

REALPAGE INC  
Form 10-Q  
November 05, 2015

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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, 2015

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	75-2788861
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4000 International Parkway	75007-1951
Carrollton, Texas	
(Address of principal executive offices)	(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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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.

Class

October 23, 2015

Common Stock, \$0.001 par value

78,388,329

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## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements.

## REALPAGE, INC.

## Condensed Consolidated Balance Sheets

(In thousands, except share data)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$18,566	\$26,936
Restricted cash	94,086	85,543
Accounts receivable, less allowance for doubtful accounts of \$1,926 and \$2,363 at September 30, 2015 and December 31, 2014, respectively	68,460	64,845
Prepaid expenses	9,610	7,647
Deferred tax asset, net	17,635	10,996
Other current assets	2,571	1,848
Total current assets	210,928	197,815
Property, equipment and software, net	71,944	72,616
Goodwill	220,104	193,378
Identified intangible assets, net	87,287	100,085
Deferred tax asset, net	—	2,537
Other assets	5,201	5,059
Total assets	\$595,464	\$571,490
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$15,670	\$14,830
Accrued expenses and other current liabilities	33,582	22,905
Current portion of deferred revenue	77,217	73,485
Customer deposits held in restricted accounts	93,956	85,489
Total current liabilities	220,425	196,709
Deferred revenue	7,107	6,903
Deferred tax liability, net	1,439	5,196
Revolving credit facility	44,000	20,000
Other long-term liabilities	10,574	13,902
Total liabilities	283,545	242,710
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, 2015 and December 31, 2014, respectively	—	—
Common stock, \$0.001 par value: 125,000,000 shares authorized, 82,370,113 and 83,211,650 shares issued and 78,479,774 and 79,037,351 shares outstanding at September 30, 2015 and December 31, 2014, respectively	82	83
Additional paid-in capital	456,707	437,664
Treasury stock, at cost: 3,890,339 and 4,174,299 shares at September 30, 2015 and December 31, 2014, respectively	(23,496)	(33,398)
Accumulated deficit	(120,898)	(75,360)
Accumulated other comprehensive loss	(476)	(209)

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Total stockholders' equity	311,919	328,780
Total liabilities and stockholders' equity	\$595,464	\$571,490

See accompanying notes.

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REALPAGE, INC.  
Condensed Consolidated Statements of Operations  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
On demand	\$116,772	\$100,747	\$333,872	\$289,361
On premise	834	755	2,301	2,446
Professional and other	3,982	3,034	10,647	8,280
Total revenue	121,588	104,536	346,820	300,087
Cost of revenue	52,879	46,311	150,160	128,353
Gross profit	68,709	58,225	196,660	171,734
Operating expense:				
Product development	16,858	17,528	52,919	48,310
Sales and marketing	31,559	29,949	90,333	83,970
General and administrative	13,424	15,443	51,797	53,191
Impairment of identified intangible assets	20,274	—	20,801	—
Total operating expense	82,115	62,920	215,850	185,471
Operating loss	(13,406)	) (4,695)	) (19,190)	) (13,737)
Interest expense and other, net	(391)	) (345)	) (1,048)	) (771)
Loss before income taxes	(13,797)	) (5,040)	) (20,238)	) (14,508)
Income tax benefit	(5,605)	) (1,783)	) (7,120)	) (4,124)
Net loss	\$(8,192)	) \$(3,257)	) \$(13,118)	) \$(10,384)
Net loss per share				
Basic	\$(0.11)	) \$(0.04)	) \$(0.17)	) \$(0.13)
Diluted	\$(0.11)	) \$(0.04)	) \$(0.17)	) \$(0.13)
Weighted average shares used in computing net loss per share				
Basic	76,564	77,280	76,772	77,075
Diluted	76,564	77,280	76,772	77,075
See accompanying notes.				

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REALPAGE, INC.

Condensed Consolidated Statements of Comprehensive Loss

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net loss	\$(8,192	) \$(3,257	) \$(13,118	) \$(10,384
Other comprehensive loss—foreign currency translation adjustment	(31	) (9	) (267	) (18
Comprehensive loss	\$(8,223	) \$(3,266	) \$(13,385	) \$(10,402
See accompanying notes.				

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## REALPAGE, INC.

## Condensed Consolidated Statements of Stockholders' Equity

(In thousands)

(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Shares		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance as of January 1, 2015	83,212	\$83	\$437,664	\$ (209 )	\$ (75,360 )	(4,174 )	\$(33,398 )	\$ 328,780
Exercise of stock options	218	1	2,898	—	—	—	—	2,899
Issuance of restricted stock	1,447	1	—	—	—	(681 )	(5,619 )	(5,618 )
Issuance of common stock	39	—	—	—	—	(2 )	—	—
Retirement of treasury shares	(2,546 )	(3 )	(13,553 )	—	(32,420 )	2,546	45,976	—
Treasury stock purchase, at cost	—	—	—	—	—	(1,579 )	(30,455 )	(30,455 )
Stock-based compensation	—	—	30,666	—	—	—	—	30,666
Excess tax shortfall from stock options	—	—	(968 )	—	—	—	—	(968 )
Foreign currency translation	—	—	—	(267 )	—	—	—	(267 )
Net loss	—	—	—	—	(13,118 )	—	—	(13,118 )
Balance as of September 30, 2015	82,370	\$82	\$456,707	\$ (476 )	\$ (120,898 )	(3,890 )	\$(23,496 )	\$ 311,919

See accompanying notes.



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## REALPAGE, INC.

## Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September	
	30,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$(13,118	) \$(10,384
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	33,787	30,533
Deferred tax benefit	(8,827	) (6,011
Stock-based compensation	30,666	28,794
Excess tax shortfall from stock options	968	—
Impairment of identified intangible assets	20,801	—
Loss on disposal and impairment of other long-lived assets	2,968	36
Acquisition-related consideration	(3,018	) 564
Changes in assets and liabilities, net of assets acquired and liabilities assumed in business combinations:		
Accounts receivable	(2,969	) 3,043
Customer deposits	(76	) (3
Prepaid expenses and other current assets	(2,451	) (2,445
Other assets	(117	) (700
Accounts payable	(726	) 3,099
Accrued compensation, taxes and benefits	5,672	(257
Deferred revenue	3,936	3,140
Other current and long-term liabilities	1,018	645
Net cash provided by operating activities	68,514	50,054
Cash flows from investing activities:		
Purchases of property, equipment and software	(18,553	) (29,125
Proceeds from disposal of assets	305	—
Acquisition of businesses, net of cash acquired	(45,450	) (41,942
Intangible asset additions	(231	) —
Net cash used in investing activities	(63,929	) (71,067
Cash flows from financing activities:		
Proceeds from revolving credit facility	51,500	68,572
Payments on revolving credit facility	(27,500	) (30,000
Deferred financing costs	(8	) (992
Payments on capital lease obligations	(429	) (420
Payments of acquisition-related consideration	(2,109	) (4,007
Issuance of common stock	2,900	5,168
Excess tax shortfall from stock options	(968	) —
Purchase and retirement of treasury stock	(36,074	) (21,122
Net cash (used in) provided by financing activities	(12,688	) 17,199
Net decrease in cash and cash equivalents	(8,103	) (3,814
Effect of exchange rate on cash	(267	) (18
Cash and cash equivalents:		
Beginning of period	26,936	34,502

End of period	\$18,566	\$30,670
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See accompanying notes.

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REALPAGE, INC.

Condensed Consolidated Statements of Cash Flows, continued

(In thousands)

(Unaudited)

	Nine Months Ended September	
	30,	
	2015	2014
Supplemental cash flow information:		
Cash paid for interest	\$673	\$678
Cash paid for income taxes, net of refunds	\$609	\$358
Non-cash investing activities:		
Accrued fixed assets	\$1,566	\$1,943

See accompanying notes.

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

#### 1. The Company

RealPage, Inc., a Delaware corporation, together with 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 multifamily and vacation 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, renter and property data. By integrating and streamlining a wide range of complex processes and interactions among the rental housing ecosystem of owners, managers, prospects, renters 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.

#### 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 Securities and Exchange Commission (“SEC”). The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. We believe that the disclosures made are appropriate, conform to those rules and regulations, and that the condensed or omitted information is not misleading.

The unaudited 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.

These financial statements should 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 March 2, 2015 (“Form 10-K”).

##### 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, 2015 and 2014 was earned in the United States. Net property, equipment and software held consisted of \$67.0 million and \$66.5 million located in the United States, and \$4.9 million and \$6.1 million in our international subsidiaries at September 30, 2015 and December 31, 2014, respectively.

##### 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, 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 estimates include the allowance for doubtful accounts; the useful lives of intangible assets and the recoverability or impairment of tangible and intangible asset values; fair value measurements; purchase accounting allocations; revenue and deferred revenue and related reserves; 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.

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If the fees are not fixed or determinable, we recognize revenues when these criteria are met, which could be as payments become due from customers, or when amounts owed are collected. Accordingly, this may materially affect the timing of our revenue recognition and results of operations.

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 the 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 the 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 ESP of the on demand software solution and VSOE of the selling price of the professional services.

Taxes collected from customers and remitted to governmental authorities are presented on a net basis.

### 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 composed 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 three 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.

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. Our contract with our underwriting partner provides for contingent commissions to be paid to us in accordance with the agreement. This agreement provides for a calculation that considers, on the policies sold by us, earned premiums less i) earned agent commissions; ii) a percent of premium retained by our underwriting partner; iii) incurred losses; and iv) profit retained by our underwriting partner during the time period. Our estimate of contingent commission revenue considers historical loss experience on the policies sold by us.

### On Premise Revenue

Revenue from our on premise software solutions consist 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.

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Professional and Other Revenue

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

Fair Value Measurements

We measure certain financial assets and liabilities at fair value pursuant to a fair value hierarchy based on inputs to valuation techniques that are used to measure fair value which are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon its own market assumptions. See additional discussion of our fair value measurements in Note 11.

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 multifamily rental housing market. Our customers, however, are dispersed across different geographic areas. We do not require collateral from customers. We maintain an allowance for doubtful accounts 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 10% or more of our revenue or accounts receivable for the three or nine months ended September 30, 2015 or 2014.

Recently Issued Accounting Standards

In April 2015 the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This ASU requires that debt issuance costs related to a recognized liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. This ASU is effective for interim and annual reporting periods beginning after December 15, 2015, and early adoption of this ASU permitted.

In August 2015, the FASB issued ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line of Credit Arrangements which excludes line of credit arrangements from the scope of ASU 2015-03. Under this ASU, debt issuance costs related to line of credit arrangements can be deferred and presented as an asset that is subsequently amortized over the term of the line of credit arrangement, regardless of whether there are any outstanding borrowings on the line of credit arrangement. ASU 2015-15 should be adopted concurrent with the adoption of ASU 2015-03. The Company does not expect that the adoption of ASU 2015-03 and ASU 2015-15 will have a material effect on its financial statements.

The FASB issued ASU 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement in April 2015. This update provides guidance to customers in determining whether a cloud computing arrangement includes a software license. The update is effective for interim and annual reporting periods beginning after December 15, 2015, early adoption is permitted. The update allows for the use of either a prospective or retrospective adoption approach. The Company has not yet determined the timing or method of adoption, and is currently evaluating the potential impact of this guidance on its financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This ASU provides guidance on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities such as limited partnerships, limited liability corporations and securitization structures. ASU 2015-02 is effective for periods beginning after December 15, 2015. Early adoption of this ASU is permitted, including in an interim period. The Company has not yet determined the timing of adoption and does not expect that the adoption of this guidance will have a material effect on its financial statements.



In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This new standard will replace all current GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 was originally effective for annual and interim reporting periods beginning after December 15, 2016, early application was prohibited. This ASU permits companies to apply the amendments either retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application.

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In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606) - Deferral of Effective Date. ASU 2015-14 permits public business entities to defer the adoption of ASU 2014-09 until interim and annual reporting periods beginning after December 15, 2017. Earlier application is permitted, but not before interim and annual and reporting periods beginning after December 15, 2016. The Company has not yet selected a transition method or date and is currently evaluating the impact of the pending adoption of this ASU on its ongoing financial reporting.

## 3. Acquisitions

## 2015 Acquisitions

## Indatus

In June 2015, we acquired certain assets from ICIM Corporation, including the Answer Automation, Call Tracker and Zip Digital products marketed under the name Indatus. The Indatus offerings are software-as-a-service products that provide automated answering services, marketing spend analysis tools and other features which enhance the ability of managers of multifamily properties to communicate with their residents. We plan to integrate the Indatus assets with our existing contact center and maintenance products, increasing the features of these existing products. This transaction was determined to constitute a business combination and was accounted for under FASB Accounting Standards Codification Topic 805, Business Combinations ("ASC 805").

We acquired the Indatus assets for a purchase price of \$49.4 million, consisting of a cash payment of \$43.8 million at closing, deferred cash payments of up to \$5.0 million payable over nineteen months after the acquisition date and contingent cash payments of up to \$2.0 million, in the aggregate, if certain revenue targets are met for the twelve month periods ended June 30, 2016 and 2017. The fair value of the deferred and contingent cash payments was \$4.7 million and \$0.9 million, respectively, as of the acquisition date. The fair value of the deferred cash payments was estimated based on the present value, as of the date of acquisition, of anticipated future payments. The deferred cash payments are subject to adjustments specified in the acquisition agreement related to the seller's indemnification obligations. The fair value of the contingent cash payments was based on management's estimate of the cash payments using a probability weighted discount model based on the achievement of the specified revenue targets and will be evaluated quarterly. Direct acquisition costs were \$0.3 million and expensed as incurred. This acquisition was financed using proceeds from our revolving credit facility.

Acquired intangibles were recorded at their estimated fair value based on the income approach using market-based estimates. The acquired developed product technologies have a useful life of three years and will be amortized on a straight-line basis. The trade name acquired will be amortized over a useful life of one year, based on our anticipated use of the asset, and will be recognized on a straight-line basis. Customer relationships acquired have a useful life of ten years, which are amortized proportionately to the expected discounted cash flows derived from the asset. Goodwill and identified intangible assets associated with the acquisition are deductible for tax purposes. Goodwill arising from the acquisition consists largely of anticipated synergies resulting from the integration of Indatus with our pre-existing products and from leveraging our existing customer base and sales staff. We included the results of operations of this acquisition in our condensed consolidated financial statements from the effective date of the acquisition.

## VRX

In June 2015, we acquired certain assets from RJ Vacations, LLC and Switch Development Corporation, including the VRX product ("VRX"). VRX is a software-as-a-service application which allows vacation rental management companies to manage the cleaning and turning of units, accounting and document management. VRX will augment our existing line of solutions offered to the vacation rental industry and we plan to integrate it with our Kigo solution. This transaction was determined to constitute a business combination and was accounted for under ASC 805.

We acquired the VRX assets for a purchase price of \$2.0 million, consisting of a cash payment of \$1.5 million at closing and a contingent cash payment of up to \$0.5 million. Payment of the contingent cash obligation is dependent upon the achievement of certain subscription or booking activity targets and is subject to adjustments specified in the acquisition agreement related to the sellers' indemnification obligations. The contingent cash obligation had a fair value of \$0.5 million, as of the acquisition date, and is due fifteen months after the date of acquisition. The fair value of the deferred cash payment was estimated using a probability weighted discount model based on the achievement of

the specified subscription and booking targets.

The purchase agreement also provides for the sellers to receive additional contingent cash payments of up to \$3.0 million. Payment of the additional contingent cash payments is dependent upon the achievement of certain revenue targets during the twelve month periods ended December 31, 2016, 2017 and 2018, and the sellers providing certain services during a specified period following the acquisition date. Due to this post-acquisition service requirement, the Company concluded that the additional contingent cash payments represent post-acquisition compensation; therefore, these amounts were excluded from the acquisition consideration. This acquisition was financed using cash flows from operations.

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Acquired intangibles were recorded at their estimated fair value based on the income approach using market-based estimates. The acquired developed product technologies have an estimated useful life of three years and will be amortized on a straight-line basis. The estimated fair value of the customer relationships acquired was immaterial and these intangible assets were expensed as of the acquisition date. Goodwill arising from the acquisition consists largely of anticipated synergies resulting from the integration of VRX with Kigo. Goodwill and identified intangible assets associated with the acquisition are deductible for tax purposes. We included the results of operations of this acquisition in our condensed consolidated financial statements from the effective date of the acquisition. Direct acquisition costs were immaterial and expensed as incurred.

**Purchase Price Allocation**

The estimated fair values of assets acquired and liabilities assumed related to the above acquisitions are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed. We believe that this information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but we are waiting for additional information necessary to finalize those fair values. Therefore, the provisional measurements of fair value reflected are subject to change and such changes could be significant. We expect to finalize the valuation and complete the purchase price allocation as soon as practicable, but no later than one year from the acquisition date.

We preliminarily allocated the purchase price of Indatus and VRX as follows:

	Indatus (in thousands)	VRX
Accounts receivable	\$646	\$—
Intangible assets:		
Developed product technologies	13,400	794
Customer relationships	9,770	11
Trade names	83	—
Goodwill	25,575	1,186
Net other liabilities	(57	) —
Total purchase price	\$49,417	\$1,991

At September 30, 2015, total deferred cash obligations and contingent cash obligations included in acquisition consideration of purchases completed in 2015 were \$5.1 million and \$1.1 million, respectively. The deferred cash obligations were carried net of a discount of \$0.3 million in the accompanying Condensed Consolidated Balance Sheets. During the three and nine months ended September 30, 2015, we recognized a net gain in the amount of \$0.3 million due to changes in the fair value of the contingent cash obligations related to acquisitions completed in 2015. No payments of deferred or contingent cash obligations related to acquisitions completed in 2015 were made during the three and nine months ended September 30, 2015 and 2014.

**2014 Acquisitions****InstaManager**

In January 2014, we acquired certain assets from Bookt LLC, including the InstaManager product (“InstaManager”). InstaManager was a software-as-a-service vacation rental booking engine used by professional managers of vacation rental properties which offered marketing websites, online pricing and availability, online booking, automated reservations, payment processing and insurance sales. The acquisition of InstaManager expanded our product offerings to include property management software for the vacation rental market. This transaction was determined to constitute a business combination and was accounted for under ASC 805.

We acquired InstaManager for a purchase price of \$9.2 million, consisting of a cash payment of \$6.0 million at closing, a deferred cash payment of up to \$1.0 million payable over two years after the acquisition date and contingent cash payments totaling up to \$7.0 million if certain revenue targets are met for the twelve month periods ended March 31, 2015 and March 31, 2016. The initial fair value of the deferred cash payment and the contingent cash payments was \$0.8 million and \$2.4 million, respectively. The fair value of the deferred cash payments was estimated based on the present value, as of the date of acquisition, of anticipated future payments. The fair value of the

contingent cash payments was estimated using a probability weighted discount model based on the achievement of the specified revenue targets and is evaluated quarterly. Direct acquisition costs were less than \$0.1 million and expensed as incurred. This acquisition was financed from cash flows from operations.

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Acquired intangibles were recorded at their estimated fair value based on the income approach using market-based estimates. The acquired developed product technologies have a useful life of three years and are amortized on a straight-line basis. Goodwill and identified intangible assets associated with this acquisition are deductible for tax purposes. Goodwill arising from the acquisition consists largely of the economies of scale expected from integrating InstaManager into our existing operating structure. We included the results of operations of this acquisition in our condensed consolidated financial statements from the effective date of the acquisition.

We assigned an indefinite useful life to the trade name acquired, as we did not anticipate ceasing use of the trade name in the marketplace. In March 2015, we completed the integration of InstaManager with another vacation rental software product and ceased actively marketing the product and use of the trade name at that time. As a result of this event, we assessed the InstaManager trade name for impairment. See further discussion of this analysis and conclusion in Note 5.

### Virtual Maintenance Manager

In March 2014, we acquired certain assets from Virtual Maintenance Manager LLC, including the Virtual Maintenance Manager product ("VMM"). VMM is a software-as-a-service application that facilitates the management of the end-to-end maintenance life cycle for single family and multifamily rental properties and provides property managers with enhanced visibility into their maintenance costs, manages resources and provides enhanced business control for property managers. We integrated VMM into our existing Propertyware products. This transaction was determined to constitute a business combination and was accounted for under ASC 805.

We acquired the VMM assets for a purchase price of \$1.2 million, consisting of a cash payment of \$1.0 million at closing, a deferred cash payment of up to \$0.2 million payable over two years after the acquisition date and contingent cash payments of up to \$2.0 million if certain revenue targets are met for the twelve months ended June 30, 2015 and June 30, 2016. The initial fair value of the deferred cash payment and the contingent cash payments was \$0.2 million and less than \$0.1 million, respectively. The fair value of the deferred cash payments was estimated based on the present value, as of the date of acquisition, of anticipated future payments. The fair value of the contingent cash payments was estimated using a probability weighted discount model based on the achievement of the specified revenue targets and is evaluated quarterly. Direct acquisition costs were less than \$0.1 million and expensed as incurred. This acquisition was financed from cash flows from operations.

Acquired intangibles were recorded at their estimated fair value based on the income approach using market-based estimates. The acquired developed product technologies have a useful life of three years and are amortized on a straight-line basis. Acquired customer relationships have a useful life of ten years, which are amortized proportionately to the expected discounted cash flows derived from the asset. Goodwill and identified intangible assets associated with this acquisition are deductible for tax purposes. Goodwill arising from the acquisition consists largely of the economies of scale expected from integrating VMM into our existing operating structure and from anticipated synergies with our existing products. We included the results of operations of this acquisition in our condensed consolidated financial statements from the effective date of the acquisition.

### Notivus

In May 2014, we acquired certain assets from Notivus Multi-Family LLC, including the Notivus product ("Notivus"). Notivus is a software-as-a-service application that provides an outsourced vendor credentialing solution to assist multifamily owners and managers in the credentialing and ongoing monitoring of their current and prospective vendors, suppliers and independent contractors. We subsequently integrated Notivus into our existing Compliance Depot products. This transaction was determined to constitute a business combination and was accounted for under ASC 805.

We acquired the Notivus assets for a purchase price of \$4.4 million, consisting of a cash payment of \$3.6 million at closing and a deferred cash payment of up to \$0.8 million payable over two years after the acquisition date. The initial fair value of the deferred cash payment was approximately \$0.8 million and was estimated based on the present value, as of the date of acquisition, of the anticipated future payments. Direct acquisition costs were less than \$0.1 million and expensed as incurred. This acquisition was financed from cash flows from operations.

Acquired intangible assets were recorded at their estimated fair value based on the income approach using market-based estimates. The acquired developed product technologies have a useful life of three years and are amortized on a straight-line basis. Goodwill and identified intangible assets associated with this acquisition are deductible for tax purposes and consist largely of the economies of scale expected from integrating Notivus into our existing operating structure and from anticipated synergies with our existing products. We included the results of operations of this acquisition in our condensed consolidated financial statements from the effective date of the acquisition.

**Kigo**

In June 2014, we acquired all of the issued and outstanding stock of Kigo, Inc. ("Kigo"). Kigo is a software-as-a-service vacation rental booking system based in the United States with operations in Spain. Kigo offers services for vacation rental

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property managers that include vacation rental calendars, scheduling, reservations, accounting, channel management, website design, payment processing and other tasks to aid the management of leads, revenue, resources and lodging calendars. We integrated our existing vacation rental products with Kigo and launched an enhanced version of the software in March 2015. This transaction was determined to constitute a business combination and was accounted for under ASC 805.

We acquired Kigo for a purchase price of \$36.2 million, consisting of a cash payment of \$30.7 million and a deferred cash payment of up to \$5.5 million, payable over two and a half years after the acquisition date. Interest is accrued on the deferred cash payments at a rate equal to the one-month London Interbank Offered Rate ("LIBOR"), plus a premium of 1.00%, and is payable on the date the underlying principal is due. This acquisition was financed from proceeds from our revolving line of credit and cash flows from operations. Direct acquisition costs were \$0.5 million and were expensed as incurred.

Acquired intangible assets were recorded at their estimated fair value based on the income approach using market-based estimates. The acquired developed product technologies have a useful life of three years and are amortized on a straight-line basis. Acquired customer relationships have a useful life of ten years, which are amortized proportionately to the expected discounted cash flows derived from the asset. The trade name acquired has an indefinite useful life as we do not plan to cease using the trade name in the marketplace. Goodwill and identified intangible assets associated with this acquisition are not deductible for tax purposes. Goodwill arising from the acquisition consists largely of the economies of scale expected from integrating Kigo into our existing operating structure and from anticipated synergies with our existing products. We included the results of operations of this acquisition in our condensed consolidated financial statements from the effective date of this acquisition.

Purchase Price Allocation

We allocated the purchase price for InstaManager, VMM, Notivus and Kigo as follows:

	InstaManager (in thousands)	VMM	Notivus	Kigo	
Intangible assets:					
Developed product technologies	\$4,490	\$671	\$1,840	\$2,570	
Customer relationships	—	200	—	1,120	
Trade names	527	—	—	602	
Goodwill	4,135	358	2,852	32,996	
Deferred revenue	(33	) —	(156	) —	
Net deferred taxes	—	—	—	(495	)
Net other assets (liabilities)	55	—	(141	) (547	)
Total purchase price	\$9,174	\$1,229	\$4,395	\$36,246	

At September 30, 2015 and December 31, 2014, aggregate deferred cash obligations related to acquisitions completed in 2014 totaled \$6.4 million and \$7.4 million, respectively, and were carried net of a discount of less than \$0.1 million in the accompanying Condensed Consolidated Balance Sheets. During the three and nine months ended September 30, 2015, we paid deferred cash obligations totaling \$0.4 million and \$1.0 million, respectively, related to these acquisitions. No payments were made during the same periods in 2014.

Aggregate contingent cash obligations related to acquisitions completed in 2014 totaled less than \$0.1 million and \$2.3 million at September 30, 2015 and December 31, 2014, respectively. During the three and nine months ended September 30, 2015 and 2014, we recognized a net gain (loss) of \$2.8 million and \$(0.6) million, and \$1.8 million and \$(0.7) million due to changes in the fair value of the contingent cash obligations for these acquisitions. During the three and nine months ended September 30, 2015, we paid contingent cash obligations totaling \$0.4 million. No payments were made during the same periods in 2014.

Acquisition Activity Prior to 2014

We completed acquisitions in the years prior to 2014 for which acquisition-related deferred and contingent consideration was included in the purchase price and recorded at fair value. The liability established for the acquisition-related contingent consideration will continue to be re-evaluated on a quarterly basis and measured at the



estimated fair value based on the probabilities, as determined by management, of achieving the respective targets. This evaluation will be performed until all of the targets have been met or terms of the respective agreements expire. At both September 30, 2015 and December 31, 2014, total deferred cash obligations related to acquisitions completed prior to 2014 totaled \$2.4 million and were carried net of a discount of less than \$0.1 million in the accompanying Condensed Consolidated Balance Sheets. During the three and nine months ended September 30, 2014, we paid deferred cash obligations

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related to acquisitions completed prior to 2014 in the amount of \$0.6 million and \$1.7 million, respectively. No payments of deferred cash obligations were made during the same periods in 2015 for these acquisitions. Aggregate contingent cash obligations related to acquisitions completed prior to 2014 totaled \$1.8 million at December 31, 2014. The carrying value of the aggregate contingent cash obligations for these acquisitions was immaterial at September 30, 2015. During the three and nine months ended September 30, 2015 and 2014, we recognized net gains of \$0.5 million and \$0.3 million, and \$1.1 million and \$0.5 million, respectively, due to changes in the fair value of these contingent cash obligations. During the three and nine months ended September 30, 2015, we paid contingent cash obligations related to acquisitions completed prior to 2014 in the amount of zero and \$0.8 million, respectively. During the same periods in 2014, payments of contingent cash obligations totaled \$0.2 million. Additionally, in April 2015, we issued 36,250 unregistered shares of our common stock as part of deferred consideration obligations relating to acquisitions that occurred prior to 2014.

**Pro Forma Results of Acquisitions**

The following table presents pro forma results of operations for the three and nine months ended September 30, 2015 and 2014, as if the aforementioned acquisitions had occurred at the beginning of each period presented. The pro forma information includes the business combination accounting effects resulting from these acquisitions, including interest expense, tax benefit and additional amortization resulting from the valuation of amortizable intangible assets. 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 occurred at the beginning of the presented period, or of future periods. Pro forma results are presented in thousands, except per share amounts.

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	Pro Forma	Pro Forma	Pro Forma	Pro Forma
Revenue:				
On demand	\$116,772	\$103,632	\$338,992	\$299,174
On premise	834	755	2,301	2,446
Professional and other	3,982	3,034	10,647	8,280
Total revenue	121,588	107,421	351,940	309,900
Net loss	\$(8,192)	\$(3,840)	\$(13,935)	\$(12,734)
Net loss per common share				
Basic	\$(0.11)	\$(0.05)	\$(0.18)	\$(0.17)
Diluted	\$(0.11)	\$(0.05)	\$(0.18)	\$(0.17)

**4. Property, Equipment and Software**

Property, equipment and software consisted of the following as of September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
	(in thousands)	
Leasehold improvements	\$21,796	\$22,943
Data processing and communications equipment	65,921	59,390
Furniture, fixtures and other equipment	17,344	16,254
Software	59,909	51,915
	164,970	150,502
Less: Accumulated depreciation and amortization	(93,026)	(77,886)
Property, equipment and software, net	\$71,944	\$72,616

Depreciation and amortization expense for property, equipment and purchased software was \$5.0 million and \$5.1 million for the three months ended, and \$15.2 million and \$13.9 million for the nine months ended September 30, 2015 and 2014, respectively. This includes amortization related to assets acquired through capital leases.

The carrying amount of capitalized software development costs was \$39.0 million and \$32.5 million and related accumulated amortization totaled \$13.0 million and \$10.7 million at September 30, 2015 and December 31, 2014, respectively. Amortization expense related to capitalized software development costs totaled \$0.9 million and \$0.4 million for the three months ended, and \$2.3 million and \$1.1 million for the nine months ended September 30, 2015 and 2014, respectively.

We review in-progress software development projects on a periodic basis to ensure completion is assured and the development work will be placed into service as a new product or significant product enhancement. During the nine months ended September 30, 2015, we identified certain projects for which software development work had ceased and it was determined the projects would be discontinued. Our analysis of the capitalized costs resulted in the conclusion that they had no value outside of the respective projects for which they were originally incurred. As a result, we recognized an impairment loss of \$0.5 million and \$1.3 million during the three and nine months ended September 30, 2015 related to these costs. The impairment charges are included in "Product development" in the accompanying Condensed Consolidated Statements of Operations. No impairments were recognized during the same periods in 2014.

During the nine months ended September 30, 2015, we modified or terminated certain operating lease agreements for office space prior to the end of the applicable lease term. We recognized an impairment charge of zero and \$1.5 million during the three and nine months ended September 30, 2015, respectively, related to leasehold improvements associated with a modified lease. The impairment charge is included in the line "General and administrative" in the accompanying Condensed Consolidated Statements of Operations. During the three and nine months ended September 30, 2015, we also disposed of fixed assets with a net carrying value of \$0.2 million and \$0.5 million, respectively. We recognized a net loss of \$0.2 million during the three and nine months ended September 30, 2015, related to these disposals. See additional discussion of these changes in Note 8.

#### 5. Goodwill and Identified Intangible Assets

The change in the carrying amount of goodwill for the nine months ended September 30, 2015 was as follows:

	Nine Months Ended September 30, 2015 (in thousands)
Balance at January 1, 2015	\$ 193,378
Goodwill acquired	26,761
Other	(35 )
Balance at September 30, 2015	\$ 220,104

Identified intangible assets consisted of the following at September 30, 2015 and December 31, 2014:

	September 30, 2015			December 31, 2014		
	Weighted Average Amortization Period (in years)	Carrying Amount (in thousands)	Accumulated Amortization Net	Carrying Amount	Accumulated Amortization Net	
Finite-lived intangible assets:						
Developed technologies	3.2	\$69,615	\$(47,376 )	\$22,239	\$55,212	\$(39,343 ) \$15,869
Customer relationships	9.1	96,523	(52,061 )	44,462	86,753	(44,264 ) 42,489
Vendor relationships	7.0	5,650	(5,650 )	—	5,650	(5,273 ) 377
Trade names	6.9	5,149	(28 )	5,121	—	—
Total finite-lived intangible assets	6.7	176,937	(105,115 )	71,822	147,615	(88,880 ) 58,735
Indefinite-lived intangible assets:						
Trade names		15,465	—	15,465	41,350	— 41,350
Total identified intangible assets		\$ 192,402	\$(105,115 )	\$ 87,287	\$ 188,965	\$(88,880 ) \$100,085

Amortization expense related to finite-lived intangible assets was \$6.1 million and \$5.4 million for the three months ended, and \$16.3 million and \$15.5 million for the nine months ended September 30, 2015 and 2014, respectively.

In March 2015, the Company completed the integration of the InstaManager and Kigo platforms into a single solution marketed under the Kigo name. Subsequent to this integration, the Company discontinued the use of the InstaManager trade name to market or identify the software. Due to this change in circumstance, the Company evaluated the InstaManager trade name for impairment and concluded an impairment in the amount of \$0.5 million existed at March 31, 2015.

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In connection with the preparation of the third quarter 2015 financial statements, the Company identified indicators, requiring the assessment of certain indefinite-lived trade names for impairment, primarily associated with the Company's 2011 acquisition of MyNewPlace. Identified indicators included declines in actual and anticipated lead-generation revenues and a change in the Company's long-term marketing strategy. As a result, the Company analyzed these intangible assets and recorded a \$20.3 million impairment charge during the third quarter of 2015, representing the amount by which the carrying value of the indefinite-lived trade names exceeded their estimated fair value. Given the change in the Company's long-term marketing strategy and anticipated use of the trade names, the remaining balance was reclassified to finite-lived intangible assets as of September 30, 2015, which will be amortized on a straight-line basis over an estimated useful life of seven years. See Note 11 for discussion of the methodology and inputs utilized by the Company to estimate the fair value of these indefinite-lived trade names.

The above impairment charges are included in "Impairment of identified intangible assets" in the accompanying Condensed Consolidated Statements of Operations.

## 6. Debt

### New Credit Facility Opened September 2014

On September 30, 2014, the Company entered into a new agreement for a secured revolving credit facility to refinance our outstanding revolving loans. The new credit facility provides an aggregate principal amount of up to \$200.0 million, with sublimits of \$10.0 million for the issuance of letters of credit and for \$20.0 million of swingline loans. The credit facility also allows us, subject to certain conditions, to request additional term loans or revolving commitments up to an aggregate principal amount of \$150.0 million, plus an amount that would not cause our consolidated net leverage ratio, which is a ratio of the Company's consolidated funded indebtedness to its consolidated EBIDTA, as defined in the agreement, to exceed 3.25 to 1.00. Advances under the credit facility may be voluntarily prepaid and re-borrowed. At our option, the revolving loans accrue interest at a per annum rate equal to either LIBOR, plus a margin ranging from 1.25% to 1.75%, or the Base Rate, plus a margin ranging from 0.25% to 0.75%. The base LIBOR rate is, at our discretion, equal to either one, two, three or six month LIBOR. The Base Rate is defined as the greater of Wells Fargo's prime rate, the Federal Funds Rate plus 0.50%, or one month LIBOR plus 1.00%. In each case, the applicable margin is determined based upon our consolidated net leverage ratio. Accumulated interest is due and payable quarterly, in arrears, for loans bearing interest at the Base Rate and at the end of the applicable interest period in the case of loans bearing interest at the adjusted LIBOR. The credit facility is secured by substantially all of our assets, and certain of our existing and future material domestic subsidiaries are required to guarantee our obligations under the credit facility. We are also required to comply with customary affirmative and negative covenants, as well as a consolidated net leverage ratio and an interest coverage ratio. All outstanding principal and accrued and unpaid interest is due upon the credit facility's maturity on September 30, 2019.

As of September 30, 2015 and December 31, 2014, we had outstanding principal of \$44.0 million and \$20.0 million, respectively, under our revolving line of credit. As of September 30, 2015, \$156.0 million was available under our revolving line of credit, of which \$10.0 million was available for the issuance of letters of credit and \$20.0 million for swingline loans. We had unamortized debt issuance costs of \$1.1 million and \$1.3 million at September 30, 2015 and December 31, 2014, respectively. As of September 30, 2015, we were in compliance with the covenants under our credit facility.

### Previous Credit Facility

Our previous secured revolving credit facility had an aggregate principal amount of up to \$150.0 million, subject to a borrowing formula, with a sublimit of \$10.0 million for the issuance of letters of credit on our behalf. At our option, the borrowings accrued interest at a per annum rate equal to either LIBOR or Wells Fargo's prime rate (or, if greater, the Federal Funds Rate plus 0.50% or three month LIBOR plus 1.00%), in each case plus a margin ranging from 2.00% to 2.50%, in the case of LIBOR loans, and 0.00% to 0.25% in the case of prime rate loans, in each case based upon our senior leverage ratio. The interest was due and payable monthly, in arrears, for loans bearing interest at the prime rate and at the end of the applicable one, two or three month interest period in the case of loans bearing interest at the adjusted LIBOR.

In May 2014, we entered into an amendment to the previous credit facility. Under the terms of the amendment, the restrictive covenants were amended to permit us to repurchase up to \$75.0 million of our common stock, subject to certain conditions. Additionally, the fixed charge coverage ratio was replaced with a new minimum interest expense coverage ratio and the capital expenditures limitation was increased.

In June 2014, we entered into a second amendment to the previous credit facility. Under the terms of the amendment, the parties to the credit facility consented to the acquisition of Kigo as a "Permitted Acquisition," as defined in the previous credit facility, and would be excluded from the calculation of the Aggregated Permitted Acquisition Limit. Additionally, the amendment increased the value of our equipment that could be in the hands of our employees, consultants or customers in the ordinary course of business to \$2.5 million and amended the definition of "Aggregate Permitted Acquisition Limit" to \$150.0 million, plus an additional \$100.0 million if certain conditions were met.

## 7. Stock-based Compensation

In January 2015, the Company adopted the First Amendment to the Company's Amended and Restated 2010 Equity Incentive Plan. The amendment prohibits the repricing of stock options and stock appreciation rights other than in connection with a change in the Company's corporate structure.

In April 2015, the Company adopted the Second Amendment to the Company's Amended and Restated 2010 Equity Incentive Plan. This amendment increased the value of the automatic annual award of restricted stock received by outside directors, adjusted the vesting of such awards to occur ratably over a period of four calendar quarters and modified the timing and pro ration of awards for independent directors initially elected or appointed on a date other than April 1st.

During the three and nine months ended September 30, 2015, the Company made the following grants of restricted stock, which vest based on the passage of time as described below:

Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015	Vesting Period
—	22,335	Granted shares vested upon the grant date
—	162,695	Granted shares vest ratably over a period of two quarters
4,824	64,616	Granted shares vest ratably over a period of four quarters
—	24,665	Granted shares vest ratably over a period of eight quarters
61,795	561,318	Granted shares vest ratably over a period of twelve quarters

During the three and nine months ended September 30, 2015, the Company made the following grants of restricted stock, which require the achievement of certain market-based conditions to become eligible to vest as described below:

Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015	Condition to Become Eligible to Vest
—	30,000	After the grant date and prior to July 1, 2017, the average closing price per share of the Company's common stock equals or exceeds \$25.00 for twenty consecutive trading days
—	30,000	After the grant date and prior to July 1, 2017, the average closing price per share of the Company's common stock equals or exceeds \$30.00 for twenty consecutive trading days
—	235,579	After the grant date and prior to July 1, 2018, the average closing price per share of the Company's common stock equals or exceeds \$30.00 for twenty consecutive trading days
—	265,586	After the grant date and prior to July 1, 2018, the average closing price per share of the Company's common stock equals or exceeds \$35.00 for twenty consecutive trading days
—	30,000	After the grant date and prior to July 1, 2018, the average closing price per share of the Company's common stock equals or exceeds \$40.00 for twenty consecutive trading days

Shares that become eligible to vest, if any, become Eligible Shares. Eligible Shares vest ratably over the four calendar quarters following the date they become Eligible Shares. However, all unvested Eligible Shares will be fully vested on July 1, 2018.

During the third quarter of 2015, the Company granted 20,000 shares of performance-based restricted stock. The shares become eligible to vest if the underlying performance condition has been achieved as of December 31, 2016. If the shares become eligible to vest they will vest ratably over a period of four quarters, beginning January 15, 2017. If the performance condition is not satisfied none of the shares will vest.

During the three and nine months ended September 30, 2015, the Company made the following grants of stock options, which vest based on the passage of time as described below:

Vesting Period



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Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015	
22,700	42,825	Granted options vested upon the grant date
31,790	31,790	Granted options vest ratably over a period of seven quarters
—	40,420	Granted options vest ratably over a period of eight quarters
205,135	2,066,085	Granted options vest ratably over a period of twelve quarters

All stock options and restricted stock were granted under the Amended and Restated 2010 Equity Incentive Plan, as amended.

#### 8. Commitments and Contingencies

##### Lease Commitments

In the first quarter of 2013, we entered into a capital lease agreement for software that expires in 2016. Amortization of the leased assets is recognized on a straight-line basis.

The assets under the capital lease were as follows at September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
	(in thousands)	
Software	\$1,977	\$1,977
Less: Accumulated amortization	(1,553	) (1,110
Assets under capital lease, net	\$424	\$867

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of September 30, 2015 were as follows:

	September 30, 2015	
	(in thousands)	
2015	\$147	
2016	294	
Total minimum lease payments	\$441	
Less amount representing average interest at 2.2%	(4	
	) 437	
Less current portion	437	
Long-term portion	\$—	

The Company leases office facilities and equipment for various terms under long-term, non-cancellable operating lease agreements. The leases expire at various dates through 2028 and provide for renewal options. The agreements generally require the Company to pay for executory costs such as real estate taxes, insurance and repairs.

In May 2015, the Company entered into a lease agreement for office space located in Richardson, Texas. The lease is for a term of twelve years and includes extension options. Similar to our other operating leases, the agreement requires the Company to pay for executory costs such as real estate taxes, insurance and utilities. The lease term commences in 2016. In July 2015, the Company entered into an amendment of the lease which increased the amount of leased space. During the nine months ended September 30, 2015, the Company vacated our leased office space in Westlake Village, California; Chicago, Illinois; and Charlotte, North Carolina. During the same period we entered into a modification agreement related to our leased office space in San Francisco, California whereby we reduced the amount of leased space. These modifications were made to consolidate our operations and reduce operating costs. Related to the above changes we recognized a cease-use liability in the amount of \$0.2 million. The cease-use liability reflects the fair value of the remaining net cash flows related to our continuing obligations under the leases, net of estimated sub-rents. Additionally, we recognized a reduction of our deferred rent liability in the amount of \$0.9 million related to lease incentives for the San Francisco office. These adjustments are reflected in the "General and administrative" line in the accompanying Condensed Consolidated Statements of Operations.

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Minimum annual rental commitments under non-cancellable operating leases and total minimum rentals to be received under non-cancellable subleases were as follows at September 30, 2015:

	Minimum Lease Payments	Minimum Rentals to be Received Under Subleases	Net Lease Payments
	(in thousands)		
2015	\$2,746	\$263	\$2,483
2016	10,638	984	9,654
2017	9,631	140	9,491
2018	9,696	—	9,696
2019	9,141	—	9,141
Thereafter	57,223	—	57,223
	\$99,075	\$1,387	\$97,688

**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 limits 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, 2015 or December 31, 2014.

In the ordinary course of our business, we include standard indemnification provisions in our agreements with 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 any 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 indemnification provisions is minimal, and, accordingly, we had no liabilities recorded for these agreements as of September 30, 2015 or December 31, 2014.

**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 review the status of each matter and record a provision for a liability when we consider both that it is probable that a liability has been incurred and that the amount of the loss can be reasonably estimated. These provisions are reviewed quarterly and adjusted as additional information becomes available. If either or both of the criteria are not met, we assess whether there is at least a reasonable possibility that a loss, or additional losses beyond those already accrued, may be incurred. If there is a reasonable possibility that a material loss (or additional material loss in excess of any existing accrual) may be incurred, we disclose an estimate of the amount of loss or range of losses, either individually or in the aggregate, as appropriate, if such an estimate can be made, or disclose that an estimate of loss cannot be made. An unfavorable outcome in any legal matter, if material, could have an adverse effect on our operations, financial position, liquidity and results of operations.

In November 2014, the Company was named in a purported class action lawsuit related to our screening services. At September 30, 2015, we had an accrued liability for estimated settlement costs related to this matter. No liability for estimated settlement costs or other legal matters was accrued at December 31, 2014.

During the nine months ended September 30, 2014, we expensed \$4.7 million, inclusive of the settlements and other associated costs, related to litigation settled during that period. The litigation related to reimbursement claims made against us, each by a primary and an excess layer errors and omissions insurance carrier. The carriers were seeking reimbursement of claims formerly funded by them relating to a litigation matter settled in 2012.

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We are involved in other litigation matters not listed above, but we believe that any reasonably possible adverse outcome of these matters would not 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 to those unfold.

**Purchase Commitments**

In September 2015, the Company entered into a commitment with a vendor for the purchase of computer software. As of September 30, 2015, the remaining amount under the commitment was \$2.0 million. We anticipate completing the committed purchases by the end of the first quarter of 2016.

**9. Net Loss Per Share**

Basic net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share 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 and restricted stock using the treasury stock method. Weighted average shares from common share equivalents in the amount of 547,411 and 753,583 for the three months ended, and 912,944 and 1,549,922 for the nine months ended September 30, 2015 and 2014, respectively, were excluded from the dilutive shares outstanding because their effect was anti-dilutive.

The following table presents the calculation of basic and diluted net loss per share:

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	(in thousands, except per share amounts)			
Numerator:				
Net loss	\$ (8,192 )	\$ (3,257 )	\$ (13,118 )	\$ (10,384 )
Denominator:				
Basic:				
Weighted average common shares used in computing basic net loss per share	76,564	77,280	76,772	77,075
Diluted:				
Add weighted average effect of dilutive securities:				
Stock options and restricted stock	—	—	—	—
Weighted average common shares used in computing diluted net loss per share	76,564	77,280	76,772	77,075
Net loss share:				
Basic	\$ (0.11 )	\$ (0.04 )	\$ (0.17 )	\$ (0.13 )
Diluted	\$ (0.11 )	\$ (0.04 )	\$ (0.17 )	\$ (0.13 )

**10. Income Taxes**

We make estimates and judgments in determining our provision for income taxes 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 provision for income taxes in interim periods is based on our estimated annual effective tax rate. We record cumulative adjustments in the quarter in which a change in the estimated annual effective rate is determined. The estimated annual effective tax rate calculation does not include the effect of discrete events that may occur during the year. The effect of these events, if any, is recorded in the quarter in which the event occurs.

Our effective income tax rate was 35.2% and 28.4% for the nine months ended September 30, 2015 and 2014, respectively.

In July 2015, the Company filed amended 2012 and 2013 income tax returns for selected states to correct certain items that were improperly deducted, as determined by the Company subsequent to the initial filings. The primary effect of the amended returns was an immaterial increase in our current state income tax liability and a reduction of our state net operating loss deferred tax asset, net of federal benefit, of approximately \$0.7 million at December 31, 2014.



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## 11. Fair Value Measurements

The Company records certain financial liabilities at fair value on a recurring basis. The Company determines fair values based on the price it would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability.

The prescribed fair value hierarchy and related valuation methodologies are as follows:

Level 1 - Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.

Level 3 - Inputs are derived from valuation techniques in which one or more of the significant inputs or value drivers are unobservable.

The categorization of an asset or liability within the fair value hierarchy is based on the inputs described above and does not necessarily correspond to the Company's perceived risk of that asset or liability. Moreover, the methods used by the Company may produce a fair value calculation that is not indicative of the net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments and non-financial assets and liabilities could result in a different fair value measurement at the reporting date.

Assets and liabilities measured at fair value on a recurring basis:

## Contingent consideration obligations

Contingent consideration obligations consist of potential obligations related to our acquisition activity. The amount to be paid under these obligations is contingent upon the achievement of stipulated operational or financial targets by the business subsequent to acquisition. The fair value of contingent consideration obligations is estimated using a probability weighted discount model which considers the achievement of the conditions upon which the respective contingent obligation is dependent. The probability of achieving the specified conditions is assessed by applying a Monte Carlo weighted-average model. Inputs into the valuation model include a discount rate specific to the acquired entity, a measure of the estimated volatility and the risk free rate of return.

Significant unobservable inputs used in the contingent consideration fair value measurements included the following at September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
Discount rates	15.8% - 60.3%	22.5% - 64.0%
Volatility rates	36.0% - 54.0%	45.0% - 48.0%
Risk free rate of return	0.2% - 0.6%	0.1% - 0.2%

In addition to the inputs described above, the fair value estimates consider the projected future operating or financial results for the factor upon which the respective contingent obligation is dependent. The fair value estimates are generally sensitive to changes in these projections. We develop the projected future operating results based on an analysis of historical results, market conditions and the expected impact of anticipated changes in our overall business and/or product strategies.

The following table discloses the liabilities measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014:

	Fair value at September 30, 2015			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Contingent consideration related to the acquisition of:				
InstaManager	\$66	\$—	\$—	\$66

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Indatus	801	—	—	801
VRX	307	—	—	307
	\$1,174	\$—	\$—	\$1,174

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	Fair value at December 31, 2014			
	Total (in thousands)	Level 1	Level 2	Level 3
Contingent consideration related to the acquisition of:				
Active Building	\$1,566	\$—	\$—	\$1,566
MyBuilding	248	—	—	248
InstaManager	2,335	—	—	2,335
VMM	1	—	—	1
	\$4,150	\$—	\$—	\$4,150

There were no assets measured at fair value on a recurring basis at September 30, 2015 or December 31, 2014. The following table summarizes the changes in the fair value of our Level 3 liabilities for the nine months ended September 30, 2015 and 2014:

	Nine Months Ended September 30,	
	2015	2014
	(in thousands)	
Balance at beginning of period	\$4,150	\$1,827
Initial contingent consideration	1,415	2,939
Settlements through cash payments	(1,179)	(229)
Net (gains) losses on change in fair value	(3,212)	173
Balance at end of period	\$1,174	\$4,710

Gains and losses resulting from changes in the fair value of the above liabilities are included in "General and administrative" expense in the accompanying Condensed Consolidated Statements of Operations. During the nine months ended September 30, 2015 and 2014, the Company recognized net unrealized gains (losses) of \$3.3 million and \$(0.2) million, respectively.

Assets and liabilities measured at fair value on a non-recurring basis:

During the nine months ended September 30, 2015, the Company identified triggering events which required the assessment of impairment for certain trade names related to prior acquisitions. The fair value of the trade names was determined through an income approach utilizing projected discounted cash flows. This method is consistent with the method the Company has employed in prior periods to value other long-lived assets. Impairments of the trade names were determined by comparing the estimated fair value to the related carrying value. The inputs utilized in the discounted cash flow analysis are classified as Level 3 inputs within the fair value hierarchy. Significant unobservable inputs used in deriving the fair value included the royalty rate applied to the projected revenue stream and the discount rate used to determine the present value of the estimated future cash flows. Through the application of this approach, we concluded the aggregate fair value of the trade names was \$5.1 million. The Company believes that the methods and assumptions used to determine the fair value of the trade names were reasonable. See Note 5 for further discussion of these impairments.

Significant unobservable inputs used in fair value measurement of the trade names included the following for the nine months ended September 30, 2015:

	Nine Months Ended September 30, 2015
Discount rate	15.0%
Royalty Rate	5.4%

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12. Stockholders' Equity

On May 6, 2014, the board of directors approved a share repurchase program authorizing the repurchase of up to \$50.0 million of our outstanding common stock for a period of up to one year after the approval date. In May 2015, the board of directors approved an extension of the stock repurchase program through May 6, 2016, permitting the repurchase of up to \$50.0 million of our common stock over the extended one-year period. Repurchases during the extension period are incremental to the shares that were repurchased by the Company since May 2014. During the year ended December 31, 2014, we repurchased 966,595 shares at a weighted average cost of \$16.06 per share and a total cost of \$15.5 million. During the three and nine months ended September 30, 2015, we repurchased 807,922 and 1,579,226 shares at a weighted average cost of \$18.95 and \$19.28 per share and a total cost of \$15.3 million and \$30.5 million, respectively.

In May 2015, the board of directors authorized the retirement of all shares acquired under the stock repurchase program through May 8, 2015 and any future shares repurchased under the repurchase program. During the nine months ended September 30, 2015 we retired 2,545,821 shares of our common stock.

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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 (the “Securities Act”), 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 negative 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. Factors that might cause or contribute to such differences include, but are not limited to those discussed in the section entitled “Risk Factors” in Part II, Item 1A of this report. You should carefully review the risks described herein and in the other documents we file from time to time with the Securities and Exchange Commission (“SEC”), including our Annual Report on Form 10-K for fiscal year 2014. You should not place undue reliance on forward-looking statements herein, which speak only as of the date of this report. 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.

Overview

We are a leading provider of on demand software and software-enabled services for the rental housing and vacation rental industries. Our broad range of property management solutions enable owners and managers of a wide variety of single family, multifamily and vacation rental property types to enhance the visibility, control and profitability of each portion of the renter life cycle and operation of a property. By integrating and streamlining a wide range of complex processes and interactions among the rental housing and vacation rental ecosystem of owners, managers, prospects, renters and service providers, our platform helps optimize the property management process, improve the user experience, increase revenue and reduce costs for professional property managers.

The substantial majority of our revenue is derived from sales of our on demand software solutions. We also derive revenue from our professional and other services. A small percentage of our revenue is derived from sales of our on premise software solutions to our existing on premise customers. Our on demand software solutions are sold pursuant to subscription license agreements and our on premise software solutions are sold pursuant to term or perpetual license and associated maintenance agreements. We price our solutions based primarily on the number of units the customer manages with our solutions. For our insurance-based solutions, we earn revenue based on a commission rate that considers earned premiums, agent commission, incurred losses and premiums and profits retained by our underwriter. Our transaction-based solutions are priced based on a fixed rate per transaction. We sell our solutions through our direct sales organization and derive substantially all of our revenue from sales in the United States.

As of September 30, 2015, approximately 11,800 customers used one or more of our on demand software solutions to help manage the operations of approximately 10.4 million multifamily, single family or vacation rental units. Our customers include each of the ten largest multifamily property management companies in the United States, ranked as of January 1, 2015 by the National Multifamily Housing Council, based on the number of units managed. While the use and transition to on demand software solutions in the rental housing industry is growing rapidly, we believe it remains at a relatively early stage of adoption. Additionally, there is a low level of penetration of our on demand software solutions in our existing customer base. We believe these factors present us with significant opportunities to generate revenue through sales of additional on demand software solutions. Our existing and potential customers base their decisions to invest in our solutions on a number of factors, including general economic conditions.

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 multifamily rental housing markets. In June 2001, we released OneSite, our first on demand property management system. Since 2002, we have expanded our on demand software and software-enabled services to include property management, leasing and marketing, renter management and asset optimization capabilities. In addition to the multifamily markets, we now serve the single family, senior

living, student living, military housing and vacation rental markets. Since July 2002, we have completed 32 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 and vacation rental properties served by our solutions and our customer base. In connection with this expansion and these acquisitions, we have committed greater resources to developing and increasing sales of our platform of on demand solutions.

#### Solutions and Services

Our platform consists of four primary categories of solutions: Property Management, Leasing and Marketing, Resident Services, and Asset Optimization. These solutions provide complementary sales and marketing, asset optimization, risk mitigation, billing and utility management and spend management capabilities that collectively enable our customers to manage

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the stages of the renter life cycle. Each of our solutions categories includes multiple product centers that provide distinct capabilities and can be licensed separately or as a bundled package. Each product center is integrated with a central repository of prospect, renter and property data. In addition, our open architecture allows third-party applications to access our solutions using our RealPage Exchange platform.

Our platform is designed to serve as a single system of record for all of the constituents of the rental housing ecosystem, including owners, managers, prospects, renters and service providers, and to support the entire renter life cycle, from prospect to applicant to residency or guest to post-residency or post-stay. Common authentication, work flow and user experience across solution categories enables each of these constituents to access different applications as appropriate for their role.

We offer different versions of our platform for different types of properties. For example, our platform supports the specific and distinct requirements of:

- conventional single family properties (four units or less);
- conventional multifamily properties (five or more units);
- affordable Housing and Urban Development, or HUD, properties;
- affordable tax credit properties;
- rural housing properties;
- privatized military housing;
- commercial;
- student housing;
- senior living; and
- vacation rentals

### Property Management

Our property management solutions are typically referred to as ERP systems. These solutions manage core property management business processes, including leasing, accounting, budgeting, purchasing, facilities management, document management, and support and advisory services, and include a central database of prospect, applicant, renter and property information that is accessible in real time by our other solutions. Our property management solutions also interface with most popular general ledger accounting systems through our RealPage Exchange platform. This makes it possible for customers to deploy our solutions using our accounting system or a third-party accounting system. The property management solution category consists of five primary solutions: OneSite, Propertyware, Kigo, Spend Management Solutions and The RealPage Cloud.

### Leasing and Marketing

Leasing and marketing solutions are aimed at optimizing marketing spend and the leasing process. These solutions manage core leasing and marketing processes, including, websites, paid lead generation, organic lead generation, lead management, automated lead closure, lead analytics, real-time unit availability, automated online apartment leasing and applicant screening. The leasing and marketing solutions category consists of seven primary solutions: Online Leasing, Contact Center, LeaseStar Platform, LeaseStar Marketing Management, Multifamily Internet Listing Service, Senior Marketing Management and Resident Screening.

### Resident Services

Resident services solutions provide a platform to optimize the management of current renters. These solutions manage core renter management business processes including, utility billing, renter payment processing, renter service requests, renter lease renewals, renter's insurance, and consulting and advisory services. The resident services solutions category consists of five primary solutions: Utility Management, Payments, Resident Portal, Contact Center Maintenance and Renter's Insurance.

### Asset Optimization

Asset optimization solutions are aimed at optimizing property financial and operational performance. These solutions manage core asset management and business intelligence processes, including real-time yield management, revenue growth forecasting, key variable sensitivity forecasting and operating metric benchmarking. The asset optimization solutions category consists of two primary solutions: Yield Management and Business Intelligence.



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### Recent Acquisitions

#### 2015 Acquisitions

In June 2015, we acquired certain assets from ICIM Corporation, including the Answer Automation, Call Tracker and Zip Digital products marketed under the name Indatus. The Indatus offerings are software-as-a-service products that provide automated answering services, marketing spend analysis tools and other features which enhance the ability of managers of multifamily properties to communicate with their residents. We plan to integrate the Indatus assets with our existing contact center and maintenance products, increasing the features of these existing solutions. We acquired Indatus for a purchase price of \$49.4 million, consisting of a cash payment of \$43.8 million at closing, deferred cash payments of up to \$5.0 million payable over nineteen months after the acquisition date and contingent cash payments of up to \$2.0 million, in the aggregate, if certain revenue targets are met for the twelve month periods ending June 30, 2016 and 2017.

In June 2015, we acquired certain assets from RJ Vacations, LLC and Switch Development Corporation, including the VRX product ("VRX"). VRX is a software-as-a-service application which allows vacation rental management companies to manage the cleaning and turning of units, accounting and document management. VRX will augment our existing line of solutions offered to the vacation rental industry and we plan to integrate it with our Kigo solution. We acquired VRX for a purchase price of \$2.0 million, consisting of a cash payment of \$1.5 million at closing and a contingent cash payment of up to \$0.5 million. Payment of the contingent cash obligation is dependent upon the achievement of certain subscription or booking activity targets and is subject to adjustments specified in the acquisition agreement related to the sellers' indemnification obligations.

The purchase agreement also provides for us to make additional contingent cash payments of up to \$3.0 million. Payment of the additional contingent cash payments is dependent upon the achievement of certain revenue targets during the twelve month periods ended December 31, 2016, 2017 and 2018 and the sellers providing certain services during a specified period following the acquisition date. Due to the post-acquisition compensation nature of the additional contingent cash payments, they were not included in the acquisition consideration.

The purchases of Indatus and VRX were determined to constitute business combinations and were accounted for under ASC 805. The estimated fair value of assets acquired and liabilities assumed in conjunction with these transactions were preliminary in nature at September 30, 2015 and are based on information that was available as of the acquisition date. At September 30, 2015, we were awaiting additional information necessary to finalize these estimates and expect to finalize the valuation and complete the purchase price allocation as soon as practicable, but no later than one year from the acquisition date.

#### 2014 Acquisitions

In January 2014, we acquired certain assets from Bookt LLC, including the InstaManager product ("InstaManager"), for a purchase price of \$9.2 million, consisting of a cash payment of \$6.0 million at closing, a deferred cash payment of up to \$1.0 million payable over two years after the acquisition date and contingent cash payments totaling up to \$7.0 million if certain revenue targets are met for the twelve month periods ending March 31, 2015 and March 31, 2016.

The first deferred cash payment was made in the first quarter of 2015 in the amount of \$0.5 million. The revenue target for the twelve month period ending March 31, 2015 was achieved, and we paid the first contingent cash payment of \$0.5 million in the third quarter of 2015. InstaManager was a software-as-a-service vacation rental booking system used by professional managers of vacation rental properties. InstaManager offered marketing websites, online pricing and availability, online booking, automated reservations, payment processing and insurance sales. In March 2015, we completed the integration of InstaManager with other subsequently acquired software products. Subsequent to this integration, the Company ceased actively marketing the product and use of the trade name.

In March 2014, we acquired certain assets from Virtual Maintenance Manager LLC, including the Virtual Maintenance Manager product ("VMM"), for a purchase price of \$1.2 million, consisting of a cash payment of \$1.0 million at closing, a deferred cash payment of up to \$0.2 million payable over two years after the acquisition date and contingent cash payments of up to \$2.0 million if certain revenue targets are met for the twelve month periods ending June 30, 2015 and June 30, 2016. The first deferred cash payment was made in the second quarter of 2015 in the

amount of \$0.1 million. The contingent cash revenue target for the twelve month period ending June 30, 2015 was not achieved. VMM is a software-as-a-service application that facilitates the management of the end-to-end maintenance life cycle for single family and multifamily rental properties and provides property managers with enhanced visibility into their maintenance costs, manages resources and provides enhanced business control for property managers. In May 2014, we acquired substantially all of the operating assets of Notivus Multi-Family, LLC ("Notivus") for a purchase price of \$4.4 million, consisting of a cash payment of \$3.6 million at closing and a deferred cash payment of up to \$0.8 million payable over two years after the acquisition date. The first deferred cash payment was made in the third quarter of 2015 in the amount of \$0.3 million. The acquisition of Notivus expanded our ability to provide vendor risk management and compliance software solutions for the rental housing industry.



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In June 2014, we acquired all of the issued and outstanding stock of Kigo, Inc. ("Kigo"). Kigo is a software-as-a-service vacation rental booking system based in the United States with operations in Spain. Kigo offers services for vacation rental property managers that include vacation rental calendars, scheduling, reservations, accounting, channel management, website design, payment processing and other tasks to aid the management of leads, revenue, resources and lodging calendars. We acquired Kigo for a purchase price of \$36.2 million, consisting of a cash payment of \$30.7 million and a deferred cash payment of up to \$5.5 million, payable over two and a half years after the acquisition date. We integrated Kigo with our existing vacation rental products and launched an enhanced version of the software in March 2015.

### 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 relating to our on demand software solutions, typically licensed over 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 revenues and on premise perpetual license sales and maintenance fees.

**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 adjustments to the number of units previously reported.

**Non-GAAP on demand revenue.** This metric represents on demand revenue plus acquisition-related and other deferred revenue adjustments. 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 non-GAAP 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 our profitability.

**Non-GAAP on demand annual customer value ("ACV").** This metric represents management's estimate of the current annual run-rate value of on demand customer relationships. ACV is calculated by multiplying ending on demand units by annualized non-GAAP on demand revenue per average on demand unit.

**Adjusted EBITDA.** We define Adjusted EBITDA as (loss) income plus acquisition-related and other deferred revenue adjustments; depreciation, asset impairment and loss on disposal of assets; amortization of intangible assets; net interest expense; income tax expense (benefit); stock-based compensation expense; any impact related to the litigation with Yardi Systems, Inc. (including related insurance litigation and settlement costs), collectively the "Yardi Litigation"; stock registration costs; and acquisition-related expenses.

Non-GAAP Financial Measures. We believe that the non-GAAP financial measures defined above are useful to investors and other users of our financial statements in evaluating our operating performance because they provide additional tools to compare business performance across companies and periods. We believe that:

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

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 expenses and any impact related to the Yardi Litigation, from non-GAAP earnings measures, such as Adjusted EBITDA, because the amount of such expenses in any specific period may not directly correlate to the underlying

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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; and

it is useful to include deferred revenue written down for GAAP purposes under purchase accounting rules and revenue deferred due to a lack of historical experience determining the settlement of the contractual obligation in order to appropriately measure the underlying performance of our business operations in the period of activity and associated expense.

We use the non-GAAP financial measures defined above in conjunction with traditional GAAP financial 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 non-GAAP financial measures as our only measures of operating performance. Non-GAAP financial measures should not be considered substitutes for other measures of financial performance or liquidity 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 changes in, or cash requirements for, our working capital; and that they do not reflect our capital expenditures or future requirements for capital expenditures. We compensate for the inherent limitations associated with using non-GAAP financial measures through disclosure of these limitations, presentation of our financial statements in accordance with GAAP and reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures.

### 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 composed of license and subscription fees relating to our on demand software solutions, typically licensed over one year terms, commission income from sales of renter's insurance policies and transaction fees for certain on demand software solutions, such as payment processing, spend management and billing services. Typically, we price our on demand software solutions based primarily on the number of units the customer manages with our solutions. For our insurance based solutions, our agreement provides for a fixed commission on earned premiums related to the policies sold by us. The agreement also provides for a contingent commission to be paid to us. This agreement provides for a calculation that considers, on the policies sold by us, earned premiums less i) earned agent commissions, ii) a percent of premium retained by our underwriting partner, iii) incurred losses and iv) profit retained by our underwriting partner during the time period. Our estimate of our contingent commission revenue considers historical loss experience on the policies sold by us. We price our transaction-based solutions based on a fixed rate per transaction.

**On premise revenue.** Our on premise software solutions are distributed to our customers and maintained locally on the customer's hardware. Revenue from our on premise software solutions is composed 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 include maintenance and support. Customers can renew their term license agreement for additional one-year terms at renewal price levels.

We no longer actively market our legacy on premise software solutions to new customers, and only license our on premise software solutions to a small portion of our existing on premise customers as they expand their portfolio of rental housing properties. While we intend to support our acquired on premise software solutions, we expect that many of the customers who license these solutions will transition to our on demand software solutions over time.

**Professional and other revenue.** Revenue from professional and other services consists of consulting and implementation services, training and other ancillary services. We complement our solutions with professional and other services for our customers willing to invest in enhancing the value or decreasing the implementation time of our solutions. Our professional and other services are typically priced as time and material engagements.



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### 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; 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 and impairment, if applicable, 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 maintain product development and service centers in Hyderabad, India and Manila, Philippines, respectively, to take advantage of strong technical talent at lower personnel costs as compared to the United States.

**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 amounts paid for search engine optimization ("SEO") and search engine marketing ("SEM"); renter's insurance; other advertising, trade shows, user conferences, public relations, industry sponsorships and affiliations; and product marketing. In addition, sales and marketing expense includes amortization of certain purchased intangible assets, including customer, key vendor and supplier relationships and certain trade names obtained in connection with our strategic 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.

### 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, projected future operating or financial results 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;

Deferred revenue;

Fair value measurements;

Accounts receivable and related allowance;

Purchase accounting and contingent consideration;

Goodwill and other intangible assets with indefinite lives;

Contingent liabilities;

Impairment of long-lived assets;

Intangible assets with finite lives;  
Stock-based compensation;  
Income taxes, including deferred tax assets and liabilities; and  
Capitalized product development costs.

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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.” For further information regarding our business, industry trends, accounting policies and estimates and risks and uncertainties, refer to our Form 10-K.

## Results of Operations

The following tables set forth our unaudited results of operations for the specified periods in thousands, except per share data, and as a percentage of our revenue for the respective periods. The period-to-period comparison of financial results is not necessarily indicative of future results.

## Condensed Consolidated Statements of Operations

	Three Months Ended September 30,				
	2015	2015	2014	2014	
	(in thousands, except per share and ratio amounts)				
Revenue:					
On demand	\$116,772	96.0	% \$100,747	96.4	%
On premise	834	0.7	755	0.7	
Professional and other	3,982	3.3	3,034	2.9	
Total revenue	121,588	100.0	104,536	100.0	
Cost of revenue <sup>(1)</sup>	52,879	43.5	46,311	44.3	
Gross profit	68,709	56.5	58,225	55.7	
Operating expense:					
Product development <sup>(1)</sup>	16,858	13.9	17,528	16.8	
Sales and marketing <sup>(1)</sup>	31,559	25.9	29,949	28.6	
General and administrative <sup>(1)</sup>	13,424	11.0	15,443	14.8	
Impairment of identified intangible assets	20,274	16.7	—	—	
Total operating expense	82,115	67.5	62,920	60.2	
Operating loss	(13,406	) (11.0	) (4,695	) (4.5	)
Interest expense and other, net	(391	) (0.3	) (345	) (0.3	)
Loss before income taxes	(13,797	) (11.3	) (5,040	) (4.8	)
Income tax benefit	(5,605	) (4.6	) (1,783	) (1.7	)
Net loss	\$(8,192	) (6.7	) \$(3,257	) (3.1	)
Net loss per share					
Basic	\$(0.11	)	\$(0.04	)	
Diluted	\$(0.11	)	\$(0.04	)	
Weighted average shares used in computing net loss per share					
Basic	76,564		77,280		
Diluted	76,564		77,280		

<sup>(1)</sup>Includes stock-based compensation expense as follows:

Cost of revenue	\$817	\$1,141
Product development	1,759	2,707
Sales and marketing	3,118	3,774
General and administrative	2,975	1,914

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	Nine Months Ended September 30,				
	2015	2015	2014	2014	
	(in thousands, except per share and ratio amounts)				
Revenue:					
On demand	\$333,872	96.3	% \$289,361	96.4	%
On premise	2,301	0.7	2,446	0.8	
Professional and other	10,647	3.0	8,280	2.8	
Total revenue	346,820	100.0	300,087	100.0	
Cost of revenue <sup>(1)</sup>	150,160	43.3	128,353	42.8	
Gross profit	196,660	56.7	171,734	57.2	
Operating expense:					
Product development <sup>(1)</sup>	52,919	15.3	48,310	16.1	
Sales and marketing <sup>(1)</sup>	90,333	26.0	83,970	28.0	
General and administrative <sup>(1)</sup>	51,797	14.9	53,191	17.7	
Impairment of identified intangible assets	20,801	6.0	—	—	
Total operating expense	215,850	62.2	185,471	61.8	
Operating loss	(19,190	) (5.5	) (13,737	) (4.6	)
Interest expense and other, net	(1,048	) (0.3	) (771	) (0.3	)
Loss before income taxes	(20,238	) (5.8	) (14,508	) (4.9	)
Income tax benefit	(7,120	) (2.1	) (4,124	) (1.4	)
Net loss	\$(13,118	) (3.7	) \$(10,384	) (3.5	)
Net loss per share					
Basic	\$(0.17	)	\$(0.13	)	
Diluted	\$(0.17	)	\$(0.13	)	
Weighted average shares used in computing net loss per share					
Basic	76,772		77,075		
Diluted	76,772		77,075		

<sup>(1)</sup>Includes stock-based compensation expense as follows:

Cost of revenue	\$3,267	\$3,014
Product development	7,050	6,763
Sales and marketing	10,750	10,018
General and administrative	9,599	8,999



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Three and Nine Months Ended September 30, 2015 Compared to the Three and Nine Months Ended September 30, 2014

## Revenue

	Three Months Ended September 30,					Nine Months Ended September 30,				
	2015	2014	Change	% Change		2015	2014	Change	% Change	
	(in thousands, except per unit data)					(in thousands, except per unit data)				
Revenue:										
On demand	\$116,772	\$100,747	\$16,025	15.9	%	\$333,872	\$289,361	\$44,511	15.4	%
On premise	834	755	79	10.5		2,301	2,446	(145)	(5.9)	)
Professional and other	3,982	3,034	948	31.2		10,647	8,280	2,367	28.6	
Total revenue	\$121,588	\$104,536	\$17,052	16.3		\$346,820	\$300,087	\$46,733	15.6	
On demand unit metrics:										
Ending on demand units	10,406	9,496	910	9.6		10,406	9,496	910	9.6	
Average on demand units	10,354	9,434	920	9.8		9,995	9,305	690	7.4	
Non-GAAP revenue metrics:										
Non-GAAP on demand revenue	\$116,158	\$100,355	\$15,803	15.7		\$332,260	\$290,086	\$42,174	14.5	
Annualized non-GAAP on demand revenue per average on demand unit	\$44.87	\$42.55	\$2.32	5.5						
Non-GAAP on demand annual customer value	\$466,917	\$404,055	\$62,862	15.6						

The changes in total revenue for the three and nine months ended September 30, 2015 as compared to the same periods in 2014 were due to the following:

**On demand revenue.** On demand revenue represented 96.0% and 96.3% of our total revenue during the three and nine months ended September 30, 2015, respectively. During the same periods in 2014, on demand revenue represented 96.4% of our total revenue. Our on demand revenue increased \$16.0 million, or 15.9%, and \$44.5 million, or 15.4%, for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. This increase was driven by an increase in the number of rental units managed with one or more of our solutions and greater customer adoption across our platform of solutions. Continued customer adoption across our platforms contributed to an increase in our revenue per average on demand unit from \$42.55 to \$44.87, or 5.5%, during the three months ended September 30, 2015, as compared to the same period in 2014. Overall revenue growth continues to benefit from our investments in on demand data processing infrastructure, product development and sales force.

On demand revenue associated with our property management solutions grew \$4.0 million and \$11.9 million, or 12.7% and 13.3%, during the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. This increase was driven primarily by growth within OneSite, related to our accounting and compliance monitoring solutions; spend management solutions; Propertyware; and Kigo.

Leasing and marketing solutions' on demand revenue grew \$0.5 million and \$1.3 million, or 1.7% and 1.5%, during the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. This growth was driven by our screening, portal and organic lead generation solutions, partially offset by lower revenue associated with our internet listing services.

On demand revenue was most impacted by strong growth within our resident services solutions, which grew \$9.9 million and \$27.5 million, or 34.2% and 35.0%, during the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. This growth was driven by our payment processing solution, which continues to benefit from a market that has not fully realized the advantages of electronic payments, our renter's insurance products, as well as incremental revenue as a result of the Indatus acquisition.

On demand revenue attributed to asset optimization solutions grew \$1.6 million and \$3.8 million, or 15.9% and 12.4%, during the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. Growth

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within this solution set was driven by our new data-based business intelligence solutions combined with expansion of YieldStar, driven by both new customers and greater adoption by existing customers.

On premise revenue. On premise revenue increased \$0.1 million for the three months ended, and decreased \$0.1 million for the nine months ended September 30, 2015 as compared to the same periods in 2014. 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 solutions.

Professional and other revenue. Professional and other revenue increased \$0.9 million and \$2.4 million for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. These increases were primarily due to an increase in revenue from consulting and training services related to the implementation of our solutions.

On demand unit metrics. As of September 30, 2015, one or more of our on demand solutions was utilized in the management of 10.4 million rental property units, representing an increase of 910,000 units, or 9.6%, compared to the number of such rental property units as of September 30, 2014. 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, marketing efforts to existing customers and our 2015 acquisition of Indatus, which contributed approximately 500,000 units, or 5.0%, to total ending on demand units.

## Cost of Revenue

	Three Months Ended September 30,				Nine Months Ended September 30,				
	2015	2014	Change	% Change	2015	2014	Change	% Change	
	(in thousands)				(in thousands)				
Cost of revenue	\$45,579	\$39,877	\$5,702	14.3	% \$129,482	\$111,305	\$18,177	16.3	%
Stock-based compensation	817	1,141	(324)	(28.4)	3,267	3,014	253	8.4	
Depreciation and amortization	6,483	5,293	1,190	22.5	17,411	14,034	3,377	24.1	
Total cost of revenue	\$52,879	\$46,311	\$6,568	14.2	\$150,160	\$128,353	\$21,807	17.0	

Cost of revenue. Cost of revenue increased \$5.7 million for the three months ended September 30, 2015, as compared to the same period in 2014, primarily as a result of a \$3.4 million increase in direct costs resulting from increased sales of our solutions, including higher transaction volumes from our payments processing solution. Additionally, personnel expense increased \$1.9 million, driven by increased expenditures to support our growth initiatives. Higher technology and facility related expenses of \$0.4 million also contributed to the year over year increase in cost of revenue.

Cost of revenue increased \$18.2 million for the nine months ended September 30, 2015, as compared to the same period in 2014, primarily as a result of a \$9.8 million increase in direct costs resulting from increased sales of our solutions, including higher transaction volumes from our payments processing solution. Additionally, personnel expense increased \$6.6 million related to increased expenditures to support our growth initiatives, staffing increases for anticipated seasonal call center volumes, and, to a lesser degree, increases in headcount as a result of our 2014 acquisitions. Higher technology and facility related expenses of \$2.5 million also contributed to the year over year increase in cost of revenue. These items were partially offset by a decrease in other expenses of \$0.7 million.

## Operating Expenses

	Three Months Ended September 30,				Nine Months Ended September 30,				
	2015	2014	Change	% Change	2015	2014	Change	% Change	
	(in thousands)				(in thousands)				
Product development	\$13,898	\$13,502	\$396	2.9	% \$41,997	\$38,012	\$3,985	10.5	%
Stock-based compensation	1,759	2,707	(948)	(35.0)	7,050	6,763	287	4.2	
Depreciation	1,201	1,319	(118)	(8.9)	3,872	3,535	337	9.5	
	\$16,858	\$17,528	\$(670)	(3.8)	\$52,919	\$48,310	\$4,609	9.5	

Total product  
development expense

Product development. Product development expense increased \$0.4 million for the three months ended September 30, 2015, as compared to the same period in 2014. This change was primarily the result of an impairment charge of \$0.5 million associated with certain discontinued software development projects, partially offset by lower personnel expense of \$0.1 million.

Product development expense increased \$4.0 million for the nine months ended September 30, 2015, as compared to the same period in 2014. This change was primarily attributable to an increase of \$2.7 million in personnel expense related to

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increased headcount combined with higher variable compensation, offset by a higher international labor mix as a part of our global product development strategy; an impairment charge of \$1.3 million associated with certain discontinued software development projects; and an increase in information and technology expense of \$0.4 million. These increases were partially offset by lower travel expense of \$0.3 million and lower consulting and professional fees of \$0.1 million.

	Three Months Ended September 30,				Nine Months Ended September 30,				
	2015	2014	Change	% Change	2015	2014	Change	% Change	
	(in thousands)				(in thousands)				
Sales and marketing	\$25,028	\$22,745	\$2,283	10.0	\$69,546	\$63,897	\$5,649	8.8	%
Stock-based compensation	3,118	3,774	(656)	(17.4)	10,750	10,018	732	7.3	
Depreciation and amortization	3,413	3,430	(17)	(0.5)	10,037	10,055	(18)	(0.2)	
Total sales and marketing expense	\$31,559	\$29,949	\$1,610	5.4	\$90,333	\$83,970	\$6,363	7.6	

Sales and marketing. Sales and marketing expense increased \$2.3 million for the three months ended September 30, 2015, as compared to the same period in 2014. This change was primarily attributable to increased personnel expense of \$1.7 million, consistent with our efforts to expand and invest in our sales force. Additionally, information technology and facilities expense increased \$0.4 million, consulting and professional expense increased \$0.3 million, and other expenses increased \$0.5 million year over year. These increases were partially offset by lower SEO and SEM activity of \$0.6 million, consistent with our focus on increasing the efficiency of certain business functions.

Sales and marketing expense increased \$5.6 million for the nine months ended September 30, 2015, as compared to the same period in 2014. Similar to the three-month period, this change was primarily related to increased personnel expense of \$6.1 million, consistent with our efforts to expand and invest in our sales force. During the same period information technology and facilities expense increased \$1.7 million related to our continued investment in our sales force, consulting and professional services expense increased \$0.7 million, and other expenses increased \$0.6 million year over year. These increases were partially offset by lower SEO and SEM activity of \$3.0 million, consistent with our focus on increasing the efficiency of certain business functions, combined with a decrease in travel expense of \$0.5 million.

	Three Months Ended September 30,				Nine Months Ended September 30,				
	2015	2014	Change	% Change	2015	2014	Change	% Change	
	(in thousands)				(in thousands)				
General and administrative	\$9,633	\$12,609	\$(2,976)	(23.6)	\$39,731	\$41,283	\$(1,552)	(3.8)	%
Stock-based compensation	2,975	1,914	1,061	55.4	9,599	8,999	600	6.7	
Depreciation	816	920	(104)	(11.3)	2,467	2,909	(442)	(15.2)	
Total general and administrative expense	\$13,424	\$15,443	\$(2,019)	(13.1)	\$51,797	\$53,191	\$(1,394)	(2.6)	

General and administrative. General and administrative expense decreased \$3.0 million for the three months ended September 30, 2015, as compared to the same period in 2014. This decrease was primarily due to changes in the fair value of our acquisition-related liabilities of \$4.1 million. This decrease was partially offset by an increase in personnel expense of \$0.6 million and an increase in other expenses of \$0.5 million.

General and administrative expense decreased \$1.6 million for the nine months ended September 30, 2015, as compared to the same period in 2014. This change was primarily due to a net decrease in the fair value of the Company's acquisition-related liabilities of \$3.6 million combined with a decrease in legal expense of \$4.6 million, the majority of which related to one-time litigation and settlement costs incurred in the first quarter of 2014. These decreases were partially offset by an increase in personnel expense of \$3.6 million, related to the scaling of our

international operations to support the growth of our business and higher variable compensation; a net loss on the disposal and impairment of certain long-lived assets of \$1.6 million, related to the implementation of our global real estate strategy and our acquisition-related activities; higher consulting and professional fees of \$0.8 million; and an increase in other expenses of \$0.6 million.

**Impairment of Identified Intangible Assets.** In connection with the preparation of our third quarter 2015 financial statements, we identified indicators, requiring the assessment of certain indefinite-lived trade names for impairment, primarily associated with our 2011 acquisition of MyNewPlace. Identified indicators included declines in actual and anticipated lead-generation revenues and a change in the Company's long-term marketing strategy. As a result, we analyzed these intangible assets and recorded a \$20.3 million impairment charge during the third quarter of 2015, representing the amount by which the

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carrying value of the indefinite-lived trade names exceeded their estimated fair value. Given the change in our long-term marketing strategy and anticipated use of the trade names, we reclassified the remaining balance to finite-lived intangible assets as of September 30, 2015, which will be amortized on a straight-line basis over an estimated useful life of seven years.

During the first quarter of 2015, we completed the integration of the InstaManager and Kigo platforms into a single solution marketed under the Kigo name. Subsequent to this integration, we discontinued the use of the InstaManager trade name to market or identify the software. Due to this change in circumstance, we evaluated the InstaManager trade name for impairment and concluded an impairment in the amount of \$0.5 million existed at March 31, 2015.

**Interest Expense and Other, Net**

The increase in interest expense and other, net for the three and nine months ended September 30, 2015, as compared to the same periods in 2014, was primarily due to higher average outstanding balances on our revolving credit facility in 2015.

**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 income. Our effective income tax rate was 35.2% and 28.4% for the nine months ended September 30, 2015 and 2014, respectively.

**Reconciliation of Non-GAAP Financial Measures**

The following provides a reconciliation of on demand revenue to non-GAAP on demand revenue, our most directly comparable GAAP financial measure:

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2015	2014	2015	2014
	(in thousands)			
On demand revenue	\$116,772	\$100,747	\$333,872	\$289,361
Acquisition-related and other deferred revenue adjustments	(614)	(392)	(1,612)	725
Non-GAAP on demand revenue	\$116,158	\$100,355	\$332,260	\$290,086
The following provides a reconciliation of net loss to Adjusted EBITDA:				
	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2015	2014	2015	2014
	(in thousands)			
Net loss	\$(8,192)	\$(3,257)	\$(13,118)	\$(10,384)
Acquisition-related and other deferred revenue	(614)	(392)	(1,612)	725
Depreciation, asset impairment and loss on disposal of assets	25,952	5,121	38,970	13,911
Amortization of intangible assets	6,927	5,857	18,586	16,658
Acquisition-related expense	(3,310)	860	(1,653)	2,098
Interest expense, net	391	349	966	780
Income tax benefit	(5,605)	(1,783)	(7,120)	(4,124)
Litigation-related expense	—	39	2	4,884
Stock-based compensation expense	8,669	9,536	30,666	28,794
Adjusted EBITDA	\$24,218	\$16,330	\$65,687	\$53,342

Our Adjusted EBITDA increased by approximately \$7.9 million and \$12.3 million for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. Items which had a significant impact on the change in Adjusted EBITDA between these periods are discussed below.

Acquisition-related and other deferred revenue. This adjustment decreased by \$0.2 million and \$2.3 million for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. These

decreases were primarily attributable to the resolution of portions of deferred revenue written down for GAAP purposes under purchase accounting rules and revenue deferred due to a lack of historical experience in determining the settlement of the underlying contractual obligations.



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Depreciation, asset impairment and loss on the disposal of assets. This adjustment increased by \$20.8 million and \$25.1 million for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. These increases were primarily attributable to charges recognized during the three and nine months ended September 30, 2015 of \$21.0 million and \$23.8 million, respectively, related to the impairment of certain intangible assets, and the implementation of our global real estate strategy. Additionally, during the three and nine months ended September 30, 2015, depreciation expense decreased \$0.2 million and increased \$1.3 million, respectively.

Amortization of intangible assets. This adjustment increased \$1.1 million and \$1.9 million for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. These increases were primarily driven by completed software development projects which were placed in service during 2015 and acquisitions completed during the periods.

Acquisition-related expense. The adjustment for acquisition-related expense decreased \$4.2 million and \$3.8 million for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. These decreases were primarily due to changes in the fair value of acquisition-related contingent obligations.

Income tax benefit. The income tax benefit adjustment increased by \$3.8 million and \$3.0 million for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. This increase was due to the change in the effective tax rate from 28.4% to 35.2% at September 30, 2014 and 2015, respectively, and changes in our loss before income taxes in the respective periods.

Litigation-related expense. Litigation-related expense decreased by \$4.9 million for the nine months ended September 30, 2015 as compared to the same period in 2014. This decline was primarily due to one-time litigation and settlement costs incurred in the first half of 2014 related to litigation with our insurance carriers. The change in the litigation-related expense adjustment for the three months ended September 30, 2015, as compared to the same period in 2014, did not have a significant impact on the change in Adjusted EBITDA between these periods.

Stock-based compensation expense. Stock-based compensation expense decreased by \$0.9 million for the three months ended September 30, 2015, as compared to the same period in 2014. This decrease was primarily due to a lower number of awards vesting during the third quarter of 2015 as compared to the same period in 2014. This adjustment increased by \$1.9 million during the nine months ended September 30, 2015, as compared to the same period in 2014. This increase was primarily related to awards granted in the first half of 2015, which vested in the same period.

**Liquidity and Capital Resources**

Our primary sources of liquidity as of September 30, 2015 consisted of \$18.6 million of cash and cash equivalents, \$156.0 million available under our revolving line of credit and \$49.2 million of working capital (excluding \$18.6 million of cash and cash equivalents and \$77.2 million of deferred revenue).

Our principal uses of liquidity have been to fund our operations, working capital requirements, capital expenditures and acquisitions, to service our debt obligations, and to repurchase shares of our common stock. We expect that working capital requirements, capital expenditures, acquisitions, debt service, and share repurchases 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 2017. We expect to fund these obligations from cash provided by operating activities.

We believe that our existing cash and cash equivalents, working capital (excluding deferred revenue and cash and cash equivalents) and our cash flows from operations are sufficient to fund our operations, working capital requirements and planned capital expenditures and to service our debt obligations for at least the next twelve months. Our future working 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.

At September 30, 2015, we had federal and state net operating loss carryforwards of approximately \$172 million and \$6 million, respectively. Net operating losses generated by us are not currently subject to the carryforward limitation in Section 382 of the Internal Revenue Code (“Section 382 limitation”); however, approximately \$20 million of net operating losses generated by subsidiaries prior to their acquisition by us are subject to the Section 382 limitation. Our federal and state net operating loss carryforwards may be available to offset potential payments of future income tax liabilities, and, if unused, expire at various dates through 2034 for both federal and state income tax purposes.

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

	Nine Months Ended September 30,	
	2015	2014
	(in thousands)	
Net cash provided by operating activities	\$68,514	\$50,054
Net cash used in investing activities	(63,929	) (71,067
Net cash (used in) provided by financing activities	(12,688	) 17,199
Net Cash Provided by Operating Activities		

During the nine months ended September 30, 2015, cash provided by operating activities consisted of a net loss of \$13.1 million, net non-cash adjustments to the net loss of \$77.3 million and a net inflow of cash from changes in working capital of \$4.3 million. Non-cash adjustments primarily consisted of a loss on disposal and impairment of assets in the amount of \$23.8 million, amortization and depreciation expense of \$33.8 million, and stock-based compensation of \$30.6 million. These items were partially offset by net adjustments related to income tax items of \$7.9 million and changes in the fair value of our acquisition-related contingent obligations of \$3.0 million.

The net inflow of cash from changes in working capital during the nine months ended September 30, 2015, was primarily attributable to a net increase in accounts payable and accrued expenses of \$5.0 million, primarily related to variable compensation, an increase in deferred revenue of \$3.9 million, and an increase in other current and long-term liabilities of \$1.0 million. These inflows were partially offset by an increase in accounts receivable of \$3.0 million and an increase in prepaid expenses and other assets of \$2.6 million.

#### Net Cash Used in Investing Activities

For the nine months ended September 30, 2015, investing activities resulted in a net cash outflow of \$63.9 million. The cash outflow was attributable to expenditures of \$45.5 million related to our acquisitions of Indatus and VRX and capital expenditures, net of proceeds from the disposal of fixed assets of \$18.4 million primarily related to the development of new and enhancement of existing solutions combined with investments in our data processing infrastructure.

#### Net Cash Used in and Provided by Financing Activities

Financing activities resulted in a net cash outflow of \$12.7 million during the nine months ended September 30, 2015. This outflow consisted primarily of repurchases of our common stock under our stock repurchase program of \$30.5 million, net activity of \$3.7 million related to our stock-based compensation plans, payments of acquisition-related liabilities of \$2.1 million, and payments on capital lease obligations of \$0.4 million. These outflows were partially offset by proceeds from our revolving credit facility, net of payments, of \$24.0 million, which were used to finance our acquisition of Indatus.

#### 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 outside normal operations in our contractual obligations from our disclosures within our Form 10-K.

##### Long-Term Debt Obligations

On September 30, 2014, we entered into a new agreement for a secured revolving credit facility to refinance our outstanding revolving loans. This credit facility provides an aggregate principal amount of up to \$200.0 million, with sublimits of \$10.0 million for the issuance of letters of credit and for \$20.0 million of swingline loans. The credit facility also allows us, subject to certain conditions, to request additional term loans or revolving commitments in an aggregate principal amount of up to \$150.0 million, plus an amount that would not cause our consolidated net leverage ratio to exceed 3.25 to 1.00. Advances under the credit facility may be voluntarily prepaid and re-borrowed. At our option, the revolving loans accrue interest at a per annum rate equal to either LIBOR, plus a margin ranging from 1.25% to 1.75%, or the Base Rate, plus a margin ranging from 0.25% to 0.75%. The credit agreement permits, at our discretion, the use of one, two, three or six month LIBOR. The Base Rate is defined as the greater of Wells Fargo's

prime rate, the Federal Funds Rate plus 0.50% or one month LIBOR plus 1.00%. In each case the applicable margin is determined based upon our consolidated net leverage ratio. The interest is due and payable quarterly, in arrears, for loans bearing interest at the Base Rate and at the end of the applicable interest period in the case of loans bearing interest at the adjusted LIBOR rate. All outstanding principal and accrued and unpaid interest is due upon the credit facility's maturity on September 30, 2019. The credit facility is secured by substantially all of our assets, and certain of our existing and future material domestic subsidiaries are required to guarantee our obligations under the credit facility.

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Our credit facility contains customary covenants, subject in each case to customary exceptions and qualifications, 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 certain 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; and enter into transactions with affiliates. Our credit facility additionally contains customary affirmative covenants. We are also required to comply with a maximum consolidated net leverage ratio and a minimum interest coverage ratio. The interest coverage ratio, which is a ratio of our four previous fiscal consecutive quarters' consolidated EBITDA, as defined in the agreement, to our interest expense, is not to be less than 3.00 to 1.00 as of the last day of any fiscal quarter. The consolidated net leverage ratio, which is the ratio of funded indebtedness on the last day of each fiscal quarter to the four previous consecutive fiscal quarters' consolidated EBITDA, is not to be greater than 3.50 to 1.00, provided that we can elect to increase the ratio to 3.75 to 1.00 for a specified period following a permitted acquisition. As of September 30, 2015, we were in compliance with the covenants under our credit facility.

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, defaults for non-compliance with the Employee Retirement Income Security Act ("ERISA"), inaccuracy of representations and warranties and a change in control default.

In the event of a default on our credit facility, the obligations under the credit facility could be accelerated, the applicable interest rate under the credit facility could be increased, the loan commitments could be terminated, our subsidiaries that have guaranteed the credit facility could be required to pay the obligations in full and our lenders would be permitted 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 that is not cured or waived could have a material adverse effect on our liquidity and financial condition.

### Share Repurchase Program

On May 6, 2014, our board of directors approved a stock repurchase program authorizing the repurchase of up to \$50.0 million of our outstanding common stock for a period of up to one year after the approval date. In May 2015, the Company announced that its board of directors approved an extension of the stock repurchase program through May 6, 2016, permitting the repurchase of up to \$50.0 million of its common stock over the extended one-year period. Repurchases during the extension period are incremental to the shares that were repurchased by the Company since May 2014.

During the year ended December 31, 2014 we repurchased 966,595 shares at a weighted average cost of \$16.06 per share and a total cost of \$15.5 million. During the three and nine months ended September 30, 2015, we repurchased 807,922 and 1,579,226 shares at a weighted average cost of \$18.95 and \$19.28 per share and a total cost of \$15.3 million and \$30.5 million, respectively.

### 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.

### 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 \$18.6 million and \$26.9 million at September 30, 2015 and December 31, 2014, 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 \$44.0 million and \$20.0 million outstanding under our revolving credit facility at September 30, 2015 and December 31, 2014, respectively. At our option, advances under our revolving credit facility accrue interest at a per annum rate equal to either LIBOR, plus a margin ranging from 1.25% to 1.75%, or the Base Rate, plus a margin ranging from 0.25% to 0.75%. The base LIBOR rate is, at our discretion, equal to either one, two, three or six month LIBOR. The Base Rate is defined as the greater of Wells Fargo's prime rate, the Federal Funds Rate plus 0.50%, or one month LIBOR plus 1.00%. If the

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applicable rates change by 10% of the September 30, 2015 closing market rates, our annual interest expense would change by less than \$0.1 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 were effective as of September 30, 2015, 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.

Changes in Internal Controls

There were no changes in the Company’s internal control over financial reporting during the three and nine months ended September 30, 2015 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 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.

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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. We believe that there are no claims or actions pending against us, the ultimate disposition of which would have a material adverse impact on us.

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;
- fluctuations in leasing activity by our customers;
- increase in the number or severity of insurance claims on policies sold by us;
- our ability to timely introduce enhancements to our existing solutions and new solutions;
- our ability to renew the use of our on demand products and services by units managed by our existing customers and
- to increase the use of our on demand products and services for the management of units by our existing and new customers;
- changes in our pricing policies or those of our competitors or new competitors;
- changes in local economic, political and regulatory environments of our international operations;
- the variable nature of our sales and implementation cycles;
- general economic, industry and market conditions in the rental housing industry that impact 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 utilize to direct those consumers to websites such as 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;
- our ability to anticipate and adapt to external forces and emergence of new technologies and products;
- our ability to enter into new markets;
- changes in the legal, regulatory or compliance environment related to the rental housing industry or the markets in which we operate, including without limitation fair credit reporting, payment processing, data protection and privacy, social media, utility billing, insurance, the Internet and e-commerce, licensing, telemarketing, electronic communications, the Health Insurance Portability Act of 1996 (“HIPAA”) and the Health Information Technology Economic and Clinical Health Act (“HITECH”);
- the amount and timing of operating expenses and capital expenditures related to the expansion of our operations and infrastructure;
- 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





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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 and year-to-date period 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 and may not be able to continue our revenue growth or increase our profitability in the future. We expect to make significant future expenditures related to the development and expansion of our business. We 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 approximately 900 as of December 31, 2008 to approximately 4,000 as of September 30, 2015. We increased our number of on demand customers from approximately 2,700 as of December 31, 2008 to approximately 11,800 as of September 30, 2015. In addition, 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 current and emerging solutions;
- identifying suitable acquisition targets, managing the acquisitions and integrating the targets into our operations;
- 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;
- successfully completing system upgrades and enhancements; and
- managing expanded operations in geographically dispersed locations.

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 solutions, 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.

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Our business depends substantially on the renewal of our products and services for on demand units managed by our customers and the increase in the use of our on demand products and services for on demand units.

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 or longer. The pricing of the agreements is typically based on a price per unit basis. 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, upon the sale or transfer of a customer property, 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 for their on demand units 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 renewal of on demand units. Our customers' on demand unit 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 on demand units managed by our customers. 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 on demand unit attrition 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 on demand unit turnover we will experience in the future. However, we have experienced higher rates of on demand unit attrition with our Propertyware property management system, primarily because it serves smaller properties than our OneSite property management system, and we may experience higher levels of on demand unit attrition to the extent Propertyware grows as a percentage of our revenues. If we experience increased on demand unit turnover, our financial performance and operating results could be adversely affected.

On demand revenue that is derived from products that help owners and managers lease and market apartments, such as certain products in LeaseStar and LeasingDesk, may decrease as occupancy rates rise. 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 for its on demand units. 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 the entity's increased size. These consolidations may cause us to lose on demand units 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.

Historically, our on demand units managed by our customers have renewed at a rate of 96.3% based on an average of the last two years ending September 30, 2015.

Because we 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 sales 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;

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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; and

perceived or actual security, integrity, reliability, quality or compatibility problems with our solutions.

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 involving Bookt LLC in January 2014, Virtual Maintenance Manager LLC in March 2014, Notivus Multi-Family, LLC in May 2014, Kigo, Inc. in June 2014, and ICIM Corporation and VRX in June 2015. 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 customers, the key employees, the key business relationships and the reputations of the businesses we acquire;

our inability to generate sufficient revenue from acquisitions to offset our increased expenses associated with acquisitions;

- difficulties in predicting or achieving the synergies between acquired businesses and our own business;

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, or their infringement or alleged infringement of third-party intellectual property, contract or data access rights prior to the acquisition;

difficulties in complying with new markets or 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 or other systems that may not inter-operate 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 each acquired company's customers to our on demand property management solutions 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.

Unanticipated events and circumstances occurring in future periods may affect the realizability of our intangible assets recognized through acquisitions. The events and circumstances that we consider include significant under-performance relative to projected future operating results and significant changes in our overall business or product strategies. These events and circumstances may cause us to revise our estimates and assumptions used in analyzing the value of our other intangible assets with indefinite lives, and any such revision could result in a non-cash impairment charge that could have a material impact on our financial results.

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.

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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 and increase 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 suffer performance issues with these solutions or if we are unable to develop enhancements necessary 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 data centers or other 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 host our products and services, support our operations and service our customers primarily from our data centers in the Dallas, Texas area.

We may fail to provide such service as a result of numerous factors, many of which are beyond our control, including, without limitation: mechanical failure, power outage, human error, physical or electronic security breaches, war, terrorism and related conflicts or similar events worldwide, fire, earthquake, hurricane, flood and other natural disasters, sabotage and vandalism. We attempt to mitigate these risks at our Texas-based data centers or other facilities 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 rotation of management and system security measures, but our precautions may not protect against all potential problems. Disaster recovery procedures are in place to facilitate the recovery of our operations, products and services within the stated service level goals. 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. Furthermore, these business continuity efforts do not support our data centers outside of Texas or any centers operated by third-party providers. Problems at one or more of our data centers, whether or not within our control, could result in service disruptions or delays or loss or corruption of data or documents. 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 and harm our operating results.

Interruptions or delays in service from our third-party data center providers could impair our ability to deliver certain of our products to our customers, resulting in customer dissatisfaction, damage to our reputation, loss of customers, limited growth and reduction in revenue.

Some of our products and services derived from recent acquisitions are hosted and supported from data centers in other geographic locations within the continental United States and Europe, many of which are operated by third-party providers. Unless and until these acquired products and services are migrated to our Texas-based data centers, we will not have sole control over the operations of all data center facilities used in our business. Our operations depend, in



part, on our third-party data center providers' abilities to protect these facilities against damage or interruption from natural disasters, power or telecommunications failures, criminal acts and similar events. In the event that any of our third-party hosting or facilities arrangements is terminated, or if there is a lapse of service or damage to a facility, we could experience interruptions in the availability of our on-demand software as well as delays and additional expenses in arranging new facilities and services.

Despite precautions taken at our controlled and third-party data centers, the occurrence of spikes in usage volume, a natural disaster, an act of terrorism, adverse changes in United States or foreign laws and regulations, vandalism or sabotage, a decision to close a third-party facility without adequate notice, or other unanticipated problems at a facility could result in lengthy interruptions in the availability of our on-demand software. Even with current and planned disaster recovery

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arrangements, our business could be harmed. Also, in the event of damage or interruption, our insurance policies may not adequately compensate us for any losses that we may incur. These factors in turn could further reduce our revenue, subject us to liability and cause us to issue credits or cause customers to fail to renew their subscriptions, any of which could materially adversely affect our business.

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 (other than certain permitted exceptions such as maintenance). 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 agreements with us or extend the term of their agreements 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.

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 accounting software we compete with Yardi Systems, Inc. ("Yardi"), MRI Software LLC, Property Solutions International, Inc. ("Property Solutions"), AMSI Property Management (owned by Infor Global Solutions, Inc.), Intacct Corp, NetSuite Inc., Intuit Inc., Oracle Corporation, PeopleSoft and JD Edwards (each owned by Oracle Corporation), SAP AG, Microsoft Corporation, AppFolio Inc. and various smaller providers of accounting software. High costs are typically associated with switching an organization's accounting software. In the market for property management software, we face competitive pressure from Yardi and its Voyager products, AMSI Property Management (owned by Infor Global Solutions, Inc.), Boston Post (acquired by MRI Software LLC), Jenark (owned by CoreLogic), Entrata (a division of Property Solutions), ResMan and MRI Software LLC. In the single family market, our accounting and property management systems primarily compete with Yardi, AppFolio Inc., Intuit Inc., DIY Real Estate Solutions (acquired by Yardi), Buildium, LLC, Rent Manager (owned by London Computer Systems, Inc.), and Property Boss Solutions, LLC. In the market for vertically-integrated cloud computing for multifamily real estate owners and property managers, our only substantial competition is from Yardi. We also compete with cloud computing service providers such as Amazon.com Inc., Rackspace Hosting Inc., International Business Machines Corp. and many others.

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 LexisNexis (a subsidiary of Reed Elsevier Group plc), CoreLogic, Inc. (formerly First Advantage Corporation, an affiliate of The First American Corporation), Property Solutions, TransUnion Rental Screening Solutions, Inc. (a subsidiary of TransUnion LLC), Resident Check Inc., Yardi, 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., Property Solutions, Yardi 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 renter's 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 ("CRM") market, we compete with providers of contact center and call tracking services, including LeaseHawk LLC, Yardi, Property Solutions International, Inc., and numerous regional and local contact centers. In addition, we compete with lead tracking solution providers, including LeaseHawk LLC, Lead Tracking Solutions (acquired by Yardi) and Who's Calling, Inc. In addition, we compete with content syndication providers VaultWare (owned by MRI Software LLC) and rentbits.com, Inc. Finally, we compete with companies providing web portal services, including

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Apartments24-7.com, Inc., Ellipse Communications, Inc., Property Solutions, G5 Search Marketing, Inc., Spherexx.com and Yardi. Certain Internet listing services also offer websites for their customers, usually as a free value add to their listing service.

In the marketing and web portal services market, we compete with G5 Search Marketing, Inc., Spherexx LLC, ReachLocal, Inc., Property Solutions, On-Site.com, Yodle, Inc., Yardi and many local or regional advertising agencies.

In the Internet listing service market, we compete with ForRent (a division of Dominion Enterprises), Apartment Guide (a division of RentPath, Inc.), Rent.com (owned by RentPath, Inc.), RentPath, Inc., Apartments.com (a division of CoStar Group, Inc.), Apartment Finder (a division of CoStar Group, Inc.), Move, Inc., Property Solutions, Rent Café (a division of Yardi), Zillow (and Trulia, Inc.) and many other companies in regional areas.

In the Senior Living market, we compete against A Place for Mom, Inc., Care.com, Inc., Caring, Inc., Eldermark, Care Patrol Franchise Systems, LLC, Yardi, Aging with Grace, LLC, SeniorHousingNet.com (owned by Move, Inc.), G5 Search Marketing Inc., SeniorHomes.com (owned by Moseo, Corp.), The Right Click LLC, ALMSA Corporation and many other regionally focused companies.

In the utility billing and energy management market, we compete at a national level with American Utility Management, Inc., Conservice, LLC, Yardi (following its acquisitions of ista North America and Energy Billing Systems, Inc.), Property Solutions, Ocius LLC, NWP Services Corporation and Minol USA, L.P. Many other smaller utility billing companies compete for smaller rental properties or in regional areas.

In the revenue management market, we compete with Property Solutions, The Rainmaker Group, Inc. and Yardi.

In the market for multifamily housing market research, we compete with Reis, Inc., Axiometrics, Inc., Pierce-Eislen, Inc. (owned by Yardi), CoStar Group, Inc. and Portfolio Research, Inc.

In the spend management market, we compete with Yardi, AvidXchange, Inc., Nexus Systems, Inc., Ariba, Inc., Oracle Corporation, Buyers Access LLC, PAS Purchasing Solutions and ESS Technologies LLC.

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, On-Site.com, Property Solutions, PayLease LLC, RentPayment.com (a subsidiary of Yapstone, Inc.), Yardi, a number of national banking institutions and those that take payments directly from tenants.

In the affordable housing compliance and audit services market, we compete with Zeffert and Associates, Inc., Preferred Compliance Solutions, Inc., Spectrum Enterprises, Inc. and many other smaller local and regional compliance and audit services.

In the vacation rental market, we compete with LiveRez, Inc., HomeAway Software, Inc., and many other smaller local and regional companies.

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, level of integration with property management systems, 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, larger installed customer bases and larger sales and 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, or obtain new financing through public or private sources, 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.

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We integrate our software-enabled value-added services with competitive property management software 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 property management software without their cooperation or consent. There is no assurance that our competitors will not alter their applications in ways that inhibit or prevent integration or assert that their intellectual property rights restrict our ability to integrate our solutions with their applications. Moreover, regardless of merit, such interface-related activity may result in costly litigation. 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 operate in a business environment in which social media integration is playing a significantly increasing role. Social media is a new and rapidly changing industry wherein the rules and regulations related to use and disclosure of personal information is unclear and evolving.

The operation and marketing of multi-tenant real estate developments is likely to become more dependent upon the use of and integration with social media platforms as communities attempt to reach their current and target customers through social applications, such as Facebook, Twitter, Instagram, LinkedIn, Pinterest, Tumblr, Google+ and other current and emerging social applications. The use of these applications necessarily involves the disclosure of personal information by individuals participating in social media, and the corresponding utilization of such personal information by our products and services via integration programs and data exchanges. The regulatory framework for social media privacy and security issues is currently in flux and is likely to remain so for the foreseeable future.

Practices regarding the collection, use, storage, transmission and security of personal information by companies on social media platforms have recently come under increased public scrutiny as various government agencies and consumer groups have called for new regulation and changes in industry practices. We are also subject to each social media platform's terms and conditions for use, application development and integration, which may be modified, restricted or otherwise changed, affecting and possibly curtailing our ability to offer products and services.

These factors, many of which are beyond our control, present a high degree of uncertainty for the future of social media integration. As such, there is no assurance that our participation in social media integration will be risk free, as contractual, statutory or other legal restrictions may be created that limit or otherwise impede our participation in or leverage of social media integration.

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,

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

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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 prospective 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. Additionally, certain of our products are offered in suites containing multiple solutions, resulting in additional fluctuation in activations depending on each customer's priorities with respect to solutions included in the suite.

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, as well as decreased leasing velocity, have contributed to increased price sensitivity in the multifamily 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.

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, sale and support 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, enhance existing solutions and develop new solutions rapidly and cost effectively. We currently maintain offices in Hyderabad, India and Manila,



Philippines where we employ development and data processing personnel or conduct other business functions important to our operations. We believe that performing these activities in Hyderabad and Manila increases the efficiency and decreases the costs of our related operations. We also maintain an office in Barcelona, Spain where certain of our vacation rental product development, sales and support operations are based. We believe our access to a multilingual employee base enhances our ability to serve

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vacation rental property managers in non-English speaking countries. We also have an office in Dubai, United Arab Emirates. 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 difficulties as a result of political, social, economic or environmental instability, change in applicable law, limitations of local infrastructure or problems with our workforce or facilities at our or third parties' international operations, 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 in connection with the delivery of our solutions. Such providers include, but are not limited to, computer hardware and software vendors, database and data providers and cloud hosting providers. We currently utilize equipment, software and services from Akami, Inc.; Avaya, Inc.; Brocade Communications Systems, Inc.; Cisco Systems, Inc.; Dell Inc.; EMC Corporation; Microsoft Corporation; Oracle Corporation; salesforce.com, Inc.; Amazon Web Services, a division of Amazon.com, Inc., as well as many other smaller providers. Our OneSite Accounting service relies on a software-as-a-service, or SaaS, accounting system developed and maintained by a third-party service provider. 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, Bank of America, N.A., Paymentech, LLC, Fiserv, Inc., Financial Transmission Network, Inc., 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 electronic payment processing services, we process renter payments and subsequently submit these renter payments to our customers after varying clearing times established by RealPage. These payments are settled through our sponsoring clearing banks, and in the case of EFT, our Originating Depository Financial Institutions, or ODFIs. Currently, we rely on Bank of America, N.A., Wells Fargo, N.A. and JPMorgan Chase Bank, N.A. as our sponsoring clearing banks. In the future, we expect to enter into similar sponsoring clearing bank relationships with one or more other national banking institutions. The renter payments that we process for our customers at our sponsoring clearing banks are identified in our condensed consolidated balance sheets as restricted cash and the corresponding liability for these renter payments is

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identified as customer deposits. Our electronic 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 transactions if those costs exceed the amount of the customer reserves we have during the clearing period or after renter payments have been settled to our customers;
- electronic processing limits on the amount of custodial balances that any single ODFI, or collectively all of our ODFIs, will underwrite;
- reliance on clearing bank sponsors, card payment processors and other service payment provider partners to process electronic transactions;
- failure by us or our bank sponsors to adhere to applicable laws and regulatory requirements or the standards of the electronic payments rules and regulations and other rules and regulations that may impact the provision of electronic payment services;
- continually evolving and developing laws and regulations governing payment processing and money transmission, the application or interpretation of which is not clear in some jurisdictions;
- incidences of fraud, a security breach or our failure to comply with required external audit standards; and
- our inability to increase our fees at times when electronic payment partners or associations increase their transaction processing fees.

If any of these risks related to our electronic payment processing business were to materialize, our business or financial results could be negatively affected. Although we attempt to structure and adapt our payment processing operations to comply with these complex and evolving laws and regulations, our efforts may not guarantee compliance. In the event that we are found to be in violation of these legal requirements, we may be subject to monetary fines, cease and desist orders, mandatory product changes, or other penalties that could have an adverse effect on our results of operations. Additionally, with respect to the processing of EFTs, we are exposed to financial risk. EFTs between a renter and our customer may be returned for various reasons such as insufficient funds or stop payment orders. These returns are charged back to the customer by us. However, if we or our sponsoring clearing 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.

We entered into a Service Provider Agreement with Wells Fargo Merchant Services, LLC and Wells Fargo Bank, NA ("Wells Fargo"), effective January 1, 2014. Under the Service Provider Agreement, RealPage, Inc. is a registered independent sales organization, or ISO, of Wells Fargo. Wells Fargo will act as a merchant acquiring bank for processing RealPage client credit card and debit card payments ("Card Payments"), and RealPage will serve as an ISO. As an ISO, RealPage will assume the underwriting risk for processing Card Payments on behalf of its clients. If RealPage experiences excessive chargebacks, either RealPage or Wells Fargo has the authority to cease client card processing services, and such events could result in a material adverse effect on our revenues, operating income, and reputation.

Evolution and expansion of our payment processing business may subject us to additional regulatory requirements and other risks, for which failure to comply or adapt could harm our operating results.

The evolution and expansion of our payment processing business may subject us to additional risks and regulatory requirements, including laws governing domestic money transmission and payment processing/settlement services. These requirements vary throughout the markets in which we operate, and have increased over time as the geographic scope and complexity of our payments products and services have expanded. While we maintain a compliance program focused on applicable laws and regulations throughout the payments industry, there is no guarantee that we will not be subject to fines, criminal and civil lawsuits or other regulatory enforcement actions in one or more jurisdictions, or be required to adjust business practices to accommodate future regulatory requirements.

In order to maintain flexibility in the growth and expansion of our payments operations, we have obtained money transmitter licenses (or their equivalents) in several states and expect to continue the license application process in

additional jurisdictions throughout the United States as needed to accommodate new product development. Our efforts to acquire and maintain this licensure could result in significant management time, effort, and cost, and may still not guarantee compliance given the constant state of change in these regulatory frameworks. Accordingly, costs associated with changes in compliance requirements, regulatory audits, enforcement actions, reputational harm, or other regulatory limits on our ability to grow our payment processing business could adversely affect our financial results.

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If our security measures are breached and unauthorized access is obtained to our software platform and infrastructure, or our customers' or their renters' or prospects' data, we may incur significant liabilities, third parties may misappropriate our intellectual property, our solutions may be perceived as not being secure and customers may curtail or stop using our solutions.

Maintaining the security of our software platform and service infrastructure is of paramount importance to us and our customers, and we devote significant resources to this effort. Breaches of the security measures we take to protect our software platform and service infrastructure and our and our customers' confidential or proprietary information that is stored on and transmitted through those systems could disrupt and compromise the security of our internal systems and on demand applications, impair our ability to provide products and services to our customers and protect the privacy of their data, compromise our confidential or technical business information harming our competitive position, result in theft or misuse of our intellectual property, or otherwise adversely affect our business.

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 renters and business partners. Specifically, we collect, store and transmit a variety of customer data such as demographic information and payment histories of our customers' prospective and current renters and business partners. Additionally, we collect and transmit sensitive financial data such as credit card and bank account information. Treatment of certain types of data, such as personally identifiable information, protected health information and sensitive financial data may be subject to federal or state regulations requiring heightened privacy and security. If our data security or data integrity measures are breached or otherwise fail or prove to be inadequate for any reason, as a result of third-party actions or our employees' or contractors' errors or malfeasance or otherwise, and unauthorized persons obtain access to this information, or the data is otherwise compromised, we could incur significant liability to our customers and to their prospective or current renters or business partners, significant costs associated with internal regulatory investigations and litigation, or significant fines and sanctions by payment processing networks or governmental authorities. Any of these events or circumstances could result in damage to our reputation and material harm to our business.

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, damage to our reputation and material harm to our business.

There can be no certainty that the measures we have taken to protect our software platform and service infrastructure, our confidential and proprietary information, and the privacy and integrity of our customers', their current or prospective renters' and business partners' 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. Hackers may consist of sophisticated organizations, competitors, governments or individuals who launch targeted attacks to gain unauthorized access to our systems. 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, inadvertent actions or the 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, we could lose sales and customers and our business could be materially harmed.

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 and the number of products used by our customers to manage units, 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.

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Because certain solutions we provide depend on access to customer data, decreased access to this data or the failure to comply with the evolving laws and regulations governing privacy of data, cloud computing and cross-border data transfers, or the failure to 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 renters, including data compiled by other third-party service providers who collect and store data on behalf of our customers. Federal, state and foreign governments have adopted and continue to adopt new laws and regulations addressing data privacy and the collection, processing, storage, transmission, use and disclosure of personal information. Such laws and regulations are subject to differing interpretations and may be inconsistent among jurisdictions. These and other requirements could reduce demand for our solutions or restrict our ability to store and process data or, in some cases, impact our ability to offer our services and solutions in certain locations.

In addition to government activity, privacy advocacy and other industry groups have established or may establish new self-regulatory standards that may place additional burdens on us. Our customers may expect us to meet voluntary certification or other standards established by third parties. If we are unable to maintain these certifications or meet these standards, it could adversely affect our ability to provide our solutions to certain customers and could harm our business.

Any restrictions on the use of or decrease in the availability of 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.

The market for on demand software solutions in the rental housing industry 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. 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 or we may not keep up with the latest technology. 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 or positively affect the rental housing market may adversely affect our business. 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:

- decreasing demand for leasing and marketing solutions;
- 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;

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- 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.

In addition, economic trends that reduce the frequency of renter turnover or the quantity of new renters may reduce the number of rental transactions completed by our customers and may, as a result, reduce demand for our rental, leasing or marketing transaction specific services.

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;
- demonstrating lead generation value to our LeaseStar customers;
- competing effectively for advertising dollars with other online media companies;
- continuing 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 or our sources for such leads were reduced. 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 30, 2014, we entered into a new agreement for a secured revolving credit facility to refinance our outstanding revolving loans. The new credit facility provides an aggregate principal amount of up to \$200.0 million, with sublimits of \$10.0 million for the issuance of letters of credit and for \$20.0 million of swingline loans. The credit facility also allows us, under certain conditions, to request additional term loans or revolving commitments in an aggregate principal amount of up to \$150.0 million, plus an amount that would not cause our consolidated net leverage ratio to exceed 3.25 to 1.00. As of September 30, 2015, we had \$44.0 million of debt outstanding under our revolving line of credit and \$10.0 million was available for the issuance of letters of credit. Advances under the credit facility may be voluntarily prepaid and re-borrowed. All outstanding principal and accrued and unpaid interest is due

upon the credit facility's maturity on September 30, 2019.

All of our obligations under the credit facility are secured by substantially all of our assets. All of our existing and future domestic subsidiaries are required to guaranty our obligations under the credit facility, other than certain immaterial subsidiaries, foreign subsidiary holding companies and our payment processing subsidiaries. Such guarantees by existing and future domestic subsidiaries are and will be secured by substantially all of the assets of such subsidiaries.

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Our credit facility contains customary covenants, subject in each case to customary exceptions and qualifications, 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 certain indebtedness;
- 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; and
- enter into transactions with affiliates.

Our credit facility also contains, subject in each case to customary exceptions and qualifications, customary affirmative covenants. We are also required to comply with a maximum consolidated net leverage ratio and a minimum consolidated interest coverage ratio. The interest coverage ratio, which is a ratio of our four previous consecutive fiscal quarters' consolidated EBITDA to our interest expense, is to be not less than 3.00 to 1.00 as of the last day of any fiscal quarter. The consolidated net leverage ratio, which is the ratio of funded indebtedness on the last day of each fiscal quarter to the four previous consecutive fiscal quarters' consolidated EBITDA, cannot exceed 3.50 to 1.00, provided that we can elect to increase the ratio to 3.75 to 1.00 for a specified period following a permitted acquisition. As of September 30, 2015, we were in compliance with the covenants under our credit facility.

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, ERISA defaults, inaccuracy of representations and warranties and a change in control default.

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. Any default that is not cured or waived could result in the termination of the revolving commitments, 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 was terminated, additional debt we could incur in the future may subject us to similar or additional covenants.

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 or terms of use 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 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

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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.

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. Such risks include, without limitation, patent infringement risks, copyright infringement risks, risks arising from the inclusion of open source software that is subject to onerous license provisions that could even require disclosure of our proprietary source code, or violations of terms of use for third party solutions that our acquisition targets use. 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 and no significant pending patent applications, and we 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, use of, and disclosure of our confidential and proprietary information. The legal and technical 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. Moreover, it may be difficult or practically impossible to detect copyright infringement or theft

of our software code. 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, as we sell our solutions internationally, 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.

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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, software 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. Legal proceedings 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 or vendors in connection with commercial disputes, claims brought by our customers' current or prospective renters, including class action lawsuits based on asserted statutory or regulatory violations, employment-based claims made by our current or former employees, administrative agencies, government regulators, or insurers. In November 2014, the Company was named in a purported class action lawsuit in the United States District Court for the Eastern District of Virginia, styled *Jenkins v. RealPage, Inc.*, Case No. 3:14cv758. On January 12, 2015, the Company filed its answer. On July 13, 2015, the court transferred the case to the United States District Court for the Eastern District of Pennsylvania. This case is at an early stage and although we intend to defend it vigorously, it is not possible to predict its outcome. In March 2015, we were named in a purported class action lawsuit in the United States District Court for the Eastern District of Pennsylvania, styled *Stokes v. RealPage, Inc.*, Case No. 2:15-cv-01520. On June 2, 2015, the Company filed its answer. This case is also at an early stage and although we intend to defend it vigorously, it is not possible to predict its outcome. Litigation, enforcement actions and other legal proceedings, regardless of their 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. Although we maintain insurance, there is no guarantee that such insurance will be available or sufficient to cover any such legal proceedings or claims. For example, insurance may not cover such legal proceedings or claims or may withhold or dispute coverage of such legal proceedings or claims on various grounds, including by alleging such coverage is beyond the scope of such policies, that we are not in compliance with the terms of such insurance policies or that such policies are not in effect, even after proceeds under such insurance policies have been received by us. In addition, insurance may not be sufficient for one or more such legal proceedings or claims and may not continue to be available on terms acceptable to us, or at all. A legal proceeding or claim brought against us that is uninsured or under-insured could result in unanticipated costs, thereby harming our operating results.

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 warranty disclaimers, general disclaimers, waivers or 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 or dispute coverage of such legal proceedings or claims even after proceeds under such insurance policies have been received by us. 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

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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 United States generally accepted accounting principles. We are required to comply 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. 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.

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 continue to affect our legal and financial compliance costs and to make some activities more time-consuming and costly. As a public company, it is more expensive for us to obtain director and officer liability insurance and 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.

The rental housing industry, electronic commerce and many of the products and services that we offer, including background screening services, utility billing, affordable housing compliance and audit services, insurance and payments are subject to extensive and evolving governmental regulation. 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 laws and regulations. Our services and solutions must work within the extensive and evolving legal and 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 Drivers Privacy Protection Act, the Gramm-Leach-Bliley Act, the Fair and Accurate Credit Transactions Act, the United States Tax Reform Act of 1986 (TRA86), which is an IRS law governing tax credits, the Privacy Rules, Safeguards Rule and Consumer Report Information Disposal Rule promulgated by the Federal Trade Commission, or FTC, the FTC's Telemarketing Sales Rule, the Telephone Consumer Protection Act (TCPA), the CAN-SPAM Act, the Electronic Communications Privacy Act, the regulations of the United States Department of Housing and Urban Development, or HUD, HIPAA/HITECH, rules and regulations of the Consumer Financial Protection Bureau (CFPB) 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, telemarketing, electronic communications, call recording, 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, the FTC and the CFPB have the authority to promulgate rules and regulations that may impact our customers and our business. On February 23, 2015, we received from the FTC a Civil Investigative Demand consisting of interrogatories and a request to produce documents relating to our compliance with the Fair Credit Reporting Act. We have responded to the request.

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At this time, we do not know the scope of the investigation and we do not have sufficient information to evaluate the likelihood or merits of any potential enforcement action, or to predict the outcome or costs of responding to, or the costs, if any, of resolving this investigation.

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, or if applicable, other 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 business is subject to the risks of international operations.

Compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business. These numerous and sometimes conflicting laws and regulations include internal control and disclosure rules, data privacy and filtering requirements, anti-corruption laws, such as the Foreign Corrupt Practices Act, and other local laws prohibiting corrupt payments to governmental officials, and antitrust and competition regulations, among others.

Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us, our officers, or our employees, prohibitions on the conduct of our business and on our ability to carry on operations in one or more countries, and could also materially affect our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results. Although we have implemented policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors, or agents will not violate our policies.

In addition, we are subject to a variety of risks inherent in doing business internationally, including:

political, social, economic, or environmental instability, terrorist attacks and security concerns in general;

limitations of local infrastructure;

fluctuations in currency exchange rates;

higher levels of credit risk and payment fraud;

reduced protection for intellectual property rights in some countries;

difficulties in staffing and managing global operations and the increased travel, infrastructure and legal compliance costs associated with multiple international locations;

compliance with statutory equity requirements and management of tax consequences; and

outbreaks of highly contagious diseases.

If we are unable to manage the complexity of our international operations successfully, our financial results could be adversely affected.

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

Through our wholly owned subsidiary, Multifamily Internet Ventures LLC, 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. In addition, Multifamily Internet Ventures LLC has appointed numerous sub-producing agents to generate insurance business for its eRenterPlan product. The sub-producing agents are subject to the same state regulation and supervision, and Multifamily Internet Ventures LLC cannot ensure that these sub-producing agents will not violate these regulations, and thus expose the LeasingDesk

business to sanctions by these state departments of insurance for any such violations. Furthermore, state insurance departments conduct periodic examinations, audits and investigations of the affairs of insurance agents. 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

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licensed depends on our compliance with the rules and regulations promulgated from time to time by the regulatory authorities in each of these jurisdictions.

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, as well as regulate rates that may be charged for premiums on policies. Accordingly, we may be precluded or temporarily suspended from carrying on some or all of the activities of our LeasingDesk insurance business or 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.

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. Through Multifamily Internet Ventures LLC we also sell additional insurance products, including auto and other personal lines insurance, to renters 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 renters 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 affected by claims experienced at the properties for which the renters purchase insurance. In the event that the severity or frequency of claims by the insureds increase unexpectedly, the contingent commission we typically earn will be adversely affected. As a result, our quarterly, or annual, 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

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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 continue to sell those solutions to 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.

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 34.1% of our common stock as of September 30, 2015. Further, Stephen T. Winn, our President, Chief Executive Officer and Chairman of the Board, and entities beneficially owned by Mr. Winn held an aggregate of approximately 32.9% of our common stock as of September 30, 2015. 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;

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- increases or decreases in our sales of products and services for use in the management of units by customers and increases or decreases in the number of units managed by our customers;
- 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, 2015, we had 78,479,774 shares of common stock outstanding. Of these shares, 76,177,926 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, 2015, holders of 24,980,617 shares, or approximately 31.8%, 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 2012, we registered a total of 4,694,073 shares of our outstanding common stock held by affiliates pursuant to a registration statement on Form S-3, which shares are now freely tradable in the public market.

In addition, we have registered approximately 25,634,259 shares of common stock that have been issued or reserved for future issuance under our stock incentive plans. Of these shares, 3,137,517 shares were eligible for sale upon the exercise of vested options as of September 30, 2015.

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;
- 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

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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 cash 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 would 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. See additional discussion under the Dividend Policy heading of Part II, Item 5 of our Annual Report on Form 10-K filed with the SEC on March 2, 2015.

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

### (c) Purchases of Equity Securities

The following table provides information with respect to repurchases of our common stock made during the three months ended September 30, 2015, by RealPage, Inc. or any "affiliated purchaser" of RealPage, Inc. as defined in Rule 10b-18(a)(3) under the Exchange Act:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup>
July 1, 2015 through July 31, 2015	—	\$—	—	\$42,800,830
August 1, 2015 through August 31, 2015	807,922	18.95	807,922	27,491,417
September 1, 2015 through September 30, 2015	—	—	—	27,491,417
	807,922	\$18.95	807,922	\$27,491,417

<sup>(1)</sup> On May 6, 2014, the board of directors approved a share repurchase program authorizing the repurchase of up to \$50.0 million of our common stock for a period of up to one year after the approval date. In May 2015, the Company announced that its board of directors approved an extension of the stock repurchase program through May 6, 2016, permitting the repurchase of up to \$50.0 million of our common stock over the extended one-year period. Repurchases during the extension period are incremental to the shares repurchased by the Company since May 2014. During the periods covered by the table, no determination was made by us to terminate or suspend the stock repurchase program.

### 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.

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SIGNATURES

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

Date: November 5, 2015

RealPage, Inc.

By:               /s/ W. Bryan Hill  
                      W. Bryan Hill  
                      Executive Vice President, Chief Financial Officer and Treasurer

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## EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
3.1	Amended and Restated Certificate of Incorporation of the Registrant	S-1	7/26/2010	3.2	
3.2	Amended and Restated Bylaws of the Registrant	S-1	7/26/2010	3.4	
4.1	Form of Common Stock certificate of the Registrant	S-1	7/26/2010	4.1	
4.2	Shareholders' Agreement among the Registrant and certain stockholders, dated December 1, 1998, as amended July 16, 1999 and November 3, 2000	S-1	4/29/2010	4.2	
4.3	Second Amended and Restated Registration Rights Agreement among the Registrant and certain stockholders, dated February 22, 2008	S-1	4/29/2010	4.3	
4.4	Registration Rights Agreement among the Registrant and certain stockholders, dated July 29, 2012	S-3	9/13/2012	4.4	
10.1	First Amendment to Amended and Restated 2010 Equity Incentive Plan.	8-K	1/21/2015	10.1	
10.2	Form of 2015 Management Incentive Plan	8-K	2/23/2015	10.1	
10.3	Form of Stock Option Award Agreement between the Company and Stephen T. Winn approved for use under the 2010 Equity Incentive Plan, as amended and restated June 4, 2014, as amended.	8-K	3/5/2015	10.1	
10.4	Form of Stock Option Award Agreement between the Company and certain executive officers approved for use under the 2010 Equity Incentive Plan, as amended and restated June 4, 2014, as amended.	8-K	3/5/2015	10.2	
10.5	Form of Restricted Stock Award Agreement for time-based awards between the Company and Stephen T. Winn approved for use under the 2010 Equity Incentive Plan, as amended and restated June 4, 2014, as amended.	8-K	3/5/2015	10.3	
10.6	Form of Restricted Stock Award Agreement for time-based awards between the Company and certain executive officers approved for use under the 2010 Equity Incentive Plan, as amended and restated June 4, 2014, as amended.	8-K	3/5/2015	10.4	
10.7	Form of Restricted Stock Award Agreement for market-based awards between the Company and Stephen T. Winn approved for use under the 2010 Equity Incentive Plan, as amended and restated June 4, 2014, as amended.	8-K	3/5/2015	10.5	
10.8	Form of Restricted Stock Award Agreement for market-based awards between the Company and certain executive officers approved for use under the 2010 Equity Incentive Plan, as amended and restated June 4, 2014, as amended.	8-K	3/5/2015	10.6	
10.9	Form of Stock Option Award Agreement between the Company and award recipients approved for use under the 2010 Equity Incentive Plan, as amended and restated June 4, 2014, as amended.	8-K	3/5/2015	10.7	
10.10		8-K	3/5/2015	10.8	

Form of Stock Option Award Agreement between the Company and award recipients (California residents) approved for use under the 2010 Equity Incentive Plan, as amended and restated June 4, 2014, as amended.

10.11	Form of Restricted Stock Award Agreement between the Company and award recipients approved for use under the 2010 Equity Incentive Plan, as amended and restated June 4, 2014, as amended.	8-K	3/5/2015	10.9
10.12	Form of Restricted Stock Award Agreement between the Company and award recipients (California residents) approved for use under the 2010 Equity Incentive Plan, as amended and restated June 4, 2014, as amended.	8-K	3/5/2015	10.10
10.13	Amended and Restated Employment Agreement between the Company and Stephen T. Winn dated as of March 1, 2015.	8-K	3/5/2015	10.11

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Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
10.14	Amended and Restated Employment Agreement between the Company and W. Bryan Hill dated as of March 1, 2015.	8-K	3/5/2015	10.12	
10.15	Amended and Restated Employment Agreement between the Company and William Chaney dated as of March 1, 2015.	8-K	3/5/2015	10.13	
10.16	Employment Agreement between the Company and Daryl Rolley dated as of February 9, 2015.	10-Q	5/8/2015	10.16	
10.17	Second Amendment to the RealPage, Inc. 2010 Equity Incentive Plan, as amended and restated June 4, 2014.	8-K	4/7/2015	10.1	
10.18	Employment Agreement between the Company and David Monk dated as of May 1, 2015.	10-Q	8/7/2015	10.18	
10.19	Lease Agreement dated June 2, 2015 by and between Lakeside Campus Partners, LP and RealPage, Inc.	8-K	6/4/2015	10.1	
10.20	First Amendment to the Lease Agreement dated July 27, 2015 by and between Lakeside Campus Partners, LP and RealPage, Inc.	10-Q	8/7/2015	10.20	
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
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.				X
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.				X
101.INS	Instance				X
101.SCH	Taxonomy Extension Schema				X
101.CAL	Taxonomy Extension Calculation				X
101.LAB	Taxonomy Extension Labels				X
101.PRE	Taxonomy Extension Presentation				X
101.DEF	Taxonomy Extension Definition				X