or similar procedures in jurisdictions where we already collect and remit sales taxes. A successful assertion that we have not collected and remitted taxes at the appropriate levels may also result in substantial tax liabilities for past sales. Liability for past taxes may also include very substantial interest and penalty charges. Our customer contracts provide that our customers must pay all applicable sales and similar taxes. Nevertheless, customers may be reluctant to pay back taxes and may refuse responsibility for interest or penalties

associated with those taxes. If we are required to collect and pay back taxes and the associated interest and penalties, and if our customers fail or refuse to reimburse us for all or a portion of these amounts, we will incur unplanned expenses that may be substantial. Moreover, imposition of such taxes on our solutions going forward will effectively increase the cost of such solutions to our customers and may adversely affect our ability to retain existing customers or to gain new customers in the areas in which such taxes are imposed.

***Changes in our effective tax rate could harm our future operating results.***

We are subject to federal and state income taxes in the United States and various foreign jurisdictions, and our domestic and international tax liabilities are subject to the allocation of expenses in differing jurisdictions. Our tax rate is affected by changes in the mix of earnings and losses in jurisdictions with differing statutory tax rates, including jurisdictions in which we have completed or may complete acquisitions, certain non-deductible expenses arising from the requirement to expense stock options and the valuation of deferred tax assets and liabilities, including our ability to utilize our net operating losses. Increases in our effective tax rate could harm our operating results.

## **Table of Contents**

***We rely on our management team and need additional personnel to grow our business, and the loss of one or more key employees or our inability to attract and retain qualified personnel could harm our business.***

Our success and future growth depend on the skills, working relationships and continued services of our management team. The loss of our Chief Executive Officer or other senior executives could adversely affect our business. Our future success also will depend on our ability to attract, retain and motivate highly skilled software developers, marketing and sales personnel, technical support and product development personnel in the United States and internationally. All of our employees work for us on an at-will basis. Competition for these types of personnel is intense, particularly in the software industry. As a result, we may be unable to attract or retain qualified personnel. Our inability to attract and retain the necessary personnel could adversely affect our business.

***Our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovation, creativity and teamwork fostered by our culture, and our business may be harmed.***

We believe that a strong corporate culture that nurtures core values and philosophies is essential to our long-term success. We call these values and philosophies the RealPage Promise and we seek to practice the RealPage Promise in our actions every day. The RealPage Promise embodies our corporate values with respect to customer service, investor communications, employee respect and professional development and management decision-making and leadership. As our organization grows and we are required to implement more complex organizational structures, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture which could negatively impact our future success.

### **Risks Related to Ownership of our Common Stock**

***The concentration of our capital stock owned by insiders may limit your ability to influence corporate matters.***

Our executive officers, directors, and entities affiliated with them together beneficially owned approximately 53.4% of our common stock as of September 30, 2011. Further, Stephen T. Winn, our Chief Executive Officer and Chairman of the Board, and entities beneficially owned by Mr. Winn held an aggregate of approximately 38.1% of our common stock as of September 30, 2011. This significant concentration of ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. Mr. Winn and entities beneficially owned by Mr. Winn may control our management and affairs and matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership may have the effect of delaying or preventing a change of control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change of control would benefit our other stockholders.

***The trading price of our common stock price may be volatile.***

The trading price of our common stock could be subject to wide fluctuations in response to various factors, including, but not limited to, those described in this Risk Factors section, some of which are beyond our control. Factors affecting the trading price of our common stock include:

- variations in our operating results or in expectations regarding our operating results;

- variations in operating results of similar companies;

- announcements of technological innovations, new solutions or enhancements, strategic alliances or agreements by us or by our competitors;

- announcements by competitors regarding their entry into new markets, and new product, service and pricing strategies;

- Marketing, advertising or other initiatives by us or our competitors;

- the gain or loss of customers;



**Table of Contents**

threatened or actual litigation;

major changes in our board of directors or management;

recruitment or departure of key personnel;

changes in the estimates of our operating results or changes in recommendations by any research analysts that elect to follow our common stock;

market conditions in our industry and the economy as a whole;

the overall performance of the equity markets;

sales of our shares of common stock by existing stockholders;

volatility in our stock price, which may lead to higher stock-based compensation expense under applicable accounting standards; and

adoption or modification of regulations, policies, procedures or programs applicable to our business.

In addition, the stock market in general, and the market for technology and specifically Internet-related companies, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may harm the market price of our common stock regardless of our actual operating performance. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and our resources, whether or not we are successful in such litigation.

***Our stock price could decline due to the large number of outstanding shares of our common stock eligible for future sale.***

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

As of September 30, 2011, we had 71,766,288 shares of common stock outstanding. Of these shares, 69,598,468 were immediately tradable without restriction or further registration under the Securities Act, unless these shares are held by affiliates, as that term is defined in Rule 144 under the Securities Act.

As of September 30, 2011, holders of 38,010,566 shares, or approximately 53.0%, of our outstanding common stock were entitled to rights with respect to the registration of these shares under the Securities Act. If we register their shares of common stock, these stockholders could sell those shares in the public market without being subject to the volume and other restrictions of Rule 144 and Rule 701.

In addition, we have registered approximately 16,934,606 shares of common stock that have been issued or reserved for future issuance under our stock incentive plans. Of these shares, 3,991,182 shares were eligible for sale upon the exercise of vested options as of September 30, 2011.

***Our charter documents and Delaware law could prevent a takeover that stockholders consider favorable and could also reduce the market price of our stock.***

Our amended and restated certificate of incorporation and our amended and restated bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it more difficult for stockholders to elect directors and take other corporate actions. These provisions include:

a classified board of directors whose members serve staggered three-year terms;

not providing for cumulative voting in the election of directors;



**Table of Contents**

authorizing our board of directors to issue, without stockholder approval, preferred stock with rights senior to those of our common stock;

prohibiting stockholder action by written consent; and

requiring advance notification of stockholder nominations and proposals.

These and other provisions of our amended and restated certificate of incorporation and our amended and restated bylaws and under Delaware law could discourage potential takeover attempts, reduce the price that investors might be willing to pay in the future for shares of our common stock and result in the market price of our common stock being lower than it would be without these provisions.

***If securities analysts do not continue to publish research or reports about our business or if they publish negative evaluations of our stock, the price of our stock could decline.***

We expect that the trading price for our common stock may be affected by research or reports that industry or financial analysts publish about us or our business. If one or more of the analysts who cover us downgrade their evaluations of our stock, the price of our stock could decline. If one or more of these analysts cease coverage of our company, we could lose visibility in the market for our stock, which in turn could cause our stock price to decline.

***We do not anticipate paying any dividends on our common stock.***

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. If we do not pay cash dividends, you could receive a return on your investment in our common stock only if the market price of our common stock has increased when you sell your shares. In addition, the terms of our credit facilities currently restrict our ability to pay dividends.



**Table of Contents**

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

In connection with our August 24, 2011 acquisition of MTS, on September 6, 2011, we issued an aggregate total of 294,770 shares of our common stock to certain accredited investors in partial consideration of their ownership of MTS. Pursuant to the Agreement and Plan of Merger relating to the MTS acquisition, a portion of the consideration payable to such accredited investors in connection with our acquisition of MTS was divided by approximately \$23.29 to determine the number of restricted shares of our common stock that would be issued to such accredited investors. The sale and issuance of these shares of our common stock was exempt from registration under Rule 506 of Regulation D promulgated under the Securities Act.

**Item 6. Exhibits.**

The exhibits required to be furnished pursuant to Item 6 are listed in the Exhibit Index filed herewith, which Exhibit Index is incorporated herein by reference.

**Table of Contents**

**SIGNATURES**

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

Date: November 8, 2011

RealPage, Inc.

By /s/ Timothy J. Barker

Timothy J. Barker

Chief Financial Officer and Treasurer

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
2.1 <sup>(1)</sup>	Agreement and Plan of Merger among the Registrant, Multifamily Technology Solutions, Inc., RP Newco IV Inc. and Shareholder Representative Services LLC as Representative, dated August 22, 2011
3.1 <sup>(2)</sup>	Amended and Restated Certificate of Incorporation of the Registrant
3.2 <sup>(3)</sup>	Amended and Restated Bylaws of the Registrant
4.1 <sup>(4)</sup>	Form of Common Stock certificate of the Registrant
4.2 <sup>(5)</sup>	Shareholders Agreement among the Registrant and certain stockholders, dated December 1, 1998, as amended July 16, 1999 and November 3, 2000
4.3 <sup>(5)</sup>	Second Amended and Restated Registration Rights Agreement among the Registrant and certain stockholders, dated February 22, 2008
4.4 <sup>(6)</sup>	Registration Rights Agreement among the Registrant and certain stockholders, dated November 3, 2010
4.5	Registration Rights Agreement among the Registrant and certain stockholders, dated August 24, 2011
10.1	Consent and Tenth Amendment to Credit Agreement among the Registrant, Wells Fargo Capital Finance, LLC (f/k/a Wells Fargo Foothill, LLC) and Comerica Bank, dated August 24, 2011
10.2+	Employment Agreement between the Registrant and Kurt Twining, dated July 5, 2011
31.1	Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) or 15(d)-14(a), as Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a) or 15(d)-14(a), as Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002
101**	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets at September 30, 2011 and December 31, 2010, (ii) Condensed Consolidated Statements of Operations for the Three and Nine Months ended September 30, 2011 and 2010, (iii) Condensed Consolidated Statements of Stockholders Equity as of September 30, 2011, (iv) Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2011 and 2010 and (v) Notes to Condensed Consolidated Financial Statements

- (1) Incorporated by reference to the same numbered exhibit to the Registrant's Current Report on Form 8-K (SEC File No. 001-34846) filed on August 23, 2011.
- (2) Incorporated by reference to Exhibit 3.2 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-166397) filed on July 26, 2010.
- (3) Incorporated by reference to Exhibit 3.4 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-166397) filed on July 26, 2010.
- (4) Incorporated by reference to the same numbered exhibit to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-166397) filed on July 26, 2010.
- (5) Incorporated by reference to the same numbered exhibit to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-166397) filed on April 29, 2010.

**Table of Contents**

(6) Incorporated by reference to the same numbered exhibit to the Registrant's Quarterly Report on Form 10-Q (File No. 001-34846) filed on November 5, 2010.

+ Indicates management contract or compensatory plan or arrangement.

\* Furnished herewith.

\*\* In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as set forth by specific reference in such filing.