REALPAGE INC
Form 10-Q
November 09, 2012
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)

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

**For the quarterly period ended September 30, 2012**

**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 Carrollton, Texas** | **75007-1951** |
| **(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 x 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 x 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 | x | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ (Do not check if a smaller reporting company) | Smaller reporting company | ¨ |

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

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

| **Class** | **Outstanding at October 31, 2012** |
|---|---|
| Common Stock, $0.001 par value | 75,433,360 |

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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, 2012 (Unaudited) | December 31, 2011 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 36,220 | $ 51,273 |
| Restricted cash | 22,443 | 19,098 |
| Accounts receivable, less allowance for doubtful accounts of $1,015 and $979 at September 30, 2012 and December 31, 2011, respectively | 45,351 | 43,883 |
| Deferred tax asset, net of valuation allowance | 276 | 272 |
| Other current assets | 7,101 | 10,232 |
| Total current assets | 111,391 | 124,758 |
| Property, equipment, and software, net | 36,163 | 27,974 |
| Goodwill | 134,818 | 129,292 |
| Identified intangible assets, net | 106,212 | 112,308 |
| Deferred tax asset, net of valuation allowance | 2,342 | 2,539 |
| Other assets | 3,887 | 3,194 |
| Total assets | $ 394,813 | $ 400,065 |
| **Liabilities and stockholders equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 10,448 | $ 12,218 |
| Accrued expenses and other current liabilities | 20,515 | 25,816 |
| Current portion of deferred revenue | 56,372 | 57,325 |
| Customer deposits held in restricted accounts | 22,317 | 19,017 |
| Total current liabilities | 109,652 | 114,376 |
| Deferred revenue | 9,947 | 8,693 |
| Long-term debt, less current portion | 25,000 | 50,312 |
| Other long-term liabilities | 3,143 | 3,803 |
| Total liabilities | 147,742 | 177,184 |
| 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, 2012 and December 31, 2011, respectively | | |
| Common stock, $0.001 par value: 125,000,000 shares authorized, 76,262,909 and 73,115,779 shares issued and 75,361,930 and 72,701,571 shares outstanding at September 30, 2012 and December 31, 2011, respectively | 76 | 73 |
| Additional paid-in capital | 342,078 | 316,964 |
| | (5,526) | (3,138) |

| | | |
|---|---|---|
| Treasury stock, at cost: 900,979 and 414,208 shares at September 30, 2012 and December 31, 2011, respectively | | |
| Accumulated deficit | (89,500) | (90,961) |
| Accumulated other comprehensive loss | (57) | (57) |
| Total stockholders equity | 247,071 | 222,881 |
| Total liabilities and stockholders equity | $ 394,813 | $ 400,065 |

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, | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| **Revenue:** | | | | |
| On demand | $ 78,973 | $ 62,765 | $ 224,629 | $ 172,741 |
| On premise | 1,226 | 1,772 | 3,903 | 5,045 |
| Professional and other | 3,040 | 3,118 | 7,916 | 9,052 |
| Total revenue | 83,239 | 67,655 | 236,448 | 186,838 |
| Cost of revenue(1) | 32,897 | 27,585 | 95,358 | 78,078 |
| **Gross profit** | 50,342 | 40,070 | 141,090 | 108,760 |
| **Operating expense:** | | | | |
| Product development(1) | 12,274 | 11,230 | 35,325 | 32,083 |
| Sales and marketing(1) | 21,792 | 17,688 | 57,186 | 44,992 |
| General and administrative(1) | 12,545 | 11,840 | 44,794 | 31,190 |
| Total operating expense | 46,611 | 40,758 | 137,305 | 108,265 |
| **Operating income (loss)** | 3,731 | (688) | 3,785 | 495 |
| Interest expense and other, net | (407) | (684) | (1,620) | (2,582) |
| **Income (loss) before income taxes** | 3,324 | (1,372) | 2,165 | (2,087) |
| Income tax expense (benefit) | 1,211 | (266) | 704 | (615) |
| **Net income (loss)** | $ 2,113 | $ (1,106) | $ 1,461 | $ (1,472) |
| **Net income (loss) per share** | | | | |
| Basic | $ 0.03 | $ (0.02) | $ 0.02 | $ (0.02) |
| Diluted | $ 0.03 | $ (0.02) | $ 0.02 | $ (0.02) |
| Weighted average shares used in computing net income (loss) per share | | | | |
| Basic | 72,178 | 68,792 | 71,293 | 68,096 |
| Diluted | 74,282 | 68,792 | 73,689 | 68,096 |

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

| | | | | |
|---|---|---|---|---|
| Cost of revenue | $ 649 | $ 459 | $ 2,088 | $ 1,069 |
| Product development | 1,116 | 1,258 | 3,180 | 3,343 |
| Sales and marketing | 2,653 | 3,433 | 4,422 | 8,793 |
| General and administrative | 1,595 | 1,258 | 4,627 | 3,025 |

*See accompanying notes.*

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**REALPAGE, INC.**

**Condensed Consolidated Statements of Comprehensive Income (Loss)**

**(in thousands)**

**(Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (in thousands, unaudited) | | | |
| Net income (loss) | $ 2,113 | $ (1,106) | $ 1,461 | $ (1,472) |
| Foreign currency translation gain (loss) | 5 | (16) | | (36) |
| Comprehensive income (loss) | $ 2,118 | $ (1,122) | $ 1,461 | $ (1,508) |

*See accompanying notes.*

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**REALPAGE, INC.**

**Condensed Consolidated Statements of Stockholders Equity**

**(in thousands)**

**(Unaudited)**

| | Common Stock | | Additional | Accumulated Other | | Treasury Shares | | Total |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Paid-in Capital | Comprehensive Loss | Accumulated Deficit | Shares | Amount | Stockholders Equity |
| Balance as of December 31, 2011 | 73,116 | $ 73 | $ 316,964 | $ (57) | $ (90,961) | (414) | $ (3,138) | $ 222,881 |
| Foreign currency translation | | | | | | | | |
| Net income | | | | | 1,461 | | | 1,461 |
| Exercise of stock options | 2,001 | 3 | 9,871 | | | | | 9,874 |
| Treasury stock purchase, at cost | | | | | | (487) | (2,388) | (2,388) |
| Issuance of restricted stock | 1,146 | | 926 | | | | | 926 |
| Stock-based compensation | | | 14,317 | | | | | 14,317 |
| Balance as of September 30, 2012 | 76,263 | $ 76 | $ 342,078 | $ (57) | $ (89,500) | (901) | $ (5,526) | $ 247,071 |

*See accompanying notes.*

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**REALPAGE, INC.**

**Condensed Consolidated Statements of Cash Flows**

**(in thousands)**

**(Unaudited)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2012** | **2011** |
| **Cash flows from operating activities:** | | |
| Net income (loss) | $ 1,461 | $ (1,472) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 23,682 | 21,458 |
| Deferred tax benefit | (74) | (1,430) |
| Stock-based compensation | 14,317 | 16,230 |
| Loss on disposal of assets | 387 | 398 |
| Acquisition-related contingent consideration | (422) | 102 |
| Changes in assets and liabilities, net of assets acquired and liabilities assumed in business combinations: | | |
| Accounts receivable | (1,023) | (3,900) |
| Customer deposits | (45) | 37 |
| Other current assets | 3,215 | (2,778) |
| Other assets | (693) | (587) |
| Accounts payable | (2,255) | 1,473 |
| Accrued compensation, taxes and benefits | 1,666 | (1,161) |
| Deferred revenue | 197 | 1,906 |
| Other current and long-term liabilities | 742 | (577) |
| Net cash provided by operating activities | 41,155 | 29,699 |
| **Cash flows from investing activities:** | | |
| Purchases of property, equipment and software | (18,601) | (10,782) |
| Acquisition of businesses, net of cash acquired | (19,491) | (87,817) |
| Acquisition of intangible assets | (225) | |
| Net cash used in investing activities | (38,317) | (98,599) |
| **Cash flows from financing activities:** | | |
| Stock issuance costs from public offerings | | (775) |
| Payments on revolving credit facility | (25,312) | |
| Payments on notes payable | | (8,086) |
| Payments on capital lease obligations | (65) | (438) |
| Issuance of common stock | 9,874 | 8,499 |
| Purchase of treasury stock | (2,388) | (783) |
| Net cash used in financing activities | (17,891) | (1,583) |
| Net decrease in cash and cash equivalents | (15,053) | (70,483) |
| Effect of exchange rate on cash | | (36) |
| **Cash and cash equivalents:** | | |
| Beginning of period | 51,273 | 118,010 |
| End of period | $ 36,220 | $ 47,491 |

| **Supplemental cash flow information:** | | | | |
|---|---|---|---|---|
| Cash paid for interest | $ | 1,317 | $ | 1,957 |
| Cash paid for income taxes, net of refunds | $ | 264 | $ | 797 |

*See accompanying notes.*

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**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

**1. The Company**

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

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

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

It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K filed with the SEC on February 24, 2012 ( 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, 2012 and 2011 was in North America.

Net long-lived assets held were $33.5 million and $26.4 million in North America and $2.7 million and $1.6 million in our international subsidiaries at September 30, 2012 and December 31, 2011, 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 and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant 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 and related reserves; revenue and deferred revenue; stock-based compensation; and our effective income tax rate and the recoverability of deferred tax assets, which are based upon our expectations of future taxable income and allowable deductions. Actual results could differ from these estimates. For greater detail regarding these accounting policies and estimates, refer to our Form 10-K.

***Revenue Recognition***

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

- there is persuasive evidence of an arrangement;

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

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

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

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

From time to time, we sell on demand software solutions with professional services. In such cases, as each element has stand alone value, we allocate arrangement consideration based on our 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 comprised of a charge billed at the initial order date and monthly or annual subscription fees for accessing our on demand software solutions. The license fee billed at the initial order date is recognized as revenue on a straight-line basis over the longer of the contractual term or the period in which the customer is expected to benefit, which we consider to be four years. Recognition starts once the product has been activated. Revenue from monthly and annual subscription fees is recognized on a straight-line basis over the access period.

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

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

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

*Professional and Other Revenue*

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

***Fair Value Measurements***

The Company measures 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 that 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. The fair value hierarchy consists of the following three levels:

| | |
|---|---|
| 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 significant inputs or value drivers are unobservable. |

***Concentrations of Credit Risk***

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

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

No single customer accounted for 5% or more of our revenue or accounts receivable for the three and nine months ended September 30, 2012 or 2011.

***Recently Issued Accounting Standards***

Based on our evaluation of recently issued accounting standards, there were no standards issued in 2012 that would materially impact our financial position, results of operations or related disclosures.

**3. Acquisitions**

***2012 Acquisitions***

In January 2012, we acquired substantially all of the operating assets of Vigilan, Incorporated ( Vigilan ). A provider of assisted living software-as-a-service, Vigilan products allow assisted living communities to monitor and schedule detailed care, manage labor costs, provide accurate billing as well as compliance tools through its comprehensive compliance module. This asset acquisition allows us to integrate Vigilan with existing senior living software solutions to further expand the RealPage Senior Living product offerings. We acquired Vigilan for a purchase price of $5.0 million consisting of a cash payment of $4.0 million and two additional cash payments of up to $0.5 million each due 12

months and 24 months after the acquisition date. The $1.0 million withheld from the purchase consideration was subject to a downward adjustment if certain revenue targets (a level 3 input) were not met for the six months ended June 30, 2012. The fair value of the future cash payment was $1.0 million as of June 30, 2012. This acquisition was financed from proceeds from cash flows from operations. Acquired intangibles were recorded at fair value based on assumptions made by us. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. Acquired customer relationships have a useful life of ten years which will be amortized proportionately to the expected

discounted cash flows derived from the asset. All direct acquisition costs were $0.1 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill and identified intangibles associated with this acquisition are deductible for tax purposes.

In July 2012, we acquired all of the issued and outstanding shares of Rent Mine Online, Inc. ( RMO ). The acquisition of RMO expands our resident referral capabilities into the multifamily residential rental housing market. We acquired RMO for a preliminary purchase price consisting of a cash payment of $5.5 million at closing, a deferred cash payment of up to $3.5 million and a contingent deferred earn out payment of up to 300,000 shares of our common stock, payable based on the achievement of certain revenue targets on or before December 31, 2014. In addition, the purchase agreement included a conversion option on the contingent common shares, in which the seller can elect to receive, in lieu of common shares, an amount per share equal to the lesser of the average market price or an established threshold, up to one half of the common shares earned. The $3.5 million withheld from the purchase price is subject to a downward adjustment if certain revenue targets (a level 3 input) are not met as of March 31, 2013. The preliminary fair value of the future cash payment was $0.8 million as of September 30, 2012. We recorded the preliminary fair value of the common shares and the conversion option of $0.9 million. These preliminary fair values were based on management s estimate of the fair value of the cash, common shares and put option using a probability weighted discount model on the achievement of certain revenue targets. This acquisition was financed using cash flows from operations. Acquired intangibles were preliminarily recorded at fair value based on assumptions determined by us. The purchase price allocation is preliminary due to finalizing the valuation of intangibles and contingent consideration. We expect to finalize this during the fourth quarter. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. Acquired customer relationships have a useful life of ten years which will be amortized proportionately to the expected discounted cash flows derived from the asset. Direct acquisition costs were $0.1 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill and identified intangible assets are not deductible for tax purposes.

We have allocated the purchase price for RMO (preliminary) and Vigilan as follows:

| | RMO | Vigilan |
|---|---|---|
| | (in thousands) | |
| Intangible assets: | | |
| Developed product technologies | $ 2,260 | $ 1,430 |
| Customer relationships | 2,320 | 1,150 |
| Goodwill | 4,238 | 2,454 |
| Net deferred taxes | (1,628) | |
| Net other assets | (363) | (34) |
| Total purchase price, net cash acquired | $ 6,827 | $ 5,000 |

***2011 Acquisitions***

In May 2011, we acquired substantially all of the assets of Compliance Depot, LLC ( Compliance Depot ) for approximately $22.5 million which included a cash payment of $19.2 million at closing and three deferred payments of $1.1 million each payable six, twelve and eighteen months after the acquisition date. As of September 30, 2012, only one payment of $1.1 million remains outstanding. The acquisition of Compliance Depot expands our ability to provide vendor risk management and compliance software solutions for the rental housing industry. This acquisition was financed from proceeds from our initial public offering and cash flows from operations. Acquired intangibles were recorded at fair value based on assumptions made by us. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. Acquired customer relationships have a useful life of nine years which will be amortized proportionately to the expected discounted cash flows derived from the asset. The trade names acquired have an indefinite useful life as we do not plan to cease using the trade names in the marketplace. All direct acquisition costs were less than $0.1 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill and identified intangibles associated with this acquisition are deductible for tax purposes.

In July 2011, we acquired Senior-Living.com, Inc., operating under the name SeniorLiving.net ( SLN ), pursuant to an Agreement and Plan of Merger. The acquisition of SLN expands our lead generation capabilities into the senior living rental housing market. The purchase price consisted of a cash payment of $4.0 million at closing, additional cash payments of $0.5 million, half of which is due on each of the first and second anniversaries of the acquisition date, an estimated cash payment payable (acquisition-related contingent consideration) and up to 400,000 shares of our common stock, in each case payable based on the achievement of certain revenue targets as defined in the purchase agreement. As of September 30, 2012, 100,000 shares had been issued. This acquisition was financed from proceeds from cash flows from operations. At the

acquisition date, we recorded a liability for the estimated fair value of the acquisition-related contingent consideration of $0.3 million. In addition, we recorded the fair value of the common shares of $8.4 million. These fair values were based on management s estimate of the fair value of the cash and the restricted common shares using a probability weighted discounted cash flow model on the achievement of certain revenue targets. The cash payment has a maximum value of $0.5 million. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. Acquired customer relationships have a useful life of ten years which will be amortized proportionately to the expected discounted cash flows derived from the asset. The trade names acquired have an indefinite useful life

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as we do not plan to cease using the trade names in the marketplace. All direct acquisition costs were approximately $0.1 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill and identified intangibles associated with this acquisition are not deductible for tax purposes. The liability established for the acquisition-related contingent consideration will continue to be re-evaluated and recorded at an estimated fair value based on the probabilities, as determined by management, of achieving the related targets (a level 3 input). This evaluation will be performed until all of the targets have been met or terms of the agreement expire. As of September 30, 2012, our liability for the estimated cash payment was $0.5 million. During the three and nine months ended September 30, 2012, we recognized losses of less than $0.1 million and $0.1 million, respectively, due to changes in the estimated fair value of the cash acquisition-related contingent consideration.

In August 2011, we acquired Multifamily Technology Solutions, Inc. ( MTS ), which owns the Internet listing service for rental properties called MyNewPlace, pursuant to an Agreement and Plan of Merger. MTS continued as the surviving corporation of the Merger and a wholly owned subsidiary of RealPage. The acquisition of MTS adds an Internet listing service for rental properties and expands our syndication and organic lead generation capabilities. This acquisition was financed from proceeds from our initial public offering, cash flows from operations and issuance of restricted common stock. The purchase price consisted of a cash payment of $64.0 million, including amount placed in escrow, net of cash acquired, 294,770 shares of RealPage restricted common stock and the assumption of MTS stock options exercisable for 349,693 shares of RealPage common stock. In addition, the purchase agreement included a put option on the restricted common shares, in which, if the average market price of our common shares falls below an established threshold, we will pay the difference between the average market price and the established threshold in cash. We established a liability of $1.2 million for the put option which is based on its estimated fair value at the acquisition date. We also recorded the fair value of the restricted common shares and the assumed stock options of $6.3 million and $3.6 million, respectively. The fair value of the restricted common shares was based on management s estimate of the fair value of restricted common shares using a probability weighted discounted cash flow model. The fair values of the assumed stock options and the put option was based on the Black-Scholes option pricing model using inputs consistent with those used in the valuation of our stock options. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. Acquired customer relationships have a useful life of ten years which will be amortized proportionately to the expected discounted cash flows derived from the asset. The trade names acquired have an indefinite useful life as we do not plan to cease using the trade names in the marketplace. All direct acquisition costs were approximately $0.8 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill and identified intangibles associated with this acquisition are not deductible for tax purposes. The liability established for the put option on the restricted common shares will continue to be re-evaluated and recorded at an estimated fair value based on the changes in market prices of our common stock (a level 2 input). During the three and nine months ended September 30, 2012, we recognized gains of $0.3 million and $0.3 million, respectively, due to changes in the estimated fair value of the put option for restricted common shares. One of the minority shareholders of MTS is our customer. In connection with the distribution of the purchase price, we paid this customer for their proportionate share of the purchase price. This transaction was at arm s length and is not related to the ongoing relationship with us.

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

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

| | MTS | SLN (in thousands) | Compliance Depot |
|---|---|---|---|
| Intangible assets: | | | |
| Developed product technologies | $ 2,280 | $ 1,200 | $ 382 |
| Customer relationships | 27,600 | 2,630 | 9,030 |
| Trade names | 24,800 | 2,560 | 2,230 |
| Goodwill | 33,795 | 8,356 | 13,349 |
| Deferred revenue | (164) | | (2,380) |
| Net deferred taxes | (15,574) | (1,347) | |
| Net other assets | 2,210 | (224) | (110) |
| Total purchase price, net of cash acquired | $ 74,947 | $ 13,175 | $ 22,501 |

***Other Acquisition-Related Fair Value Adjustments***

We have acquired companies in previous years for which acquisition-related 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 and recorded at an estimated fair value based on the probabilities, as determined by management, of achieving the related targets. This evaluation will be performed until all of the targets have been met or terms of the agreement expire.

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In July 2010, we purchased 100% of the outstanding stock of eReal Estate Integration, Inc. ( eREI ), which included an estimated cash payment payable upon the achievement of certain revenue targets (acquisition-related contingent consideration). The fair value of this acquisition-related contingent consideration was based on management s estimate of the fair value of the cash using a probability weighted discounted cash flow model on the achievement of certain revenue targets (a level 3 input). The cash payment has a maximum value of $1.8 million. As of September 30, 2012, our liability for the estimated cash payment was $0.2 million. We recognized gains of $0.3 million and less than $0.1 million during the three months ended and a gain of $0.2 million and a loss of $0.1 million during nine months ended September 30, 2012 and 2011, respectively, due to changes in the estimated fair value of the cash acquisition-related contingent consideration.

***Pro Forma Results of Acquisitions***

The following table presents pro forma results of operations for the three and nine months ended September 30, 2012 and 2011 as if the RMO, Vigilan, MTS, SLN and Compliance Depot acquisitions had occurred at the beginning of the years presented. The pro forma financial information for the nine months ended September 30, 2012, respectively, includes the business combination accounting effects resulting from the RMO acquisition including: tax benefit of $0.2 million and approximately $0.5 million of amortization charges from acquired intangible assets. The pro forma financial information for the three and nine months ended September 30, 2011, respectively, includes the business combination accounting effects resulting from these acquisitions including: interest expense of $0.1 million and $0.2 million; tax benefit of $0.5 million and $2.4 million; and $0.6 million and $2.8 million of amortization charges from acquired 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 taken place at the beginning of the periods presented or of future results.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | Actual | Pro Forma | Pro Forma | Pro Forma |
| | (in thousands, except per share amounts) | | | |
| Revenue: | | | | |
| On demand | $ 78,973 | $ 66,485 | $ 225,839 | $ 188,934 |
| On premise | 1,226 | 1,772 | 3,903 | 5,045 |
| Professional and other | 3,040 | 3,118 | 7,916 | 9,052 |
| Total revenue | 83,239 | 71,375 | 237,658 | 203,031 |
| Net income (loss) | $ 2,113 | $ (1,915) | $ 1,214 | $ (5,043) |
| Net income (loss) per share: | | | | |
| Basic | $ 0.03 | $ (0.03) | $ 0.02 | $ (0.07) |
| Diluted | $ 0.03 | $ (0.03) | $ 0.02 | $ (0.07) |

**4. Property, Equipment and Software**

Property, equipment and software consist of the following:

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| | (in thousands) | |
| Leasehold improvements | $ 11,820 | $ 9,924 |
| Data processing and communications equipment | 43,196 | 38,926 |
| Furniture, fixtures, and other equipment | 11,379 | 9,680 |
| Software | 40,844 | 31,266 |
| | 107,239 | 89,796 |
| Less: Accumulated depreciation and amortization | (71,076) | (61,822) |
| Property, equipment and software, net | $ 36,163 | $ 27,974 |

Depreciation and amortization expense for property, equipment and software was $3.5 million and $3.1 million for the three months ended, and $10.3 million and $9.5 million for the nine months ended September 30, 2012 and 2011, respectively. This includes depreciation for assets purchased through capital leases.

**5. Goodwill and Other Intangible Assets**

The change in the carrying amount of goodwill for the nine months ended September 30, 2012 is as follows:

| | | **(in thousands)** |
|---|---|---|
| Balance at December 31, 2011 | $ | 129,292 |
| Goodwill acquired | | 6,692 |
| Other | | (1,166) |
| Balance at September 30, 2012 | $ | 134,818 |

Other intangible assets consisted of the following at September 30, 2012 and December 31, 2011:

| | | September 30, 2012 | | | December 31, 2011 | | |
|---|---|---|---|---|---|---|---|
| | Amortization Period | Carrying Amount | Accumulated Amortization | Net | Carrying Amount | Accumulated Amortization | Net |
| | | | | (in thousands) | | | |
| Finite-lived intangible assets | | | | | | | |
| Developed technologies | 3 years | $ 29,735 | $ (21,140) | $ 8,595 | $ 25,963 | $ (14,847) | $ 11,116 |
| Customer relationships | 1-10 years | 77,703 | (21,434) | 56,269 | 74,233 | (14,949) | 59,284 |
| Vendor relationships | 7 years | 5,650 | (3,882) | 1,768 | 5,650 | (3,316) | 2,334 |
| Total finite-lived intangible assets | | 113,088 | (46,456) | 66,632 | 105,846 | (33,112) | 72,734 |
| Indefinite-lived intangible assets | | | | | | | |
| Trade names | | 39,580 | | 39,580 | 39,574 | | 39,574 |
| Total intangible assets | | $ 152,668 | $ (46,456) | $ 106,212 | $ 145,420 | $ (33,112) | $ 112,308 |

Amortization of finite-lived intangible assets was $4.5 million and $4.3 million for the three months ended, and $13.3 million and $11.9 million for the nine months ended September 30, 2012 and 2011, respectively.

**6. Debt**

In December 2011, we entered into an Amended and Restated Credit Agreement ( Credit Agreement ) to amend our original credit facility. The Credit Agreement provides for a secured revolving credit facility in 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. The Credit Agreement converted our outstanding term loan under the original credit facility into revolving loans. Revolving loans accrue interest at a per annum rate equal to, at the Company s option, 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 2.50% to 3.00%, in the case of LIBOR loans, and 0.00% to 0.25% in the case of prime rate loans, based upon the Company s senior leverage ratio. The interest is due and payable monthly, in arrears, for loans bearing interest at the prime rate and at the end of the applicable 1-, 2-, or 3-month interest period in the case of loans bearing interest as the adjusted LIBOR rate. Principal, together with all accrued and unpaid interest, is due and payable on December 30, 2015. Advances under the credit facility may be voluntarily prepaid, and must be prepaid with the proceeds of certain dispositions, extraordinary receipts and indebtedness and in full upon a change in control.

In September 2012, we entered into an amendment to the Credit Agreement. Under the terms of the amendment, the LIBOR rate margin ranges from 2.00% to 2.50%, based on our senior leverage ratio. All other interest rates and maturity periods remain consistent with the Credit Agreement. Additionally, our capital expenditure limitations were expanded in the amendment.

As of September 30, 2012 and December 31, 2011, we had $25.0 million and $50.3 million outstanding under our revolving line of credit, which approximates its fair value. As of September 30, 2012, $125.0 million was available under our revolving line of credit and $10.0 million was available for the issuance of letters of credit. We had unamortized debt issuance costs of $1.0 million and $1.3 million at September 30, 2012 and December 31, 2011, respectively. As of September 30, 2012, we were in compliance with our debt covenants.

**7. Share-based Compensation**

In February 2012, we granted 696,150 options with an exercise price of $20.01 which vest over four years with 75% vesting over 15 quarters and the remaining 25% vesting on the $16^{th}$ quarter. We also granted 382,050 shares of restricted stock at $20.01 which vest ratably over four years, 74,760 shares at $20.01 that vest quarterly over one year and 4,365 shares at $21.22 which vest over one year.

In April 2012, we granted 31,302 shares of restricted stock at $19.17 which vest ratably over four years to our Board of Directors.

On May 8, 2012, we granted 240,124 options with an exercise price of $18.10 which vest over four years with 75% vesting over 15 quarters and the remaining 25% vesting on the 16th quarter. We also granted 121,564 shares of restricted stock at $18.10 which vest ratably over four years. Both stock options and restricted stock were granted under the 2010 Equity Plan. We also granted 70,000 shares of performance restricted stock at $18.10 to certain employees which vest as product specific revenue targets are achieved.

On August 7, 2012, we granted 322,556 options with an exercise price of $24.62 which vest over four years with 75% vesting over 15 quarters and the remaining 25% vesting on the 16th quarter. We also granted 161,516 shares of restricted stock at $24.62 which vest ratably over four years. Both stock options and restricted stock were granted under the 2010 Equity Plan. In connection with our acquisition of RMO, we granted 200,000 shares of performance restricted stock at $24.62 to certain employees which vest as product specific revenue targets are achieved.

All stock options and restricted stock were granted under the 2010 Equity Plan.

**8. Commitments and Contingencies**

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, 2012 or December 31, 2011.

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

The potential amount of future payments to defend lawsuits or settle indemnified claims under these indemnification provisions is unlimited in certain agreements; however, we believe the estimated fair value of these indemnity provisions is minimal, and, accordingly, we had no liabilities recorded for these agreements as of September 30, 2012 or December 31, 2011.

***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 (or additional material loss in excess of any accrual) loss 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.

On January 24, 2011, Yardi Systems, Inc. ( Yardi ) filed a lawsuit in the U.S. District Court for the Central District of California against RealPage, Inc. and DC Consulting, Inc. (this lawsuit and the related litigation, the Yardi Lawsuit ) and filed a First Amended Complaint on August 12, 2011. On March 28, 2011, we filed an answer and counterclaims, on May 18, 2011, we filed amended counterclaims, on September 2, 2011, we filed Second Amended Counterclaims and on September 12, 2011, we filed an answer to Yardi s First Amended Complaint. Yardi filed a pending motion to dismiss several of our counterclaims which we opposed. On February 13, 2012, the Court denied Yardi s motion with respect to all claims except for a portion of one of our claims for intentional interference with contract, as to which dismissal was granted. On July 1, 2012, the Company and Yardi entered into a settlement agreement (the Settlement Agreement ) resolving all outstanding litigation between the parties. The Settlement Agreement also includes a license of certain Yardi intellectual property to the Company and a license of certain of our intellectual property to Yardi.

The Settlement Agreement is a multiple element arrangement for accounting purposes. For the multiple element arrangement, the Company identified each element of the arrangement and determined when those elements should be recognized. The Company allocated the consideration to each element using the estimated fair value of the elements. The Company considered several factors in determining the accounting fair value of the elements of the Settlement Agreement. The inputs and assumptions used in this valuation were from a market participant perspective and included projected revenue, estimated discount rates, useful lives and income tax rates, among others. The development of a number of these inputs and assumptions in the model requires a significant amount of management judgment and is based upon a number of factors. Changes in any number of these assumptions may have had a substantial impact on the fair value as assigned to each element. These inputs and assumptions represent management s best estimates at the time of the transaction. Based on the estimated fair value, we have recognized the following: $3.0

million for the

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license from Yardi, which was capitalized upon execution of the Settlement Agreement and amortized as a cost of revenue over its estimated useful life, beginning in July 2012; $1.0 million for the license sold to Yardi, which will be recognized as revenue over the estimated useful life of the technology, beginning in July 2012; and $8.5 million inclusive of the settlement and other related legal costs, which were expensed in the second quarter of 2012.

In connection with the Yardi Lawsuit, the Company made claims for reimbursement against each of its primary and excess layer general liability and errors and omissions liability insurance carriers. Each of our primary and excess layer errors and omissions liability insurance carriers other than Homeland Insurance of New York ( Homeland ) reimbursed the Company up to each of its policy limits. On July 19, 2012, we became aware of assertions by one of our primary layer errors and omissions insurance carriers, Ace European Group, Ltd. d/b/a Ace European Group, Barbican Syndicate 1995 at Lloyds s ( Ace ), that Ace no longer considered the previously reimbursed $5.0 million payment covered under such policy, and that Ace demanded reimbursement of the $5.0 million payment that it had previously reimbursed to us. On August 12, 2012, our first excess layer errors and omissions insurance carrier, Axis Surplus Insurance Company ( Axis ), informed us that if Ace s policy is deemed void, then Axis first excess layer policy was void on the same basis which would result in the Company s obligation to reimburse to Axis $5.0 million in payments that Axis had previously reimbursed to us. The Company disputes these assertions by these carriers and intends to vigorously protect its coverage. Accordingly, on August 14, 2012, the Company filed a lawsuit in the U.S. District Court for the Eastern District of Texas against Ace and Axis (the Ace Lawsuit ) seeking a declaration by the court that Ace and Axis have no right to, and no lawful reason to demand reimbursement of, the amounts paid to the Company s counsel in connection with the Yardi Lawsuit. On September 5, 2012, Ace filed a motion to dismiss the Ace Lawsuit and on September 6, 2012, defendant Axis filed a motion to dismiss the Ace Lawsuit. On September 24, 2012, the Company filed our opposition to the motions to dismiss and separately filed our motion for partial summary judgment on the basis that each of Ace s and Axis notice of rescission was untimely under applicable statutory law. Trial in the Ace Lawsuit is currently set for November 4, 2013. We intend to continue to pursue coverage and other appropriate relief in connection with these insurance policies. We believe that it is remote that we will have a material loss in connection with these reimbursement demands.

In addition, in connection with the Yardi Lawsuit, the Company has an excess errors and omissions liability insurance policy with Homeland that provides an additional $5.0 million of coverage above the amounts previously reimbursed to us. The Company made claims for reimbursement under the Homeland policy with respect to the Yardi Lawsuit, but Homeland denied such claims and never made payment to us. On May 30, 2012, Homeland filed an Original Complaint for Declaratory Relief against the Company in the United States District Court for the Northern District of Texas, Fort Worth Division, seeking a declaration that Homeland s policy excludes coverage for amounts incurred in connection with the Yardi Lawsuit. On August 29, 2012, the Company responded to Homeland s complaint and filed counterclaims. Homeland responded to the Company s counterclaims on September 20, 2012. We intend to continue to vigorously pursue coverage and other appropriate relief in connection with this insurance policy. We have not recorded any amounts as recoverable in relation to the Homeland insurance policy as of the date of this filing.

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

**9. Net Income (Loss) Per Share**

Basic net income (loss) per share is computed by dividing the net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (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 8,521 and 239,804 shares for the three and nine months ended September 30, 2011, respectively, were excluded from the dilutive shares outstanding because their effect was anti-dilutive.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (in thousands, except per share amounts) | | | |
| Numerator: | | | | |
| Net income (loss) | $ 2,113 | $ (1,106) | $ 1,461 | $ (1,472) |
| Denominator: | | | | |
| Basic: | | | | |
| Weighted average common shares used in computing basic net income (loss) per share | 72,178 | 68,792 | 71,293 | 68,096 |
| Diluted: | | | | |
| Add weighted average effect of dilutive securities: | | | | |
| Stock options and restricted stock | 2,104 | | 2,396 | |
| Weighted average common shares used in computing diluted net income (loss) per share | 74,282 | 68,792 | 73,689 | 68,096 |
| Net income (loss) per common share: | | | | |
| Basic | $ 0.03 | $ (0.02) | $ 0.02 | $ (0.02) |
| Diluted | $ 0.03 | $ (0.02) | $ 0.02 | $ (0.02) |

**10. Income Taxes**

We make estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes.

Our 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 36.4% and 19.4% for the three months ended September 30, 2012 and 2011, respectively, and 32.5% and 29.5% for the nine months ended September 30, 2012 and 2011. Our effective tax rate fluctuated from the prior period predominantly due to the impact of permanent differences, including stock compensation and the non-deductibility of contingent consideration, in relation to our results of operations before income taxes.

**11. Related Party**

Beginning in 2012, Scott S. Ingraham began serving on our board of directors. He is an investor in Zuma Capital Greenville LLC ( ZCG ), which is a minority member of the parent entity of the entities from which we acquired certain assets relating to the LevelOne business in November 2010. Pursuant to the LevelOne acquisition agreement, we held back a portion of the purchase price for a period of time in order to ensure payment for any claims that arose post-acquisition, which amount, net of claims and adjustments, was paid in May 2012. ZCG s interest in this pay-out, based on its ownership percentage of such parent entity, was $0.5 million and Mr. Ingraham s interest in this pay-out, was approximately $0.2 million. Mr. Ingraham also serves on the Board of Trust Managers of Camden Property Trust, one of our larger customers.

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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, and Section 21E of the Securities Exchange Act of 1934, as amended (which Sections were adopted as part of the Private Securities Litigation Reform Act of 1995). Statements preceded by, followed by or that otherwise include the words anticipates, believes, could, seeks, estimates, expects, intends, may, plans, potential, predicts, projects, should, will, would or similar expressions and the negatives of those terms are generally forward-looking in nature and not historical facts. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any anticipated results, performance or achievements. 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 2011. 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**

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

Our solutions enable property owners and managers to increase revenues and reduce operating costs through higher occupancy, improved pricing methodologies, new sources of revenue from ancillary services, improved collections and more integrated and centralized processes. As of September 30, 2012, over 8,300 customers used one or more of our on demand software solutions to help manage the operations of approximately 7.8 million rental housing units. Our customers include each of the ten largest multi-family property management companies in the United States, ranked as of January 1, 2011 by the National Multi Housing Council, based on number of units managed.

We sell our solutions through our direct sales organization. Our total revenues were approximately $83.2 million and $67.7 million for the three months ended, and $236.4 million and $186.8 million for the nine months ended, September 30, 2012 and 2011, respectively. In the same periods, we had operating income (loss) of approximately $3.7 million, $(0.7) million, $3.8 million and $0.5 million, respectively, and net income (loss) of approximately $2.1 million, $(1.1) million, $1.5 million and $(1.5) million, respectively.

Our company was formed in 1998 to acquire Rent Roll, Inc., which marketed and sold on premise property management systems for the conventional and affordable multi-family rental housing markets. In June 2001, we released OneSite, our first on demand property management system. Since 2002, we have expanded our on demand software solutions to include a number of software-enabled value-added services that provide complementary sales and marketing, asset optimization, risk mitigation, billing and utility management and spend management capabilities. In connection with this expansion, we have allocated greater resources to the development and infrastructure needs of developing and increasing sales of our suite of on demand software solutions. In addition, since July 2002, we have completed 19 acquisitions of complementary technologies to supplement our internal product development and sales and marketing efforts and expand the scope of our solutions, the types of rental housing properties served by our solutions and our customer base.

**New Product Families**

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

In February 2012, we announced our new product family, RealPage Senior Living. We believe RealPage Senior Living will help owners and managers attract more residents and improve the living and care experience enjoyed by those residents.

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**Recent Acquisitions**

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

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

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

In January 2012, we acquired substantially all of the operating assets of Vigilan, Incorporated ( Vigilan ). A provider of assisted living software-as-a-service, Vigilan products allow assisted living communities to monitor and schedule detailed care, manage labor costs, provide accurate billing as well as compliance tools through its comprehensive compliance module. We acquired Vigilan for a purchase price of $5.0 million consisting of a cash payment of $4.0 million and two additional cash payments of up to $0.5 million each due 12 months and 24 months after the acquisition date.

In July 2012, we acquired all of the issued and outstanding shares of Rent Mine Online, Inc. ( RMO ) for a purchase price which consists of a cash payment of $5.5 million at closing, a deferred payment of up to $3.5 million and a contingent deferred earn out payment of up to 300,000 shares of our common stock, payable based on the achievement of specified milestones on or before December 31, 2014. The acquisition of RMO expands our resident referral capabilities into the multifamily residential rental housing market.

**Critical Accounting Policies and Estimates**

The preparation of our condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. We base these estimates and assumptions on historical experience or on various other factors that we believe to be reasonable and appropriate under the circumstances. We reconsider and evaluate our estimates and assumptions on an on-going basis. Accordingly, actual results may differ significantly from these estimates

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

- Revenue recognition;
- Accounts receivable;
- Business combinations;

Goodwill and other intangible assets with indefinite lives;

Impairment of long-lived assets;

Fair value measurements;

Intangible assets;

Stock-based compensation;

Income taxes; and

Capitalized product development costs.

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

**Key Components of Our Results of Operations**

***Revenue***

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

*On demand revenue.* Revenue from our on demand software solutions is comprised of license and subscription fees relating to our on demand software solutions, typically licensed for one year terms, commission income from sales of renter s insurance policies, and transaction fees for certain 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 or beds 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 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 our contingent commission revenue considers historical loss experience on the policies sold by us. For our transaction-based solutions, we price 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 customers hardware. Revenue from our on premise software solutions is comprised of license fees under term and perpetual license agreements. Typically, we have licensed our on premise software solutions pursuant to term license agreements with an initial term of one year that include maintenance and support. Customers can renew their term license agreement for additional one-year terms at renewal price levels. In February 2010, we completed a strategic acquisition of assets that included on premise software solutions that were historically marketed and sold pursuant to perpetual license agreements and related maintenance agreements.

We no longer actively market our legacy on premise software solutions 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 recently 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. Professional and other services engagements are typically time and material based.

***Cost of Revenue***

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

***Operating Expenses***

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

*Product development.* Product development expense consists primarily of personnel costs for our product development employees and executives and fees to contract development vendors. Our product development efforts are focused primarily on increasing the functionality and enhancing the ease of use of our on demand software solutions and expanding our suite of on demand software solutions. In 2008 and 2011, we

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

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*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 online advertising, including search engine optimization ( SEO ) and search engine marketing ( SEM ), renter s insurance and other advertising, tradeshows, 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 relationships and key vendor and supplier relationships obtained in connection with our acquisitions.

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

**Key Business Metrics**

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

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

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

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

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

The following provides a reconciliation of non-GAAP on demand revenue:

| | Three Months Ended September 30, | Nine Months Ended September 30, |
|---|---|---|