REALPAGE INC
Form 10-Q
May 09, 2011

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

**FORM 10-Q**

**(Mark One)**

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended March 31, 2011**

**or**

o **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**<br>**(State or other jurisdiction of incorporation or organization)** | **75-2788861**<br>**(I.R.S. Employer Identification No.)** |
| **4000 International Parkway**<br>**Carrollton, Texas**<br>**(Address of principal executive offices)** | **75007-1951**<br>**(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 þ No o
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 o No o
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 o | Accelerated filer o | Non-accelerated filer þ<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

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 April 30, 2011** |
|---|---|
| Common Stock, $0.001 par value | 69,540,212 |

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## PART I FINANCIAL INFORMATION

### Item 1. Financial Statements.

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

| | March 31, 2011 (Unaudited) | December 31, 2010 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 124,243 | $ 118,010 |
| Restricted cash | 15,090 | 15,346 |
| Accounts receivable, less allowance for doubtful accounts of $974 and $1,370 at March 31, 2011 and December 31, 2010, respectively | 29,550 | 29,577 |
| Deferred tax asset, net of valuation allowance | 1,539 | 1,529 |
| Other current assets | 6,713 | 6,060 |
| Total current assets | 177,135 | 170,522 |
| Property, equipment, and software, net | 23,048 | 24,515 |
| Goodwill | 73,947 | 73,885 |
| Identified intangible assets, net | 50,771 | 54,361 |
| Deferred tax asset, net of valuation allowance | 18,090 | 17,322 |
| Other assets | 2,833 | 2,187 |
| Total assets | $ 345,824 | $ 342,792 |
| **Liabilities and stockholders equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 5,179 | $ 4,787 |
| Accrued expenses and other current liabilities | 14,321 | 15,436 |
| Current portion of deferred revenue | 47,710 | 47,717 |
| Current portion of long-term debt | 10,781 | 10,781 |
| Customer deposits held in restricted accounts | 15,014 | 15,253 |
| Total current liabilities | 93,005 | 93,974 |
| Deferred revenue | 8,311 | 7,947 |
| Long-term debt, less current portion | 52,563 | 55,258 |
| Other long-term liabilities | 12,310 | 13,029 |
| Total liabilities | 166,189 | 170,208 |
| Commitments and contingencies (Note 8) | | |
| Stockholders equity: | | |
| Preferred stock, $0.001 par value, 10,000,000 shares authorized and zero shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively | | |
| Common stock, $0.001 par value: 125,000,000 shares authorized, 69,742,139 and 68,703,366 shares issued and 69,520,051 and 68,490,277 shares outstanding at March 31, 2011 and December 31, 2010, respectively | 70 | 69 |
| Additional paid-in capital | 271,115 | 263,219 |

| | | |
|---|---|---|
| Treasury stock, at cost: 222,088 and 213,089 shares at March 31, 2011 and December 31, 2010, respectively | (1,144) | (958) |
| Accumulated deficit | (90,378) | (89,730) |
| Accumulated other comprehensive loss | (28) | (16) |
| Total stockholders equity | 179,635 | 172,584 |
| Total liabilities and stockholders equity | $ 345,824 | $ 342,792 |

See accompanying notes

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

| | Three Months Ended March 31, 2011 | Three Months Ended March 31, 2010 |
|---|---|---|
| **Revenue:** | | |
| On demand | $ 52,937 | $ 37,207 |
| On premise | 1,645 | 1,868 |
| Professional and other | 2,966 | 2,303 |
| Total revenue | 57,548 | 41,378 |
| Cost of revenue(1) | 24,683 | 17,858 |
| **Gross profit** | 32,865 | 23,520 |
| **Operating expense:** | | |
| Product development(1) | 10,316 | 8,315 |
| Sales and marketing(1) | 12,794 | 7,540 |
| General and administrative(1) | 9,776 | 6,522 |
| Total operating expense | 32,886 | 22,377 |
| **Operating (loss) income** | (21) | 1,143 |
| Interest expense and other, net | (1,166) | (1,464) |
| **Loss before income taxes** | (1,187) | (321) |
| Income tax benefit | (539) | (118) |
| **Net loss** | $ (648) | $ (203) |
| **Net loss attributable to common stockholders** | | |
| Basic | $ (648) | $ (1,353) |
| Diluted | $ (648) | $ (1,353) |
| **Net loss per share attributable to common stockholders** | | |
| Basic | $ (0.01) | $ (0.05) |
| Diluted | $ (0.01) | $ (0.05) |
| Weighted average shares used in computing net loss per share attributable to common stockholders | | |
| Basic | 66,800 | 25,759 |
| Diluted | 66,800 | 25,759 |

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

| | | |
|---|---|---|
| Cost of revenue | $ 298 | $ 123 |
| Product development | 980 | 507 |

| | | |
|---|---|---|
| Sales and marketing | 2,733 | 164 |
| General and administrative | 842 | 300 |

*See accompanying notes.*

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**REALPAGE, INC.**
**Condensed Consolidated Statements of Stockholders Equity**
**(in thousands, except share data)**
**(Unaudited)**

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Accumulated Deficit | Treasury Shares | | Total Stockholders Equity |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | Shares | Amount | |
| Balance as of December 31, 2010 | 68,703 | $ 69 | $ 263,219 | $ (16) | $ (89,730) | (213) | $ (958) | $ 172,584 |
| Foreign currency translation | | | | (12) | | | | (12) |
| Net loss | | | | | (648) | | | (648) |
| Exercise of stock options | 739 | 1 | 3,043 | | | | | 3,044 |
| Treasury stock purchase, at cost | | | | | | (9) | (186) | (186) |
| Issuance of restricted stock | 300 | | | | | | | |
| Stock-based compensation | | | 4,853 | | | | | 4,853 |
| Balance as of March 31, 2011 | 69,742 | $ 70 | $ 271,115 | $ (28) | $ (90,378) | (222) | $ (1,144) | $ 179,635 |

*See accompanying notes.*

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

| | Three Months Ended March 31, 2011 | Three Months Ended March 31, 2010 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net loss | $ (648) | $ (203) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 6,773 | 4,670 |
| Deferred tax benefit | (778) | (102) |
| Stock-based compensation | 4,853 | 1,094 |
| Loss on sale of assets | 397 | |
| Acquisition-related contingent consideration | 62 | |
| Changes in assets and liabilities, net of assets acquired and liabilities assumed in business combinations: | | |
| Accounts receivable | 27 | 6,275 |
| Customer deposits | 17 | (379) |
| Other current assets | 977 | (806) |
| Other assets | (654) | (889) |
| Accounts payable | 1,065 | 1,629 |
| Accrued compensation, taxes and benefits | (1,630) | (1,685) |
| Deferred revenue | 357 | (2,338) |
| Other current and long-term liabilities | (1,557) | (68) |
| Net cash provided by operating activities | 9,261 | 7,198 |
| **Cash flows from investing activities:** | | |
| Purchases of property, equipment and software | (1,954) | (2,917) |
| Acquisition of businesses, net of cash acquired | (184) | (13,048) |
| Net cash used by investing activities | (2,138) | (15,965) |
| **Cash flows from financing activities:** | | |
| Stock issuance costs from public offerings | (775) | |
| Proceeds from notes payable | | 10,000 |
| Payments on notes payable | (2,695) | (2,493) |
| Payments on capital lease obligations | (266) | (312) |
| Issuance of common stock | 3,044 | 160 |
| Purchase of treasury stock | (186) | (4) |
| Net cash (used) provided by financing activities | (878) | 7,351 |
| Net increase (decrease) in cash and cash equivalents | 6,245 | (1,416) |
| Effect of exchange rate on cash | (12) | 27 |
| **Cash and cash equivalents:** | | |
| Beginning of period | 118,010 | 4,427 |

| | | | | |
|---|---|---|---|---|
| End of period | $ | 124,243 | $ | 3,038 |
| **Supplemental cash flow information:** | | | | |
| Cash paid for interest | $ | 687 | $ | 1,262 |
| Cash paid for income taxes, net of refunds | $ | 413 | $ | 45 |
| **Non-cash financing activities:** | | | | |
| Accrued dividends and accretion of preferred stock | $ | | $ | 1,176 |

*See accompanying notes.*

**REALPAGE, INC.**
**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.

***Reverse Stock Split***

On July 22, 2010, the board of directors approved an amended and restated certificate of incorporation that effected a reverse stock split of every two outstanding shares of preferred stock and common stock into one share of preferred stock or common stock, respectively. The par value of the common and convertible preferred stock was not adjusted as a result of the reverse stock split. All issued and outstanding common stock, restricted stock, redeemable convertible preferred stock, warrants for common stock and per share amounts contained in the financial statements have been retroactively adjusted to reflect this reverse stock split for all periods presented. The reverse stock split was effected on July 23, 2010.

***Public Offerings***

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

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

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

## 2. Summary of Significant Accounting Policies

***Basis of Presentation***

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

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

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

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***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 months ended March 31, 2011 and 2010 was in North America.

Net long-lived assets held were $22.5 million and $24.0 million in North America and $0.5 million and $0.5 million in our international subsidiaries at March 31, 2011 and December 31, 2010, 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 accounting policies and estimates include: the allowance for doubtful accounts; the useful lives of intangible assets and the recoverability or impairment of tangible and intangible asset values; purchase accounting allocations and related reserves; deferred revenue; stock-based compensation; and our effective income tax rate and the recoverability of deferred tax assets, which are based upon our expectations of future taxable income and allowable deductions. Actual results could differ from these estimates. For greater detail regarding these accounting policies and estimates, refer to our Form 10-K.

***Revenue Recognition***

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

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

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

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

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

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

*On Demand Revenue*

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

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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.

*On Premise Revenue*

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

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

*Professional and Other Revenue*

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

***Concentrations of Credit Risk***

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

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

No single customer accounted for 5% or more of our revenue or accounts receivable for the three months ended March 31, 2011 or 2010.

***Comprehensive Loss***

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2011** | **2010** |
| | **(in thousands)** | |

| | | | | |
|---|---|---|---|---|
| Net loss | $ | (648) | $ | (203) |
| Foreign currency translation (loss) gain | | (12) | | 27 |
| Comprehensive loss | $ | (660) | $ | (176) |

***Recently Issued Accounting Standards***

In December 2010, the FASB issued ASU 2010-29 Business Combinations (Topic 805) Disclosure of Supplementary Pro Forma Information for Business Combinations ( ASU 2010-29 ) effective prospectively for material (either on an individual or aggregate basis) business combinations entered into in fiscal years beginning on or after December 15, 2010 with early adoption permitted. This accounting standard update clarifies SEC registrants presenting comparative financial statements should disclose in their pro forma information revenue and earnings of the combined entity as though the current period business combinations had occurred as of the beginning of the comparable prior annual reporting period only. The update also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. We have adopted ASU 2010-29 within the first quarter of 2011. These requirements will change our annual pro forma disclosures for acquisitions which have historically included the impact on all comparable periods. ASU 2010-29 also changes our annual and quarterly pro forma disclosures to include a description and the related amount of material adjustments made to pro forma results as seen in Note 3 herein.

**3. Acquisitions**

***2010 Acquisitions***

In November 2010, we acquired certain of the assets of Level One, LLC and L1 Technology, LLC (collectively Level One ), subsidiaries of IAS Holdings, LLC, for approximately $61.9 million, which included a cash payment of $53.9 million at closing and a deferred payment of up to approximately $8.0 million, payable in cash or the issuance of our common stock eighteen months after the acquisition date. The acquisition of Level One further expanded our ability to provide on demand leasing center services. To facilitate the acquisition, we borrowed $30.0 million on our delayed draw term loans and utilized $24.0 million of the net proceeds from our initial public offering. Acquired intangibles were recorded at fair value based on assumptions made by us. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. Acquired customer relationships have a useful life of nine years which will be amortized proportionately to the expected discounted cash flows derived from the asset. The tradenames acquired have an indefinite useful life as we do not plan to cease using the tradenames in the marketplace. All direct acquisition costs were approximately $0.4 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 associated with this acquisition is deductible for tax purposes.

In July 2010, we purchased 100% of the outstanding stock of eReal Estate Integration, Inc. ( eREI ) for approximately $8.6 million, net of cash acquired, which included a cash payment of $3.8 million and an estimated cash payment payable upon the achievement of certain revenue targets (acquisition-related contingent consideration) and the issuance of 499,999 restricted common shares, which vest as certain revenue targets are achieved as defined in the purchase agreement. At the acquisition date, we recorded a liability for the estimated fair value of the acquisition-related contingent consideration of $0.8 million. In addition, we recorded the fair value of the restricted common shares of $3.3 million. These fair values were based on managements estimate of the fair value of the cash and the restricted common shares using a probability weighted discounted cash flow model on the achievement of certain revenue targets. The cash payment and the related restricted common shares have a maximum value of $1.8 million and $4.4 million, respectively. This acquisition was financed from proceeds from our revolving line of credit and cash flows from operations. The acquisition of eREI improved our lead management and lead syndication capabilities. Acquired intangibles were recorded at fair value based on assumptions made by us. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. Acquired customer relationships have a useful life of ten years which will be amortized proportionately to the expected discounted cash flows derived from the asset. The tradenames acquired have an indefinite useful life as we do not plan to cease using the tradenames in the marketplace. All direct acquisition costs were approximately $0.1 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill associated with this transaction is not deductible for tax purposes. The liability established for the acquisition-related contingent consideration will continue to be re-evaluated and recorded at an estimated fair value based on the probabilities, as determined by management, of achieving the related targets.

This evaluation will be performed until all of the targets have been met or terms of the agreement expire. As of March 31, 2011, our liability for the estimated cash payment was $1.0 million. During the first quarter 2011, we recognized costs of $0.1 million due to changes in the estimated fair value of the cash acquisition-related contingent consideration.

In February 2010, we acquired the assets of Domin-8 Enterprise Solutions, Inc. ( Domin-8 ). The acquisition of these assets improved our ability to serve our multi-family clients with mixed portfolios that include smaller, centrally-managed apartment communities. The aggregate purchase price at closing was $12.9 million, net of cash acquired, which was paid upon acquisition of the assets. We acquired deferred revenue as a contractual obligation, which was recorded at its assessed fair value of $4.5 million. The fair value of the deferred revenue was determined based on estimated costs to support acquired contracts plus a reasonable margin. The acquired intangibles were recorded at fair value based on assumptions made by us. The customer relationships have useful lives of approximately six years and are amortized in proportion to the estimated cash flows derived from the relationship. Acquired developed product technologies have a useful life of three years and are amortized straight-line over the estimated useful life. We have determined that the tradename has an indefinite life, as we anticipate keeping the tradename for the foreseeable future given its recognition in the marketplace. Approximately $1.6 million of transaction costs related to this acquisition were expensed as incurred. We included the operating results of this acquisition in our consolidated results of operations from the effective date of the acquisition. This acquisition was financed from the proceeds from the amended credit agreement (See Note 6) and cash flow from operations. This acquisition made immediately available product offerings that complemented our existing products. We accounted for the acquisition by allocating the total consideration to the fair value of assets received and liabilities assumed. Goodwill associated with this acquisition is deductible for tax purposes.

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

| | Level One | eREI (in thousands) | Domin-8 |
|---|---|---|---|
| Intangible assets: | | | |
| Developed product technologies | $ 692 | $ 5,279 | $ 3,678 |
| Customer relationships | 18,300 | 498 | 6,418 |
| Tradenames | 3,740 | 844 | 1,278 |
| Goodwill | 36,897 | 4,664 | 4,896 |
| Deferred revenue | (352) | | (4,502) |
| Net other assets | 2,573 | (2,662) | 1,155 |
| Total purchase price, net of cash acquired | $ 61,850 | $ 8,623 | $ 12,923 |

***2009 Acquisitions***

In September 2009, we purchased substantially all of the assets of Evergreen Solutions, Inc. ( Evergreen ). The acquisition of Evergreen further advanced our ability to offer open access to our products for clients and certified partners, and improves our ability to offer integration of our products and services with third-party solutions. The aggregate purchase price at closing was $0.9 million, which included a cash payment of $0.7 million and the fair value of contingent consideration of $0.2 million, which was paid in March 2010 and is based on the collection of pre-acquisition accounts receivable balances from customers. The $0.2 million was recorded within the current portion of acquisition related liabilities on the balance sheet at December 31, 2009. The customer relationships have useful lives of four years and are amortized in proportion to the estimated cash flows derived from the relationship. We have determined that the tradename has an indefinite life, as we anticipate keeping the tradename for the foreseeable future given its recognition in the marketplace. All direct acquisition costs were immaterial and expensed as incurred. We included the operating results of this acquisition in our consolidated results of operations from the effective date of the acquisition.

In September 2009, we purchased 100% of the outstanding stock of A.L. Wizard, Inc. ( ALW ). The acquisition of ALW immediately provided us with an application of on demand software and services for residential property management customers who manage senior living properties. The aggregate purchase price at closing was $2.8 million, net of cash acquired of $0.2 million, which included a cash payment of $2.5 million upon acquisition and additional cash payments of $0.5 million, half of which is due on the first anniversary of the acquisition date and was paid in September 2010, with the remaining amount due 18 months from the acquisition date. The $0.3 million was recorded in acquisition-related liabilities on the balance sheet which was paid in 2010. We acquired deferred revenue as a contractual obligation, which was recorded at its assessed fair value of $0.5 million. The fair value was determined by incorporating the total cost to service the revenue and a normal profit margin for the industry. The customer relationships have useful lives of seven years and are amortized in proportion to the estimated cash flows derived from the relationship. Acquired developed product technologies have a useful life of three years and are amortized straight-line over the estimated useful life. We have determined that the tradename has an indefinite life, as we anticipate keeping the tradename for the foreseeable future given its recognition in the marketplace. All direct acquisition costs were immaterial and expensed as incurred. We included the operating results of this acquisition in our consolidated results from the effective date of the acquisition.

In November 2009, we purchased 100% of the outstanding stock of Propertyware, Inc. ( Propertyware ). The acquisition of Propertyware provided an entry into the single-family and small, centrally managed multi-family property markets. The acquisition also expanded the breadth of products Propertyware will make available to its residential property management customers. The aggregate purchase price at closing was $11, one of whom shall be appointed by the Board to serve as Chair of the Committee.

b. The Committee Chair will preside at each meeting of the Committee and shall set the agenda, frequency and length of each meeting. The Chair will also ensure the agenda for each meeting is circulated in advance of the meeting.

c. The Committee shall meet at least three times annually or more frequently if circumstances or agenda items dictate.

d. At the invitation of the Committee Chair, members of management and outside consultants may attend Committee meetings.

e. The Committee may form and delegate authority to subcommittees when appropriate.

3. **Responsibilities/Duties**

The Committee shall have the authority of the Board to perform the following duties and to fulfill the following responsibilities:

a. Establish a compensation philosophy and strategy for senior executives (i.e., Chairman, CEO, CEO s direct reports) that is consistent with Cryo-Cell International s Values and aligns senior executive compensation with the performance and shareholder value of the Company.

b. Annually review and approve goals and objectives relevant to the Chairman and CEO s compensation, evaluate their performance in light of those goals and objectives, and approve their compensation level and structure based on this evaluation, subject to any employment contracts that may be in effect. In determining the Chairman and CEO s compensation, including long-term incentives, the Committee will consider the Company s performance and total shareholder return, the value of similar awards to Chairmen and CEO s as seen in appropriate competitive market data, the awards given to the Chairman and CEO in past years, and such other factors as the Committee may consider relevant.

c. Annually review and approve the Company s senior executives (i.e., direct reports of the CEO) compensation, including annual base salaries, annual incentive plans, long-term incentive plans/awards, employment agreements, severance arrangements, and change in control agreements or provisions, when and if appropriate, and any supplemental or special benefits unique to the senior executives of the Company. This process includes review of appropriate competitive market data for senior executive positions.

d. Annually review and approve the structure of the Company s annual management incentive plan for Board consideration.

e. Annually review and approve the structure, eligible positions and goals of any long-term performance plan.

f. Periodically review and make recommendations to the Board with respect to the compensation of Directors, including Board retainer, meeting fees, equity-based compensation, and such other forms of compensation as the Committee may consider appropriate.

g. Recommend to the Board of Directors the adoption of any executive incentive compensation plans (e.g., short-term, long-term, equity-based, cash-based) that the Committee believes are necessary or desirable.

h. Administer the Company s equity-based plan, including review and approval of periodic (e.g., annual) stock award recommendations for senior executives and other key personnel, and the timing, pricing, amount, and other terms of such awards. With respect to such awards to other executives and key personnel, the Committee shall delegate to the CEO, the authority to determine such stock-based awards.

i. Monitor and recommend additional shares/replenishment of any of the Company s equity-based plans as needed.

j. Report to the Board periodically, or as required by the nature of its duties, on all of its activities, and make such recommendations to the Board as the Committee decides are appropriate. The Committee shall publish minutes for each meeting. The Committee Chair shall review and approve the Committee minutes and they shall be filed with the Secretary of the Company for retention with the records of the Company. Copies of such minutes shall be presented to each Board member. The Committee shall also provide any required report to stockholders regarding compensation policies or practices involving senior executives.

k. Conduct an annual evaluation of the Committee s performance as compared to the requirements of its Charter.

l. Periodically review and reassess this Charter and submit any recommended changes to the Board for review and approval.

4. **<u>Resources</u>**

The Committee shall have the authority to obtain advice and seek assistance from internal and external human resources, compensation, legal, accounting, and other advisors. The Committee shall determine the extent of funding necessary for the payment of compensation to any consultant retained to advise the Committee.

**PRELIMINARY COPY**

**PROXY**

**CRYO-CELL INTERNATIONAL, INC.**

**SPECIAL MEETING OF STOCKHOLDERS MARCH 4, 2008**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned, having received the Notice of Special Meeting and Proxy Statement dated February [__], 2008, revoking any proxy previously given, hereby appoint(s) Mercedes Walton and Jill Taymans as proxies (each with the power to act alone and with the power of substitution and revocation) to represent the undersigned and to vote, as designated below, all shares of common stock of Cryo-Cell International, Inc. which the undersigned is entitled to vote at the Special Meeting of Stockholders to be held at 3:00 p.m. Eastern time on Tuesday, March 4, 2008, at the Courtyard by Marriott, 4014 Tampa Road, Oldsmar, Florida 34677, and at any adjournment or postponement thereof. THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED BY THE UNDERSIGNED. IF NO DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED FOR ALL NOMINEES FOR DIRECTOR, AND FOR PROPOSAL 2, AND IN THE DISCRETION OF THE NAMED PROXIES ON ALL OTHER MATTERS.

(Continued and to be voted on reverse side.)

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**CRYO-CELL INTERNATIONAL, INC. OFFERS SHAREHOLDERS OF**

**RECORD THREE WAYS TO VOTE YOUR PROXY**

**Your telephone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you had returned**

**your proxy card. We encourage you to use these cost effective and convenient ways of voting, 24 hours a day, 7 days a week.**

**TELEPHONE VOTING**

This method is available for residents of the U.S. and Canada. On a touch tone telephone, call ***TOLL FREE 1-800-786-5337.*** You will be asked to enter **ONLY** the CONTROL NUMBER shown below. Have your proxy card ready, then follow the pre-recorded instructions. Available until 11:59 p.m. Eastern Time on Monday, March 3, 2008.

**INTERNET VOTING**

Visit the Internet website at **http://proxy.georgeson.com.** Enter the COMPANY NUMBER and CONTROL NUMBER shown below and follow the instructions on your screen. Available until 11:59 p.m. Eastern Time on Monday, March 3, 2008.

**VOTING BY MAIL**

Simply complete, sign and date your Proxy Card and return it in the postage-paid envelope. If you are delivering your proxy by telephone or the Internet, please do not mail your Proxy Card.

COMPANY NUMBER CONTROL NUMBER

4

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSAL 1 AND 2.**

| | | | | FOR | AGAINST | ABSTAIN |
|---|---|---|---|---|---|---|
| 1. Election of Directors: | 01 Mercedes Walton<br>02 Gaby W.Goubran<br>03 John Mathews | 04 Anthony P. Finch<br>05 Andrew J. Filipowski<br>06 Ki Yong Choi | 2. Proposal to ratify the appointment of Grant Thornton LLP as the independent registered public accountants of the Company and its subsidiaries for the year ending November 30, 2007. | | | |
| | **FOR all nominees, listed above (except as specified below).** | **WITHHOLD AUTHORITY to vote for all nominees listed above.** | 3. Upon such other matters as may properly come before the meeting. | | | |

INSTRUCTIONS: TO WITHHOLD AUTHORITY FOR ANY INDICATED NOMINEE, WRITE THE NUMBER(S) OF THE NOMINEE(S) IN THE SPACE PROVIDED:

It is important that each stockholder complete, date, sign, and mail this Proxy as soon as possible. Your vote is important!

Date ________, 2008

Signature of Stockholder(s)

Signature of Stockholder(s)

PLEASE DATE AND SIGN name(s) exactly as shown on this proxy card. When joint tenants hold shares, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

**PLEASE DO NOT FORGET TO DATE THIS PROXY.**

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