REALPAGE INC
Form 10-Q
November 10, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 001-34846

RealPage, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	75-2788861 (I.R.S. Employer Identification No.)
4000 International Parkway Carrollton, Texas	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 ý 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 ý 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 ý	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 ý

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 24, 2014
Common Stock, $0.001 par value	78,728,890

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PART I—FINANCIAL INFORMATION
Item 1. Financial Statements.
REALPAGE, INC.
Consolidated Balance Sheets
(in thousands, except share data)

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$30,670	$34,502
Restricted cash	81,049	71,941
Accounts receivable, less allowance for doubtful accounts of $2,116 and $914 at September 30, 2014 and December 31, 2013, respectively	63,731	66,635
Deferred tax asset, net	2,868	3,284
Other current assets	9,566	7,453
Total current assets	187,884	183,815
Property, equipment and software, net	71,464	54,775
Goodwill	193,468	152,422
Identified intangible assets, net	105,192	108,815
Deferred tax asset, net	4,553	—
Other assets	5,023	3,386
Total assets	$567,584	$503,213
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$17,444	$11,978
Accrued expenses and other current liabilities	25,995	23,122
Current portion of deferred revenue	68,321	66,085
Customer deposits held in restricted accounts	81,015	71,910
Total current liabilities	192,775	173,095
Deferred revenue	6,764	5,671
Deferred tax liability, net	—	1,379
Revolving credit facility	38,572	—
Other long-term liabilities	14,931	8,564
Total liabilities	253,042	188,709
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, 2014 and December 31, 2013, respectively	—	—
Common stock, $0.001 par value: 125,000,000 shares authorized, 82,826,622 and 80,511,791 shares issued and 78,849,752 and 78,433,626 shares outstanding at September 30, 2014 and December 31, 2013, respectively	83	81
Additional paid-in capital	422,414	390,854
Treasury stock, at cost: 3,976,870 and 2,078,165 shares at September 30, 2014 and December 31, 2013, respectively	(32,305)	(11,183)
Accumulated deficit	(75,470)	(65,086)
Accumulated other comprehensive loss	(180)	(162)
Total stockholders' equity	314,542	314,504

Total liabilities and stockholders’ equity	$567,584	$503,213

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue:				
On demand	$100,747	$94,084	$289,361	$270,231
On premise	755	838	2,446	2,799
Professional and other	3,034	3,149	8,280	8,473
Total revenue	104,536	98,071	300,087	281,503
Cost of revenue	46,311	38,111	128,353	110,815
Gross profit	58,225	59,960	171,734	170,688
Operating expense:				
Product development	17,528	13,232	48,310	36,997
Sales and marketing	29,949	25,166	83,970	71,992
General and administrative	15,443	15,554	53,191	44,880
Total operating expense	62,920	53,952	185,471	153,869
Operating (loss) income	(4,695)	6,008	(13,737)	16,819
Interest expense and other, net	(345)	(236)	(771)	(921)
(Loss) income before income taxes	(5,040)	5,772	(14,508)	15,898
Income tax benefit	(1,783)	(7,114)	(4,124)	(2,616)
Net (loss) income	$(3,257)	$12,886	$(10,384)	$18,514
Net (loss) income per share				
Basic	$(0.04)	$0.17	$(0.13)	$0.25
Diluted	$(0.04)	$0.17	$(0.13)	$0.24
Weighted average shares used in computing net (loss) income per share				
Basic	77,280	75,234	77,075	74,597
Diluted	77,280	76,347	77,075	75,900

See accompanying notes.

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REALPAGE, INC.
Consolidated Statements of Comprehensive Income (Loss)
(in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net (loss) income	$(3,257)	$12,886	$(10,384)	$18,514
Other comprehensive (loss) income—foreign currency translation adjustment	(9)	12	(18)	(36)
Comprehensive (loss) income	$(3,266)	$12,898	$(10,402)	$18,478

See accompanying notes.

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REALPAGE, INC.
Consolidated Statements of Stockholders' Equity
(in thousands)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Shares		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance as of December 31, 2013	80,512	$81	$390,854	$ (162)	$(65,086)	(2,078)	$(11,183)	$314,504
Foreign currency translation	—	—	—	(18)	—	—	—	(18)
Net (loss) income	—	—	—	—	(10,384)	—	—	(10,384)
Exercise of stock options	586	—	5,166	—	—	—	—	5,166
Treasury stock purchase, at cost	—	—	—	—	—	(1,899)	(21,122)	(21,122)
Issuance of restricted stock	1,695	2	—	—	—	—	—	2
Issuance of common stock	34	—	—	—	—	—	—	—
Stock-based compensation	—	—	28,794	—	—	—	—	28,794
Acquisition-related contingent consideration	—	—	(2,400)	—	—	—	—	(2,400)
Balance as of September 30, 2014	82,827	$83	$422,414	$ (180)	$(75,470)	(3,977)	$(32,305)	$314,542

See accompanying notes.

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

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net (loss) income	$(10,384)	$18,514
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	30,533	22,823
Deferred tax benefit	(6,011)	(4,873)
Stock-based compensation	28,794	21,042
Loss on disposal of assets	36	310
Acquisition-related contingent consideration	564	1,300
Changes in assets and liabilities, net of assets acquired and liabilities assumed in business combinations:		
Accounts receivable	3,043	(6,007)
Customer deposits	(3)	1
Other current assets	(2,445)	(1,166)
Other assets	(700)	(386)
Accounts payable	3,099	3,902
Accrued compensation, taxes and benefits	(257)	(2,122)
Deferred revenue	3,140	(2,498)
Other current and long-term liabilities	645	769
Net cash provided by operating activities	50,054	51,609
Cash flows from investing activities:		
Purchases of property, equipment and software	(29,125)	(22,190)
Acquisition of businesses, net of cash acquired	(41,942)	(10,342)
Intangible asset additions	—	(600)
Net cash used in investing activities	(71,067)	(33,132)
Cash flows from financing activities:		
Proceeds from revolving credit facility	68,572	—
Payments on revolving credit facility	(30,000)	(10,000)
Deferred financing costs	(992)	—
Payments on capital lease obligations	(420)	(411)
Payments of deferred acquisition-related consideration	(4,007)	(1,545)
Issuance of common stock	5,168	6,854
Purchase of treasury stock	(21,122)	(3,163)
Net cash provided by (used in) financing activities	17,199	(8,265)
Net (decrease) increase in cash and cash equivalents	(3,814)	10,212
Effect of exchange rate on cash	(18)	(36)
Cash and cash equivalents:		
Beginning of period	34,502	33,804
End of period	$30,670	$43,980

See accompanying notes.

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

	Nine Months Ended September 30,	
	2014	2013
Supplemental cash flow information:		
Cash paid for interest	$678	$812
Cash paid for income taxes, net of refunds	$358	$453
Non-cash investing activities:		
Accrued fixed assets	$1,943	$754
Non-cash financing activities:		
Fixed assets acquired under capital lease	$—	$1,976

See accompanying notes.

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Notes to the 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 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 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 March 3, 2014 (“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, 2014 and 2013 was in North America.
Net long-lived tangible assets held were $65.5 million and $51.5 million in North America and $6.0 million and $3.3 million in our international subsidiaries at September 30, 2014 and December 31, 2013, 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 tangible and 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

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- the amount of fees to be paid by the customer is fixed or determinable.

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

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

- Vendor specific objective evidence (VSOE), if available. The price at which we sell the element in a separate stand-alone transaction;
- Third-party evidence of selling price (TPE), if VSOE of 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 three years. Recognition starts once the product has been activated. Revenue from monthly and annual subscription fees is recognized on a straight-line basis over the access period.

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

As part of our risk mitigation services to the rental housing industry, we act as an insurance agent and derive commission revenue from the sale of insurance products to individuals. The commissions are based upon a percentage of the premium that the insurance company charges to the policyholder and are subject to forfeiture in instances where a policyholder cancels prior to the end of the policy. If the policy is cancelled, our commissions are forfeited as a percent of the unearned premium. As a result, we recognize the commissions related to these services ratably over the policy term as the associated premiums are earned. Our contract with our underwriting partner provides for contingent commissions to be paid to us in accordance with the agreement. This agreement provides for a calculation that considers, on the policies sold by us, earned premiums less i) earned agent commissions; ii) a percent of premium retained by our underwriting partner; iii) incurred losses; and iv) profit retained by our underwriting partner during the time period. Our estimate of contingent commission revenue considers historical loss experience on the policies sold by us.

On Premise Revenue

Revenue from our on premise software solutions 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 and other revenue is recognized as the services are rendered for time and material contracts. Training revenues are recognized after the services are performed.

Fair Value Measurements

We measure certain financial assets and liabilities at fair value pursuant to a fair value hierarchy based on inputs to valuation techniques that are used to measure fair value 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 or nine months ended September 30, 2014 or 2013.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers. This new standard will replace all current GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for us beginning January 1, 2017 and at that time, can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This standard sets forth management's responsibility to evaluate, each reporting period, whether there is substantial doubt about our ability to continue as a going concern, and if so, to provide related footnote disclosures. The standard is effective for annual and interim reporting periods ending after December 15, 2016. We are currently evaluating this new standard and expect it to have no impact on our financial position and results of operations.

3. Acquisitions

2014 Acquisitions

In January 2014, we acquired certain assets from Bookt LLC, including the InstaManager product ("InstaManager"). InstaManager is a software-as-a-service vacation rental booking engine used by professional managers of vacation rental properties. InstaManager offers marketing websites, online pricing and availability, online booking, automated reservations, payment processing and insurance sales. The acquisition of InstaManager expanded our product offerings to include property management software for the vacation rental market. We acquired InstaManager for a preliminary purchase price of $9.2 million, consisting of a cash payment of $6.0 million at closing, a deferred cash payment of up to $1.0 million payable over two years after the acquisition date, and additional cash payments totaling up to $7.0 million if certain revenue targets are met for

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the years ended March 31, 2015 and March 31, 2016 (a Level 3 input). The initial fair value of the deferred cash payment and the contingent cash payments was $0.8 million and $2.4 million, respectively. The fair value was based on management’s estimate of the fair value of the cash payment using a probability weighted discount model on the achievement of certain revenue targets and will be evaluated quarterly. This acquisition was financed from cash flows from operations. Acquired intangibles were recorded at their estimated 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. The trade name acquired has an indefinite useful life as we do not plan to cease using the trade name in the marketplace. 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. The fair value of the deferred cash payment and the contingent cash payments were $0.8 million and $3.2 million, respectively, at September 30, 2014, and for the three and nine months ended September 30, 2014, we recognized losses of $0.6 million and $0.8 million due to the changes in their estimated fair value.

In March 2014, we acquired certain assets from Virtual Maintenance Manager LLC, including the Virtual Maintenance Manager product (“VMM”). VMM is a software-as-a-service application that facilitates the management of the end-to-end maintenance lifecycle for single-family and multi-family rental properties and provides property managers visibility into their maintenance costs, manages resources, and provides business control for property managers. We integrated VMM into our existing Propertyware products. We acquired the VMM assets for a preliminary purchase price of $1.2 million, consisting of a cash payment of $1.0 million at closing, a deferred cash payment of up to $0.2 million payable over two years after the acquisition date, and additional cash payments of up to $2.0 million if certain revenue targets are met for the twelve months ended June 30, 2015 and June 30, 2016 (a Level 3 input). The initial fair value of the deferred cash payment and the contingent cash payments was $0.2 million and less than $0.1 million, respectively. The fair value was based on management’s estimate of the fair value of the cash payment using a probability weighted discount model on the achievement of certain revenue targets and will be evaluated quarterly. This acquisition was financed from cash flows from operations. Acquired intangibles were recorded at their estimated 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 five years which will be amortized proportionately to the expected discounted cash flows derived from the asset. 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. The fair value of the contingent cash payments was less than $0.1 million at September 30, 2014, and for the three and nine months ended September 30, 2014, we recognized a gain of less than $0.1 million due to the changes in their estimated fair value.
In May 2014, we acquired certain assets from Notivus Multi-Family LLC ("Notivus"). Notivus is a software-as-a-service application that provides an outsourced vendor credentialing solution to assist multifamily owners and managers in the credentialing and ongoing monitoring of its current and prospective vendors, suppliers, and independent contractors. We are integrating Notivus into our existing Compliance Depot products. We acquired the Notivus assets for a preliminary purchase price of $4.4 million, consisting of a cash payment of $3.6 million at closing and a deferred cash payment of up to $0.8 million payable over two years after the acquisition date. The initial fair value of the deferred cash payment was approximately $0.8 million. The fair value was based on management’s estimate of the fair value of the cash payment using a probability weighted discount model on working capital targets and will be evaluated quarterly. This acquisition was financed from cash flows from operations. Acquired intangibles were recorded at their estimated 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. 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 June 2014, we acquired all of the issued and outstanding stock of Kigo, Inc. ("Kigo"). Kigo is a software-as-a-service vacation rental booking system headquartered in the United States with operations in Spain. Kigo offers services for vacation rental property management that include vacation rental calendars, scheduling, reservations, accounting, channel management, website design, payment processing and other tasks to aid the management of leads, revenue, resources and lodging calendars. We plan to integrate Kigo with our existing vacation rental products. We acquired Kigo for a preliminary purchase price of $36.2 million, consisting of a cash payment of $30.7 million and a deferred cash payment of up to $5.5 million, to be payable over two and a half years after the acquisition date. This acquisition was financed from proceeds from our revolving line of credit and cash flows from operations. Direct acquisition costs were $0.5 million and expensed as incurred. 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 name acquired has an indefinite useful life as we do not plan to cease using the trade name in the marketplace. Goodwill and identified intangibles associated with this acquisition are not deductible for tax purposes. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of this acquisition.

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

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

2013 Acquisitions

In February 2013, we acquired certain assets of Seniors for Living, Inc. (“SFL”). SFL is a leading performance-based marketing company that provides senior housing communities and home care companies with industry-leading referral and marketing services to help them achieve their occupancy goals. We have integrated SFL with our existing senior living software solutions. We acquired SFL for a purchase price of $2.7 million which consisted of a cash payment of $2.3 million and additional cash payments of $0.2 million each due 6 months and 12 months after the acquisition date. As of September 30, 2014, both payments of $0.2 million had been made. 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 five years which will be amortized proportionately to the expected discounted cash flows derived from the asset. 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 March 2013, we acquired certain assets from Yield Technologies, Inc., including RentSentinel and RentSocial (together, “RentSentinel”). The RentSentinel software-as-a-service platform is a fully featured apartment marketing management solution for the multi-family industry. RentSocial is an apartment search service that simplifies and incorporates the social marketing platform into the process of finding an apartment. We have integrated RentSentinel with our existing LeaseStar product family. We acquired RentSentinel for a purchase price of $10.5 million which consisted of a cash payment of $7.6 million, an issuance of 72,500 shares of our common stock and two traunches of 36,250 shares of our common stock which are issuable 12 months and 24 months after the acquisition date, respectively. As of September 30, 2014, 33,868 shares had been issued. This acquisition was financed from proceeds from cash flows from operations and our common stock. 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. 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 not deductible for tax purposes.

In October 2013, we acquired substantially all of the operating assets of Windsor Compliance Services, Inc. (“Windsor Compliance”) for a purchase price of $2.7 million, which included a cash payment of $1.3 million at closing and additional cash payments of $1.0 million and $0.5 million due 12 months and 24 months after the acquisition date, respectively, which are contingent on Windsor Compliance providing services to a specified number of units on or before those dates (a Level 3 input). The initial fair value of the cash payments was $1.3 million . The fair value was based on management’s estimate of the fair value of the cash payment using a probability weighted discount model on the achievement of the servicing targets discussed above. Windsor Compliance is a firm specializing in compliance with tax credits and regulations for the affordable housing industry. We have integrated Windsor Compliance with our other affordable HUD products. This acquisition was financed from cash flows from operations. Acquired intangibles were recorded at fair value based on assumptions made by us. 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 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. The fair value of the additional cash payments was $1.4 million at September 30, 2014, and for the three and nine months ended September 30, 2014, we recognized losses of $0.1 million due to the changes in their estimated fair value.

In October 2013, we acquired all of the issued and outstanding capital stock of MyBuilding Inc. ("MyBuilding") for a purchase price of $6.9 million, consisting of a cash payment of $4.5 million at closing, a deferred cash payment of up to $1.5 million payable over two years after the acquisition date and additional cash payments totaling up to $1.1 million if certain revenue targets are met for the years ended December 31, 2014 and December 31, 2015. The initial fair value of the deferred cash payment and the contingent cash payments was $1.4 million and $0.3 million, respectively. The fair value was based on management's estimate of the fair value of the cash payment using a probability weighted discount model on the achievement of certain revenue targets (a Level 3 input). MyBuilding provides software-as-a-service solutions that facilitate the creation of online communities that connect residents to multifamily property managers, local vendors, and other residents. We have integrated MyBuilding with our existing LeaseStar software solutions. This acquisition was financed 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. The trade name acquired has an indefinite useful life as we do not plan to cease using the trade name in the marketplace. Direct acquisition costs were less than $0.1 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill and identified intangibles associated with this acquisition are not deductible for tax purposes. The fair value of the deferred cash payment and the contingent cash payments were $1.4 million and $0.3 million, respectively, at September 30, 2014, and for the three and nine months ended September 30, 2014, we recognized losses of less than $0.1 million, due to the changes in their estimated fair value.

In October 2013, we acquired all of the membership interests of Active Building, LLC ("Active Building") for a purchase price of $14.4 million, consisting of a cash payment of $11.3 million at closing, a deferred cash payment of up to $2.0 million payable over three years after the acquisition date, and additional cash payments totaling up to $6.5 million if certain revenue targets are met for the years ended December 31, 2014 and December 31, 2015. The initial fair value of the deferred cash payment and the contingent cash payments was $1.7 million and $1.3 million, respectively. The fair value was based on management's estimate of the fair value of the cash payment using a probability weighted discount model on the achievement of certain revenue targets (a Level 3 input). Active Building provides software-as-a-service solutions that facilitate the creation of online communities that connect residents to multifamily property managers, local vendors, and other residents. We have integrated Active Building with our existing LeaseStar software solutions. This acquisition was financed 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. The trade name acquired has an indefinite useful life as we do not plan to cease using the trade name in the marketplace. 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. The fair value of the deferred cash payment and the contingent cash payments was $1.9 million and $1.3 million, respectively, at September 30, 2014, and for the three and nine months ended September 30, 2014, we recognized gains of $0.1 million and $0.3 million, respectively, due to the changes in their estimated fair value.

We allocated the purchase prices for SFL, RentSentinel, Windsor Compliance, MyBuilding and Active Building as follows:

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	SFL	RentSentinel	Windsor Compliance	My Building	Active Building
	(in thousands)				
Intangible assets:					
Developed product technologies	$1,406	$4,238	$—	$1,450	$3,990
Customer relationships	161	2,390	1,230	1,000	2,260
Tradenames	—	—	—	328	641
Goodwill	1,035	3,633	1,302	5,043	7,404
Deferred revenue	—	(304)	(107)	(258)	—
Net deferred taxes	—	226	—	(813)	—
Net other assets	88	313	226	111	76
Total purchase price, net of cash acquired	$2,690	$10,496	$2,651	$6,861	$14,371

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. For the three and nine months ended September 30, 2014, there were no acquisition-related fair value adjustments for acquisitions made prior to January 1, 2013.

Payments made to SeniorLiving.net, acquired in July 2011, and Rent Mine Online, acquired in July 2012, during the three months ended September 30, 2014 totaled $3.3 million. Payments made to Vigilan, acquired in January 2012, SeniorLiving.net, acquired in July 2011, and Rent Mine Online, acquired in July 2012, during nine months ended September 30, 2014 totaled $3.8 million.

Pro Forma Results of Acquisitions

The following table presents pro forma results of operations for the three and nine months ended September 30, 2014 and September 30, 2013 as if the Kigo, Notivus, VMM, InstaManager, Active Building, MyBuilding, Windsor Compliance, SFL, and RentSentinel acquisitions had occurred on January 1, 2013. The pro forma information includes the business combination accounting effects resulting from these acquisitions, including interest expense, tax benefit, and additional amortization resulting from the valuation of amortizable intangible assets. We prepared the pro forma financial information for the combined entities for comparative purposes only, and it is not indicative of what actual results would have been if the acquisitions had occurred on January 1, 2013, nor do the pro forma results intend to be a projection of results that may be obtained in the future.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	Pro Forma	Pro Forma	Pro Forma	Pro Forma
	(in thousands, except per share amounts)			
Revenue:				
On demand	$100,747	$95,953	$290,691	$276,554
On premise	755	838	2,446	2,799
Professional and other	3,034	3,149	8,280	8,473
Total revenue	104,536	99,940	301,417	287,826
Net (loss) income	$(3,257)	$12,098	$(10,857)	$14,806
Net (loss) income per share				
Basic	$(0.04)	$0.16	$(0.14)	$0.20
Diluted	$(0.04)	$0.16	$(0.14)	$0.20

4. Property, Equipment and Software

Property, equipment and software consist of the following:

	September 30, 2014	December 31, 2013
	(in thousands)	
Leasehold improvements	$23,425	$18,756
Data processing and communications equipment	58,321	47,719
Furniture, fixtures, and other equipment	15,015	11,266
Software	48,346	36,750
	145,107	114,491
Less: Accumulated depreciation and amortization	(73,643)	(59,716)
Property, equipment and software, net	$71,464	$54,775

Depreciation and amortization expense for property, equipment and software was $5.6 million and $3.6 million for the three months ended September 30, 2014 and 2013, and $15.0 million and $10.9 million for the nine months ended September 30, 2014 and 2013, 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, 2014 is as follows:

	(in thousands)
Balance at December 31, 2013	$152,422
Goodwill acquired	40,341
Other	705
Balance at September 30, 2014	$193,468

Other intangible assets consisted of the following at September 30, 2014 and December 31, 2013:

		September 30, 2014			December 31, 2013		
	Amortization Period	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
	(in thousands)						
Finite-lived intangible assets:							
Developed technologies	3 years	$54,852	$(37,009)	$17,843	$45,014	$ (29,952)	$15,062
Customer relationships	1-10 years	86,753	(41,566)	45,187	85,823	(33,503)	52,320
Vendor relationships	7 years	5,650	(5,147)	503	5,650	(4,709)	941
Total finite-lived intangible assets		147,255	(83,722)	63,533	136,487	(68,164)	68,323
Indefinite-lived intangible assets:							
Tradenames		41,659	—	41,659	40,492	—	40,492
Total intangible assets		$188,914	$(83,722)	$105,192	$176,979	$ (68,164)	$108,815

Amortization of finite-lived intangible assets was $5.4 million and $4.0 million for the three months ended, and $15.5 million and $11.9 million for the nine months ended September 30, 2014 and 2013, respectively.

6. Debt

Credit Facility Opened September 2014

On September 30, 2014, we entered into a new agreement for a secured revolving credit facility to refinance our outstanding revolving loans. The new credit facility provides an aggregate principal amount of up to $200.0 million, with sublimits of $10.0 million for the issuance of letters of credit and for $20.0 million of swingline loans. The credit facility also allows us, subject to certain conditions, to request additional term loans or revolving commitments in an aggregate principal amount of up to $150.0 million, plus an amount that would not cause our consolidated net leverage ratio, which is a ratio of the Company's consolidated funded indebtedness to its consolidated EBIDTA, to exceed 3.25 to 1.00. At our option, the revolving loans accrue interest at a per annum rate equal to either LIBOR or Wells Fargo's prime rate (or, if greater, the federal funds rate plus 0.50% or one month LIBOR plus 1.00%) in each case plus a margin ranging from 1.25% to 1.75% in the case of LIBOR loans, and 0.25% to 0.75% in the case of prime rate loans, in each case based upon our consolidated net leverage ratio. The interest is due and payable quarterly, in arrears, for loans bearing interest at the prime rate and at the end of the applicable interest period in the case of loans bearing interest at the adjusted LIBOR rate. The credit facility is secured by substantially all of the Company's assets and certain of our existing and future material domestic subsidiaries are required to guaranty our obligations under the credit facility. We are also required to comply with customary affirmative and negative covenants, as well as a consolidated net leverage ratio and an interest coverage ratio. The credit facility matures September 30, 2019.

Previous Credit Facility

Our previous secured revolving credit facility had an aggregate principal amount of up to $150.0 million, subject to a borrowing formula, with a sublimit of $10.0 million for the issuance of letters of credit on our behalf. At our option, the borrowings accrued interest at a per annum rate equal to either LIBOR or Wells Fargo's prime rate (or, if greater, the federal funds rate plus 0.50% or three month LIBOR plus 1.00%), in each case plus a margin ranging from 2.00% to 2.50%, in the case of LIBOR loans, and 0.0% to 0.25% in the case of prime rate loans, in each case based upon our senior leverage ratio. The interest was due and payable monthly, in arrears, for loans bearing interest at the prime rate and at the end of the applicable 1-, 2-, or 3-month interest period in the case of loans bearing interest at the adjusted LIBOR rate.

In May 2014, we entered into an amendment to the previous credit facility. Under the terms of the amendment, the restrictive covenants were amended to permit us to repurchase up to $75 million of our common stock, subject to certain conditions. Additionally, the fixed charge coverage ratio was replaced with a new minimum interest expense coverage ratio and the capital expenditures limitations were increased.

In June 2014, we entered into an amendment to the previous credit facility. Under the terms of the amendment, the parties to the credit facility consented to the acquisition of Kigo and agreed that the acquisition of Kigo would be a "Permitted Acquisition," as defined in the credit facility and would be excluded from the calculation of the Permitted Acquisition limit. Additionally, the amendment increased the value of our equipment that could be in the hands of our employees, consultants, or customers in the ordinary course of business to $2.5 million and amended the definition of "Aggregate Permitted Acquisition Limit" to $150.0 million, plus an additional $100.0 million if certain conditions are met. In June 2014, we borrowed a total of $25.0 million from our revolving line of credit in order to partially finance our acquisition of Kigo.

As of September 30, 2014 and December 31, 2013, we had $38.6 million and $0.0 million, respectively, outstanding under our revolving line of credit. As of September 30, 2014, $161.4 million was available under our revolving line of credit of which $10.0 million was available for the issuance of letters of credit. We had unamortized debt issuance costs of $1.1 million and $0.3 million at September 30, 2014 and December 31, 2013, respectively. As of September 30, 2014, we were in compliance with the covenants under our credit facility.

7. Share-based Compensation

In February 2014, we granted 1,356,972 options with an exercise price of $17.75 which vest quarterly over three years. We also granted 681,395 shares of restricted stock at $17.75 which vest quarterly over three years.

In April 2014, we granted 39,156 shares of restricted stock at $18.39 which vest quarterly over three years to our Board of Directors.

In May 2014, we granted 159,194 options with an exercise price of $18.71 which vest quarterly over three years. We also granted 84,620 shares of restricted stock at $18.71 which vest quarterly over three years and 100,400 shares of restricted stock at $20.61 which fully vested on August 7, 2014.

In August 2014, we granted 295,615 options with an exercise price of $15.19 which vest quarterly over three years. We also granted 793,008 shares of restricted stock at $15.19, of which 151,513 shares vest quarterly over three years and 121,495 shares vest quarterly over one year. The remaining 520,000 shares consist of two tranches that become eligible for vesting if the average closing price per share of our common stock equals or exceeds an the established threshold for each tranche for twenty consecutive days prior to July 1, 2017. The shares vest quarterly over one year following the date they become eligible for vesting.

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

8. Commitments and Contingencies

Lease Commitments

In the first quarter of 2013, we entered into a capital lease agreement for software that expires in 2016. We recognize lease expense on a straight-line basis over the lease term.

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The assets under capital lease are as follows:

	September 30, 2014	December 31, 2013
	(in thousands)	
Software	$1,977	$1,977
Less: Accumulated depreciation and amortization	(969)	(549)
Assets under capital lease, net	$1,008	$1,428

Aggregate annual rental commitments at September 30, 2014 under capital lease are as follows:

	(in thousands)
2014	$147
2015	588
2016	294
Total minimum lease payments	$1,029
Less amount representing average interest at 2.2%	(21)
	1,008
Less current portion	571
Long-term portion	$437

Guarantor Arrangements

We have agreements whereby we indemnify our officers and directors for certain events or occurrences while the officer or director is or was serving at our request in such capacity. The term of the indemnification period is for the officer or director's lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have a director and officer insurance policy that limits our exposure and enables us to recover a portion of any future amounts paid. As a result of our insurance policy coverage, we believe the estimated fair value of these indemnification agreements is minimal. Accordingly, we had no liabilities recorded for these agreements as of September 30, 2014 or December 31, 2013.

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 indemnification provisions is minimal, and, accordingly, we had no liabilities recorded for these agreements as of September 30, 2014 or December 31, 2013.

Litigation

From time to time, in the normal course of our business, we are a party to litigation matters and claims. Litigation can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict and our view of these matters may change in the future as the litigation and events related thereto unfold. We expense legal fees as incurred. Insurance recoveries associated with legal costs incurred are recorded when they are deemed probable of recovery.

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

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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. (the “Yardi Lawsuit”). We answered and filed counterclaims against Yardi, and on July 1, 2012, the Company and Yardi entered into a settlement agreement resolving all outstanding litigation between the parties.

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 disputed these assertions by these carriers. 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 February 25, 2014, RealPage and Axis entered into a confidential settlement and mutual release of claims, as a result of which Axis was dismissed from the Ace Lawsuit. On March 11, 2014, Ace filed its answer, affirmative defenses and counterclaims. On April 1, 2014, RealPage and Ace entered into a confidential settlement agreement and mutual release of claims and on April 7, 2014, the court entered an order granting the joint motion to dismiss all claims and demands asserted in the lawsuit. We expensed $4.7 million, inclusive of the settlements and other related costs in the first quarter of 2014.

We are involved in other litigation matters not listed above but we believe that any reasonably possible adverse outcome of these matters would not be material either individually or in the aggregate at this time. Our view of the matters not listed may change in the future as the litigation and events related 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 753,583 and 302,820 for the three months ended September 30, 2014 and 2013, respectively, and 1,549,922 and 795,700 for the nine months ended September 30, 2014 and 2013, respectively, were excluded from the respective dilutive shares outstanding because their effect was anti-dilutive.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
Numerator:				
Net (loss) income	$(3,257)	$12,886	$(10,384)	$18,514
Denominator:				
Basic:				
Weighted average common shares used in computing basic net (loss) income per share	77,280	75,234	77,075	74,597
Diluted:				
Add weighted average effect of dilutive securities:				
Stock options and restricted stock	—	1,113	—	1,303
Weighted average common shares used in computing diluted net (loss) income per share	77,280	76,347	77,075	75,900
Net (loss) income per common share:				
Basic	$(0.04)	$0.17	$(0.13)	$0.25
Diluted	$(0.04)	$0.17	$(0.13)	$0.24

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 35.4% and (123.3)% for the three months ended and 28.4% and (16.5)% for the nine months ended September 30, 2014 and 2013, respectively. During 2013, we were able to conclude that, given our performance, the realization of our deferred tax assets was more likely than not and accordingly reversed valuation allowances of approximately $9.2 million and recorded the reduction in valuation allowances as a tax benefit for the period. This reduction of the valuation allowance is the primary cause of the noted fluctuation of our effective income tax rate between the current and prior periods presented. Our effective tax rate fluctuated from the statutory rate 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.

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

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (which Sections were adopted as part of the Private Securities Litigation Reform Act of 1995). Statements preceded by, followed by or that otherwise include the words “anticipates,” “believes,” “could,” “seeks,” “estimates,” “expects “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “will,” “would” or similar expressions and the negativ 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 2013. 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.

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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 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, 2014, over 10,400 customers used one or more of our on demand software solutions to help manage the operations of approximately 9.5 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, 2014 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 $104.5 million and $98.1 million for the three months ended, and $300.1 million and $281.5 million for the nine months ended, September 30, 2014 and 2013, respectively. In the same periods, we had operating (loss) income of approximately $(4.7) million, $6.0 million, $(13.7) million, and $16.8 million respectively, and net (loss) income of approximately $(3.3) million, $12.9 million, $(10.4) million, and $18.5 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 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 30 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.

Recent Acquisitions

In February 2013, we acquired certain assets of Seniors for Living, Inc. (“SFL”). SFL is a leading performance-based marketing company that provides senior housing communities and home care companies with industry-leading referral and marketing services to help them achieve their occupancy goals. We integrated SFL with our existing senior living software solutions. We acquired SFL for a purchase price of $2.7 million which consisted of a cash payment of $2.3 million and additional cash payments of $0.2 million paid 6 months and 12 months after the acquisition date.

In March 2013, we acquired certain assets from Yield Technologies, Inc., including RentSentinel and RentSocial (together, “RentSentinel”). The RentSentinel software-as-a-service platform is a fully featured apartment marketing management solution for the multi-family industry. RentSocial is an apartment search service that simplifies and incorporates the social marketing platform into the process of finding an apartment. We integrated RentSentinel with our existing LeaseStar product family. We acquired RentSentinel for a purchase price of $10.5 million which consisted of a cash payment of $7.6 million, issuance of 72,500 shares of our common stock and two traunches of 36,250 shares of our common stock which are issuable 12 months and 24 months after the acquisition date, respectively. As of September 30, 2014, 33,868 shares had been issued.

In October 2013, we acquired substantially all of the operating assets of Windsor Compliance Services, Inc. ("Windsor Compliance") for a purchase price of $2.7 million, which consisted of a cash payment of $1.3 million at closing and additional cash payments of $1.0 million and $0.5 million due 12 months and 24 months after the acquisition date, respectively, which are contingent on Windsor Compliance providing services to a specified number of units on or before those dates. Windsor Compliance is a firm specializing in compliance with tax credits and regulation for the affordable housing industry.

In October 2013, we acquired all of the issued and outstanding capital stock of MyBuilding Inc. ("MyBuilding") for a purchase price of $6.9 million consisting of a cash payment of $4.5 million at closing, a deferred cash payment of up to $1.5 million payable over two years after the acquisition date and a contingent deferred earn out consisting of two additional cash payments totaling $1.1 million if certain revenue targets are met for the years ended December 31, 2014 and December 31, 2015. A provider of software-as-a-service solutions, MyBuilding products facilitate the creation of online communities that connect residents to multifamily property managers, local vendors, and other residents.

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In October 2013, we acquired all of the membership interest of Active Building, LLC ("Active Building") for a purchase price of $14.4 million, which consisted of a cash payment of $11.3 million at closing, a deferred cash payment of up to $2.0 million payable over three years after the acquisition date, and additional cash payments totaling $6.5 million if certain revenue targets are met for the years ended December 31, 2014 and December 31, 2015. A provider of software-as-a-service solutions, Active Building products facilitate the creation of online communities that connect residents to multifamily property managers, local vendors, and other residents.

In January 2014, we acquired certain assets from Bookt LLC, including the InstaManager product (“InstaManager”), for a preliminary purchase price of $9.2 million, consisting of a cash payment of $6.0 million at closing, a deferred cash payment of up to $1.0 million payable over two years after the acquisition date, and additional cash payments totaling up to $7.0 million if certain revenue targets are met for the years ended March 31, 2015 and March 31, 2016. InstaManager is a software-as-a-service vacation rental booking system used by professional managers of vacation rental properties. InstaManager offers marketing websites, online pricing and availability, online booking, automated reservations, payment processing and insurance sales.

In March 2014, we acquired certain assets from Virtual Maintenance Manager LLC, including the Virtual Maintenance Manager product (“VMM”), for a preliminary purchase price of $1.2 million, consisting of a cash payment of $1.0 million at closing, a deferred cash payment of up to $0.2 million payable over two years after the acquisition date, and additional cash payments of up to $2.0 million if certain revenue targets are met for the years ended June 30, 2015 and June 30, 2016. VMM is a software-as-a-service application that facilitates the management of the end-to-end maintenance lifecycle for single-family and multi-family rental properties and provides property managers visibility into their maintenance costs, manages resources, and provides business control for property managers.

In May 2014, we acquired substantially all of the operating assets of Notivus Multi-Family, LLC ("Notivus") for a preliminary purchase price of $4.4 million, which consisted of a cash payment of $3.6 million at closing and a deferred cash payment of up to $0.8 million payable over two years after the acquisition date. The acquisition of Notivus expands our ability to provide vendor risk management and compliance software solutions for the rental housing industry.

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

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;
- Fair value measurements;
- Accounts receivable;
- Business combinations;
- Goodwill and other intangible assets with indefinite lives;
- Impairment of long-lived assets;
- 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.

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

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

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

Sales and marketing. Sales and marketing expense consists primarily of personnel costs for our sales, marketing and business development employees and executives, travel and entertainment and marketing programs. Marketing programs consist of amounts paid for search engine optimization (“SEO”) and search engine marketing (“SEM”), renter’s insurance and

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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.

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

Non-GAAP on demand revenue. This metric represents on demand revenue 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 to on demand revenue, our most directly comparable GAAP financial measure:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
On demand revenue	$100,747	$94,084	$289,361	$270,231
Acquisition-related and other deferred revenue adjustments	(392)	1,793	725	1,795
Non-GAAP on demand revenue	$100,355	$95,877	$290,086	$272,026

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

Adjusted EBITDA. We define this metric as net income (loss) plus acquisition-related and other deferred revenue, depreciation, asset impairment, and loss on sale of asset; amortization of intangible assets; interest expense, net; income tax expense (benefit); stock-based compensation expense, acquisition-related expense and certain litigation-related expenses. We believe that the use of Adjusted EBITDA is useful in evaluating our operating performance because it excludes certain non-cash expenses, including depreciation, amortization and stock-based compensation. Adjusted EBITDA is not determined in accordance with accounting principles generally accepted in the United States, or GAAP, and should not be considered as a substitute for or superior to financial measures determined in accordance with GAAP. For a reconciliation of Adjusted EBITDA

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to net income (loss), refer to the table below. Our Adjusted EBITDA decreased from approximately $23.7 million and $65.5 million for the three and nine months ended September 30, 2013, respectively, to approximately $16.3 million $53.3 million for the three and nine months ended September 30, 2014, respectively, as a result of our net loss in 2014.

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Results of Operations

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

Condensed Consolidated Statements of Operations Data

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands, except per share data)			
Revenue:				
On demand	$100,747	$94,084	$289,361	$270,231
On premise	755	838	2,446	2,799
Professional and other	3,034	3,149	8,280	8,473
Total revenue	104,536	98,071	300,087	281,503
Cost of revenue[1]	46,311	38,111	128,353	110,815
Gross profit	58,225	59,960	171,734	170,688
Operating expense:				
Product development[1]	17,528	13,232	48,310	36,997
Sales and marketing[1]	29,949	25,166	83,970	71,992
General and administrative[1]	15,443	15,554	53,191	44,880
Total operating expense	62,920	53,952	185,471	153,869
Operating (loss) income	(4,695)	6,008	(13,737)	16,819
Interest expense and other, net	(345)	(236)	(771)	(921)
(Loss) income before income taxes	(5,040)	5,772	(14,508)	15,898
Income tax benefit	(1,783)	(7,114)	(4,124)	(2,616)
Net (loss) income	$(3,257)	$12,886	$(10,384)	$18,514
Net (loss) income per share				
Basic	$(0.04)	$0.17	$(0.13)	$0.25
Diluted	$(0.04)	$0.17	$(0.13)	$0.24
Weighted average shares used in computing net (loss) income per share				
Basic	77,280	75,234	77,075	74,597
Diluted	77,280	76,347	77,075	75,900
[1] Includes stock-based compensation expense as follows:				
Cost of revenue	$1,141	$785	$3,014	$2,211
Product development	2,707	1,271	6,763	3,123
Sales and marketing	3,774	2,686	10,018	7,891
General and administrative	1,914	2,994	8,999	7,817

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(as a percentage of total revenue)			
Revenue:				
On demand	96.4 %	95.9 %	96.4 %	96.0 %
On premise	0.7	0.9	0.8	1.0
Professional and other	2.9	3.2	2.8	3.0
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue	44.3	38.9	42.8	39.4
Gross profit	55.7	61.1	57.2	60.6
Operating expense:				
Product development	16.8	13.5	16.1	13.1
Sales and marketing	28.6	25.7	28.0	25.6
General and administrative	14.8	15.9	17.7	15.9
Total operating expenses	60.2	55.1	61.8	54.6
Operating (loss) income	(4.5)	6.0	(4.6)	6.0
Interest expense and other, net	(0.3)	(0.2)	(0.3)	(0.3)
(Loss) income before income taxes	(4.8)	5.8	(4.9)	5.7
Income tax benefit	(1.7)	(7.3)	(1.4)	(0.9)
Net (loss) income	(3.1)	13.1	(3.5)	6.6

Three and Nine Months Ended September 30, 2014 compared to Three and Nine Months Ended September 30, 2013

Revenue

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014	2013	Change	% Change	2014	2013	Change	% Change
	(in thousands, except dollar per unit data)							
Revenue:								
On demand	$100,747	$94,084	$6,663	7.1 %	$289,361	$270,231	$19,130	7.1 %
On premise	755	838	(83)	(9.9)	2,446	2,799	(353)	(12.6)
Professional and other	3,034	3,149	(115)	(3.7)	8,280	8,473	(193)	(2.3)
Total revenue	$104,536	$98,071	$6,465	6.6	$300,087	$281,503	$18,584	6.6
On demand unit metrics:								
Ending on demand units	9,496	8,730	766	8.8 %	9,496	8,730	766	8.8 %
Average on demand units	9,434	8,673	761	8.8	9,305	8,527	778	9.1
Non-GAAP on demand revenue	$100,355	$95,877	$4,478	4.7	$290,086	$272,026	$18,060	6.6
Non-GAAP on demand revenue per average on demand unit	$42.55	$44.22	$(1.67)	(3.8)	$41.57	$42.54	$(0.97)	(2.3)

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The changes in total revenue for the three and nine months ended September 30, 2014 and 2013 are due to the following changes in our three revenue components:
On demand revenue. Our on demand revenue increased $6.7 million and $19.1 million for the three and nine months ended September 30, 2014, respectively, as compared to the same periods in 2013, primarily due to an increase in rental property units managed with our on demand solutions as a result of our continued investment in our sales force. This increase was offset in part due to a decrease in RPU to $42.55 and $41.57 during the respective periods were driven by reduced spending by our customers on marketing and advertising resulting from lower resident turnover rates and higher occupancy rates.
On premise revenue. On premise revenue decreased $0.1 million and $0.4 million for the three and nine months ended September 30, 2014, respectively, as compared to the same periods in 2013. We no longer actively market our legacy on premise software solutions to new customers and only market and support our acquired on premise software solutions. We expect on premise revenue to continue to decline over time as we transition acquired on premise customers to our on demand property management solutions.
Professional and other revenue. Professional and other services revenue decreased $0.1 million and $0.2 million for the three and nine months ended September 30, 2014, respectively, as compared to the same periods in 2013, primarily due to a decrease in revenue from consulting services.
On demand unit metrics. As of September 30, 2014, one or more of our on demand solutions was utilized in the management of 9.5 million rental property units, representing an increase of 8.8% compared to the same period in 2013. The increase in the number of rental property units managed by one or more of our on demand solutions was due to new customer sales, marketing efforts to existing customers and our 2013 and 2014 acquisitions which contributed 1.7% to total ending on demand units.
For the three and nine months ended September 30, 2014, annualized non-GAAP on demand revenue per average on demand unit decreased compared to the three and nine months ended September 30, 2013, primarily due to a decrease in contingent commission revenues from our renter's insurance products, reduced spending by our customers on marketing and advertising, and lower resident turnover rates.

Cost of Revenue

	Three Months Ended September 30,					Nine Months Ended September 30,				
	2014	2013	Change	% Change		2014	2013	Change	% Change	
	(in thousands)									
Cost of revenue	$41,018	$34,975	$6,043	17.3	%	$114,319	$100,397	$13,922	13.9	%
Depreciation and amortization	5,293	3,136	2,157	68.8		14,034	10,418	3,616	34.7	
Total cost of revenue	$46,311	$38,111	$8,200	21.5		$128,353	$110,815	$17,538	15.8	

Cost of revenue. The increase in cost of revenue for the three months ended September 30, 2014 as compared to the same period in 2013 was primarily due to: a $2.3 million increase in costs related to the increased sales of our solutions, which includes investments in infrastructure and other support services; a $3.0 million increase in personnel expense primarily related to costs to support our growth initiatives and to a lesser degree increases in headcount added as a result of our 2014 and 2013 acquisitions; a $0.4 million increase in stock-based compensation related to our professional services personnel and data center operations personnel; a $2.2 million increase in non-cash amortization of technology; and a $0.3 million increase in information technology expense.
The increase in cost of revenue for the nine months ended September 30, 2014 as compared to the same period in 2013 was primarily due to: a $3.8 million increase in costs related to the increased sales of our solutions, which includes investments in infrastructure and other support services; a $8.9 million increase in personnel expense primarily related to costs to support our growth initiatives and headcount added as a result of our 2014 and 2013 acquisitions; a $0.8 million increase in stock-based compensation related to our professional services personnel and data center operations personnel; a $3.6 million increase in non-cash amortization of technology; and a $0.4 million increase in information technology expense.

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Operating Expenses

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014	2013	Change	% Change	2014	2013	Change	% Change
	(in thousands)							
Product development	$16,209	$12,484	$3,725	29.8 %	$44,775	$34,862	$9,913	28.4 %
Depreciation and amortization	1,319	748	571	76.3	3,535	2,135	1,400	65.6
Total product development expense	$17,528	$13,232	$4,296	32.5	$48,310	$36,997	$11,313	30.6

Product development. The increase in product development expense for the three months ended September 30, 2014 as compared to the same period in 2013 was primarily due to: a $1.6 million increase in personnel expense for product development groups to further develop, test and launch new products and to a lesser degree a result of our 2014 and 2013 acquisitions and offset by a transition of certain expenses to our Philippine and Indian operations; a $0.4 increase in facility and infrastructure related costs; a $1.4 million increase in stock-based compensation expense; a $0.6 million increase in depreciation expense; and a $0.3 million increase in other product development related expenses.

The increase in product development expense for the nine months ended September 30, 2014 as compared to the same period in 2013 was primarily due to: a $4.2 million increase in personnel expense for product development groups to further develop, test and launch new products and as a result of our 2014 and 2013 acquisitions and offset by a transition of certain expenses to our Philippine and Indian operations; a $0.8 increase in facility and infrastructure related costs; a $3.6 million increase in stock-based compensation expense; a $1.4 million increase in depreciation expense; and a $1.3 million increase in other product development related expenses.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014	2013	Change	% Change	2014	2013	Change	% Change
	(in thousands)							
Sales and marketing	$26,519	$22,317	$4,202	18.8 %	$73,915	$64,170	$9,745	15.2 %
Depreciation and amortization	3,430	2,849	581	20.4	10,055	7,822	2,233	28.5
Total sales and marketing expense	$29,949	$25,166	$4,783	19.0	$83,970	$71,992	$11,978	16.6

Sales and marketing. The increase in sales and marketing expense for the three months ended September 30, 2014 as compared to the same period in 2013 was primarily due to: a $3.3 million increase in sales and marketing personnel expenses and commission related to our increased investment in sales personnel and personnel acquired as a result of our 2014 and 2013 acquisitions; a $1.1 million increase in stock-based compensation expense; a $0.3 million increase in travel-related expenses; and a $0.6 million increase in amortization expense; partially offset by a $0.2 million decrease in bad debt expense and a $1.1 million increase in marketing program expense offset by lower SEM expenses of $1.4 million.

The increase in sales and marketing expense for the nine months ended September 30, 2014 as compared to the same period in 2013 was primarily due to: a $6.0 million increase in sales and marketing personnel expense and commission related to our increased investment in sales personnel and personnel acquired as a result of our 2014 and 2013 acquisitions; a $2.1 million increase in stock-based compensation expense; a $2.6 million increase in marketing program expense offset by $1.3 million from reductions in SEM expenses; a $1.0 million increase in travel-related expenses; and a $2.2 million increase in amortization expense; partially offset by a $0.6 million decrease in bad debt expense.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014	2013	Change	% Change	2014	2013	Change	% Change
	(in thousands)							
General and administrative	$14,523	$14,682	$(159)	(1.1)%	$50,282	$42,432	$7,850	18.5 %

Depreciation and amortization	920	872	48	5.5	2,909	2,448	461	18.8
Total general and administrative expense	$15,443	$15,554	$(111)	(0.7)	$53,191	$44,880	$8,311	18.5

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General and administrative. The decrease in general and administrative expense for the three months ended September 30, 2014 as compared to the same period in 2013 was primarily due to: a $1.1 million decrease in stock-based compensation related to general and administrative personnel and a $0.4 million decrease in legal expense; partially offset by a $0.8 million increase in the fair value adjustments of acquisition-related liabilities; and a $0.6 million increase in other general and administrative costs.
The increase in general and administrative expense for the nine months ended September 30, 2014 as compared to the same period in 2013 was primarily due to: a $1.2 million increase in personnel expense to support the growth in our business, including increased investment in our offshore operations that support those functions; a $1.2 million increase in stock-based compensation related to general and administrative personnel; a $5.8 million increase in litigation expense primarily due to legal fees and the settlement of the Ace Lawsuit in 2014; and a $0.8 million increase in other general and administrative costs; partially offset by a $0.7 million decrease in the fair value adjustments of acquisition-related liabilities.
Interest Expense and Other, Net
The increase in interest expense and other, net for the three months ended September 30, 2014, as compared to the same period in 2013, was due to borrowings on our revolving credit facility to partially finance our acquisition of Kigo.
The decrease in interest expense and other, net for the nine months ended September 30, 2014, as compared to the same period in 2013, was due to a decrease in interest expense as a result of lower debt balances for the majority of nine months ended September 30, 2014 and incurring interest charges in conjunction with the settlement of a sales tax and use audit in 2013.
Provision for Taxes
We compute our provision for income taxes on a quarterly basis by applying the estimated annual effective tax rate to income from recurring operations and other taxable income. Our effective income tax rate was 28.4% and (16.5)% for the nine months ended and 35.4% and (123.3)% for the three months ended September 30, 2014 and 2013, respectively. Our effective tax rate fluctuated from the statutory rate predominantly due to the impact of state taxes and permanent differences, including stock compensation and the non-deductibility of contingent consideration, in relation to our results of operations before income taxes. During 2013, we were able to conclude that, given our performance, the realization of our deferred tax assets was more likely than not and accordingly reversed valuation allowances of approximately $9.2 million and recorded the reduction in valuation allowances as a tax benefit for the period. This reduction of the valuation allowance is the primary cause of the noted fluctuation of our effective income tax rate between the current and prior periods presented.
Reconciliation of Non-GAAP Financial Measures
We define Adjusted EBITDA as net income (loss) plus acquisition-related and other deferred revenue adjustments, depreciation, asset impairment, and loss on sale of asset, amortization of intangible assets, interest expense, net, income tax expense (benefit), stock-based compensation expense, acquisition-related expense, and certain litigation-related expenses. We believe that the use of Adjusted EBITDA is useful to investors and other users of our financial statements in evaluating our operating performance because it provides them with an additional tool to compare business performance across companies and across periods. We believe that:

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

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

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

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We use Adjusted EBITDA in conjunction with traditional GAAP operating performance measures as part of our overall assessment of our performance, for planning purposes, including the preparation of our annual operating budget, to evaluate the effectiveness of our business strategies and to communicate with our board of directors concerning our financial performance.
We do not place undue reliance on Adjusted EBITDA as our only measure of operating performance. Adjusted EBITDA should not be considered as a substitute for other measures of liquidity or financial performance reported in accordance with GAAP. There are limitations to using non-GAAP financial measures, including that other companies may calculate these measures differently than we do, that they do not reflect our capital expenditures or future requirements for capital expenditures and that they do not reflect changes in, or cash requirements for, our working capital. We compensate for the inherent limitations associated with using the Adjusted EBITDA measures through disclosure of these limitations, presentation of our financial statements in accordance with GAAP and reconciliation of Adjusted EBITDA to the most directly comparable GAAP measure, net (loss) income.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Net (loss) income	$(3,257)	$12,886	$(10,384)	$18,514
Acquisition-related and other deferred revenue	(392)	1,793	725	1,795
Depreciation, asset impairment and loss on sale of asset	5,121	3,400	13,911	10,486
Amortization of intangible assets	5,857	4,242	16,658	12,647
Interest expense, net	349	236	780	1,199
Income tax benefit	(1,783)	(7,114)	(4,124)	(2,616)
Litigation related expense	39	278	4,884	331
Stock-based compensation expense	9,536	7,736	28,794	21,042
Acquisition-related expense	860	288	2,098	2,113
Adjusted EBITDA	$16,330	$23,745	$53,342	$65,511

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Liquidity and Capital Resources
Our primary sources of liquidity as of September 30, 2014 consisted of $30.7 million of cash and cash equivalents, $161.4 million available under our revolving line of credit and $32.8 million of current assets less current liabilities (excluding $30.7 million of cash and cash equivalents and $68.3 million of deferred revenue).
Our principal uses of liquidity have been to fund our operations, working capital requirements, capital expenditures, acquisitions and to service our debt obligations. We expect that working capital requirements, capital expenditures and acquisitions will continue to be our principal needs for liquidity over the near term. In addition, through September 30, 2014, we made several acquisitions for which a portion of the cash purchase price is payable at various times through 2017. We expect to fund these obligations from cash provided by operating activities or, in some cases, the issuance of shares of our common stock at our election.
We believe that our existing cash and cash equivalents, working capital (excluding deferred revenue and cash and cash equivalents) and our cash flow from operations, will be sufficient to fund our operations and planned capital expenditures for at least the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the timing and size of acquisitions, the expansion of our sales and marketing activities, the timing and extent of spending to support product development efforts, the timing of introductions of new solutions and enhancements to existing solutions and the continuing market acceptance of our solutions. We may enter into acquisitions of complementary businesses, applications or technologies in the future, which could require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us, or at all.
As of December 31, 2013, we had federal and state net operating loss carryforwards of $174.0 million and $6.9 million, respectively. These carryforwards may be available to offset potential payments of future federal and state income tax liabilities and, if unused, expire at various dates through 2028 for both federal and state income tax purposes.
The following table sets forth cash flow data for the periods indicated therein:

	Nine Months Ended September 30,	
	2014	2013
	(in thousands)	
Net cash provided by operating activities	$50,054	$51,609
Net cash used in investing activities	(71,067)	(33,132)
Net cash provided by (used in) financing activities	17,199	(8,265)

Net Cash Provided by Operating Activities
In the nine months ended September 30, 2014, cash provided by operating activities consisted of a net loss of $10.4 million, net non-cash charges of $59.4 million and changes in working capital of $6.5 million, partially offset by a deferred tax benefit of $6.0 million and acquisition-related contingent consideration charges of $0.6 million. Net non-cash charges to income increased $15.2 million or 34.4%, compared to the same period in 2013, and primarily consisted of depreciation, amortization and stock-based compensation expense. The cash inflow resulting from the changes in working capital was primarily due to changes in accounts receivable, deferred revenue and accounts payable, partially offset by decreases in other assets arising from prepaid expenses related to software license maintenance.
Net Cash Used in Investing Activities
In the nine months ended September 30, 2014, investing activities consisted of acquisition-related payments of $41.9 million primarily related to the Kigo, InstaManager, Notivus, and VMM acquisitions and $29.1 million of capital expenditures related to investments in our technology infrastructure and in our Philippine and Indian operations to support our growth initiatives. The increase in cash used in investing activities from the same period in 2013 relates to the consideration paid, net of cash acquired, for our 2014 acquisitions as compared to 2013 combined with an increase in capital spending.

Net Cash Provided by (Used in) Financing Activities

Cash provided by financing activities during the nine months ended September 30, 2014 was primarily due to receiving $38.6 million in net proceeds from our revolving credit facility, partially offset by capital lease payments of $0.4 million, $4.0 million in payments of acquisition-related contingent consideration, deferred financing costs of $1.0 million and net outflows of $16.0 million from stock issuances under our stock-based compensation plans. Cash provided by financing activities increased from the same period in 2013 primarily due to the receipt of $38.6 million in proceeds from our revolving credit facility in 2014, partially offset by a $10.0 million payment on our revolving credit facility in 2013.

Contractual Obligations, Commitments and Contingencies

Contractual Obligations

Our contractual obligations relate primarily to borrowings and interest payments under credit facilities, capital leases, operating leases and purchase obligations. On September 30, 2014, we entered into a new credit facility agreement described below. There have been no other material changes outside normal operations in our contractual obligations from our disclosures within our Form 10-K.

Long-Term Debt Obligations

On September 30, 2014, we entered into a new agreement for a secured revolving credit facility to refinance our outstanding revolving loans. The new credit facility provides an aggregate principal amount of up to $200.0 million, with sublimits of $10.0 million for the issuance of letters of credit and for $20.0 million of swingline loans. The credit facility also allows us, subject to certain conditions, to request additional term loans or revolving commitments in an aggregate principal amount of up to $150.0 million, plus an amount that would not cause our consolidated net leverage ratio to exceed 3.25 to 1.00. At our option, the revolving loans accrue interest at a per annum rate equal to either LIBOR or Wells Fargo’s prime rate (or, if greater, the federal funds rate plus 0.50% or one month LIBOR plus 1.00%) in each case plus a margin ranging from 1.25% to 1.75% in the case of LIBOR loans, and 0.25% to 0.75% in the case of prime rate loans, in each case based upon the our consolidated net leverage ratio. The interest is due and payable quarterly, in arrears, for loans bearing interest at the prime rate and at the end of the applicable interest period in the case of loans bearing interest at the adjusted LIBOR rate. The credit facility is secured by substantially all of the Company’s assets and certain of our existing and future material domestic subsidiaries are required to guaranty our obligations under the credit facility. We are also required to comply with customary affirmative and negative covenants, as well as a consolidated net leverage ratio and an interest coverage ratio.

Our previous secured revolving credit facility had an aggregate principal amount of up to $150.0 million, subject to a borrowing formula, with a sublimit of $10.0 million for the issuance of letters of credit on our behalf. At our option, the borrowings accrued interest at a per annum rate equal to either LIBOR or Wells Fargo’s prime rate (or, if greater, the federal funds rate plus 0.50% or three month LIBOR plus 1.00%), in each case plus a margin ranging from 2.00% to 2.50%, in the case of LIBOR loans, and 0.0% to 0.25% in the case of prime rate loans, in each case based upon our senior leverage ratio. The interest was due and payable monthly, in arrears, for loans bearing interest at the prime rate and at the end of the applicable 1-, 2-, or 3-month interest period in the case of loans bearing interest at the adjusted LIBOR rate.

In May 2014, we entered into an amendment to the previous credit facility. Under the terms of the amendment, the restrictive covenants were amended to permit us to repurchase up to $75 million of our common stock, subject to certain conditions. Additionally, the fixed charge coverage ratio was replaced with a new minimum interest expense coverage ratio and the capital expenditures limitations were increased.

In June 2014, we entered into an amendment to the previous credit facility. Under the terms of the amendment, the parties to the credit facility consented to the acquisition of Kigo and agreed that the acquisition of Kigo would be a "Permitted Acquisition," as defined in the credit facility and would be excluded from the calculation of the Permitted Acquisition limit. Additionally, the amendment increased the value of our equipment that could be in the hands of our employees, consultants, or customers in the ordinary course of business to $2.5 million and amended the definition of "Aggregate Permitted Acquisition Limit" to $150.0 million, plus an additional $100.0 million if certain conditions are met. In June 2014, we borrowed a total of $25.0 million from our revolving line of credit in order to partially finance our acquisition of Kigo.

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

Our credit facility contains customary covenants, subject in each case to customary exceptions and qualifications, which limit our and certain of our subsidiaries’ ability to, among other things, incur additional indebtedness or guarantee indebtedness of others; create liens on our assets; enter into mergers or consolidations; dispose of assets; prepay certain indebtedness or make changes to our governing documents and certain of our agreements; pay dividends and make other distributions on our capital stock, and redeem and repurchase our capital stock; make investments, including acquisitions; and enter into transactions with affiliates. Our credit facility additionally contains customary affirmative covenants. We are also required to comply with a maximum consolidated net leverage ratio and a minimum interest coverage ratio. The interest coverage ratio, which is a ratio of our four previous fiscal consecutive quarters' consolidated EBITDA to our interest expense, is to be not less than 3.00 to 1.00 as of the last day of any fiscal quarter. The consolidated net leverage ratio, which is the ratio of funded indebtedness on the last day of each fiscal quarter to the four previous consecutive fiscal quarters' consolidated EBITDA, is not to be greater than 3.50 to 1.00, provided that we can elect to increase the ratio to 3.75 to 1.00 for a specified period following a permitted acquisition. As of September 30, 2014, we were in compliance with the covenants under our credit facility.

The credit facility contains customary events of default, subject to customary cure periods for certain defaults, that include, among others, non-payment defaults, covenant defaults, material judgment defaults, bankruptcy and insolvency defaults, cross-defaults to certain other material indebtedness, ERISA defaults, inaccuracy of representations and warranties, and a change in control default.

In the event of a default on our credit facility, the obligations under the credit facility could be accelerated, the applicable interest rate under the credit facility could be increased, the loan commitments could be terminated, our subsidiaries that have guaranteed the credit facility could be required to pay the obligations in full, and our lenders would be permitted to exercise remedies with respect to all of the collateral that is securing the credit facility, including substantially all of our and our subsidiary guarantors' assets. Any such default that is not cured or waived could have a material adverse effect on our liquidity and financial condition.

Share Repurchase Program

Our Board of Directors approved a $50 million initial share repurchase program during the second quarter of fiscal 2014 and continuing for a period of up to one year. During the quarter, we repurchased 844,381 shares of our common stock at a weighted average cost of $15.66 per share and a total cost of approximately $13.2 million. No shares were purchased from October 1, 2014 through November 4, 2014.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

We had cash and cash equivalents of $30.7 million and $34.5 million at September 30, 2014 and December 31, 2013, respectively.

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

We had $38.6 million and $0.0 million outstanding under our revolving credit facility at September 30, 2014 and December 31, 2013, respectively. The interest on this debt is variable and adjusted periodically based on the three-month LIBOR rate. If the LIBOR and Prime rates change by 10% of the September 30, 2014 closing market rates, our annual interest expense would change by less than $0.1 million.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) and Rule 15d-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we carried out an evaluation, with the participation of our management, and under the supervision of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2014, in ensuring that information required to be disclosed in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management's assessment of the effectiveness of our disclosure controls and procedures is expressed at the level of reasonable assurance because management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives.

Changes in Internal Controls

There were no changes in the Company's internal control over financial reporting during the nine months ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Inherent Limitations of Internal Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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PART II—OTHER INFORMATION

Item 1. Legal Proceedings.
From time to time, we have been and may be involved in various legal proceedings arising from our ordinary course of business.
We believe that there are no claims or actions pending against us, the ultimate disposition of which would have a material adverse impact on us.

Item 1A. Risk Factors
Risks Related to Our Business
Our quarterly operating results have fluctuated in the past and may fluctuate in the future, which could cause our stock price to decline.
Our quarterly operating results may fluctuate as a result of a variety of factors, many of which are outside of our control. Fluctuations in our quarterly operating results may be due to a number of factors, including the risks and uncertainties discussed elsewhere in this filing. Some of the important factors that could cause our revenues and operating results to fluctuate from quarter to quarter include:

- the extent to which on demand software solutions maintain current and achieve broader market acceptance;
- fluctuations in leasing activity by our customers;
- increase in number and/or severity of insurance claims on policies sold by us;
- our ability to timely introduce enhancements to our existing solutions and new solutions;
- our ability to renew the use of our on demand products and services by units managed by our existing customers and to increase the use of our on demand products and services for the management of units by our existing and new customers;
- changes in our pricing policies or those of our competitors or new competitors;
- changes in local economic, political and regulatory environments of our international operations;
- the variable nature of our sales and implementation cycles;
- general economic, industry and market conditions in the rental housing industry that impact our current and potential customers;
- the amount and timing of our investment in research and development activities;
- technical difficulties, service interruptions, data or document losses or security breaches;
- Internet usage trends among consumers, and the methodologies Internet search engines utilized to direct those consumers to websites such as our LeaseStar product family;
- our ability to hire and retain qualified key personnel, including the rate of expansion of our sales force and IT department;
- our ability to get ahead of external forces and emergence of new technologies and products;
- our ability to enter into new markets;
- changes in the legal, regulatory or compliance environment related to the rental housing industry or the markets in which we operate, including without limitation fair credit reporting, payment processing, data protection and privacy, social media, utility billing, insurance, the Internet and e-commerce, licensing, telemarketing, electronic communications, the Health Insurance Portability Act of 1996 (“HIPAA”) and the Health Information Technology Economic and Clinical Health Act (“HITECH”);
- the amount and timing of operating expenses and capital expenditures related to the expansion of our operations and infrastructure;
- the timing of revenue and expenses related to recent and potential acquisitions or dispositions of businesses or technologies;
- our ability to integrate acquisition operations in a cost-effective and timely manner;
- litigation and settlement costs, including unforeseen costs;

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- public company reporting requirements; and
- new accounting pronouncements and changes in accounting standards or practices, particularly any affecting the recognition of subscription revenue or accounting for mergers and acquisitions.

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

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

We have not been consistently profitable on a quarterly or annual basis and may not be able to sustain our growth or increase our profitability in the future. We expect to make significant future expenditures related to the development and expansion of our business. As a result of increased general and administrative expenses due to the additional operational and reporting costs associated with being a public company, we need to generate and sustain increased revenue to achieve future profitability expectations. We may incur significant losses in the future for a number of reasons, including the other risks and uncertainties described in this filing. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays and other unknown factors that may result in losses in future periods. If these losses exceed our expectations or our growth expectations are not met in future periods, our financial performance will be affected adversely.

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

The growth in the size, dispersed geographic locations, complexity and diversity of our business and the expansion of our product lines and customer base has placed, and our anticipated growth may continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. We increased our number of employees from 922 as of December 31, 2008 to 3,757 as of September 30, 2014. We increased our number of on demand customers from 2,669 as of December 31, 2008 to over 10,400 as of September 30, 2014. We increased the number of on demand product centers that we offer from 29 as of December 31, 2008 to 57 as September 30, 2014. In addition, in the past, we have grown and expect to continue to grow through acquisitions. Our ability to effectively manage our anticipated future growth will depend on, among other things, the following:

- successfully supporting and maintaining a broad range of current and emerging solutions;
- maintaining continuity in our senior management and key personnel;
- attracting, retaining, training and motivating our employees, particularly technical, customer service and sales personnel;
- enhancing our financial and accounting systems and controls;
- enhancing our information technology infrastructure, processes and controls;
- successfully completing system upgrades and enhancements; and
- managing expanded operations in geographically dispersed locations.

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

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

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

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

With the exception of some of our LeaseStar and Propertyware solutions, which are typically month-to-month, we generally license our solutions pursuant to customer agreements with a term of one year. The pricing of the agreements is typically based on a price per unit basis. Our customers have no obligation to renew these agreements after their term expires, or to renew these agreements at the same or higher annual contract value. In addition, under specific circumstances, our customers have the right to cancel their customer agreements before they expire, for example, in the event of an uncured breach by us, or in some circumstances, by giving 30 days' notice or paying a cancellation fee. In addition, customers often purchase a higher level of professional services in the initial term than they do in renewal terms to ensure successful activation. As a result, our ability to grow is dependent in part on customers purchasing additional solutions or professional services for their on demand units after the initial term of their customer agreement. Though we maintain and analyze historical data with respect to rates of customer renewals, upgrades and expansions, those rates may not accurately predict future trends in renewal of on demand units. Our customers' on demand unit renewal rates may decline or fluctuate for a number of reasons, including, but not limited to, their level of satisfaction with our solutions, our pricing, our competitors' pricing, reductions in our customers' spending levels or reductions in the number of on demand units managed by our customers. If our customers cancel or amend their agreements with us during their term, do not renew their agreements, renew on less favorable terms or do not purchase additional solutions or professional services in renewal periods, our revenue may grow more slowly than expected or decline and our profitability may be harmed.

Additionally, we have experienced, and expect to continue to experience, some level of on demand unit attrition as properties are sold and the new owners and managers of properties previously owned or managed by our customers do not continue to use our solutions. We cannot predict the amount of on demand unit turnover we will experience in the future. However, we have experienced higher rates of on demand unit attrition with our Propertyware property management system, primarily because it serves smaller properties than our OneSite property management system, and we may experience higher levels of on demand unit attrition to the extent Propertyware grows as a percentage of our revenues. If we experience increased on demand unit turnover, our financial performance and operating results could be adversely affected.

On demand revenue that is derived from products that help owners and managers lease and market apartments, such as certain products in LeaseStar and LeasingDesk, may decrease as occupany rates rise. We have also experienced, and expect to continue to experience, some number of consolidations of our customers with other parties. If one of our customers consolidates with a party who is not a customer, our customer may decide not to continue to use our solutions for its on demand units. In addition, if one of our customers is consolidated with another customer, the acquiring customer may have negotiated lower prices for our solutions or may use fewer of our solutions than the acquired customer. In each case, the consolidated entity may attempt to negotiate lower prices for using our solutions as a result of the entity's increased size. These consolidations may cause us to lose on demand units or require us to reduce prices as a result of enhanced customer leverage, which could cause our financial performance and operating results to be adversely affected.

Historically, our on demand units managed by our customers have renewed at a rate of 95.3% based on an average of the last two years ending September 30, 2014.

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

We generally recognize revenue from customers ratably over the terms of their customer agreements which, with the exception of our month-to-month advertising, lease generation and Propertyware agreements, are typically one year. As a result, much of the revenue we report in each quarter is deferred revenue from customer agreements entered into during previous quarters. Consequently, a decline in new or renewed customer agreements in any one quarter will not be fully reflected in our revenue or our results of operations until future periods. Accordingly, this revenue recognition

model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.
We may not be able to continue to add new customers and retain and increase sales to our existing customers, which could adversely affect our operating results.
Our revenue growth is dependent on our ability to continually attract new customers while retaining and expanding our service offerings to existing customers. Growth in the demand for our solutions may be inhibited and we may be unable to sustain growth in our sales for a number of reasons, including, but not limited to:
- our failure to develop new or additional solutions;

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- our inability to market our solutions in a cost-effective manner to new customers or in new vertical or geographic markets;
- our inability to expand our sales to existing customers;
- our inability to compete successfully against our existing and future competitors in pricing strategies;
- the inability of our LeaseStar product family to grow traffic to its websites, resulting in lower levels of lead and lease/move-in traffic to customers;
- our inability to build and promote our brand; and
- perceived or actual security, integrity, reliability, quality or compatibility problems with our solutions.

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

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

We have acquired new technology and domain expertise through multiple acquisitions, including our most recent acquisitions of Seniors for Living, Inc. in February 2013, RentSentinel and RentSocial in March 2013, Windsor Compliance Services, Inc., MyBuilding Inc., and Active Building, LLC in October 2013, Bookt, LLC in January 2014, Virtual Maintenance Manager, LLC in March 2014, Notivus Multi-Family, LLC in May 2014, and Kigo, Inc. in June 2014. We expect to continue making acquisitions. The success of our future acquisition strategy will depend on our ability to identify, negotiate, complete and integrate acquisitions. Acquisitions are inherently risky, and any acquisitions we complete may not be successful. Any acquisitions we pursue would involve numerous risks, including the following:

- difficulties in integrating and managing the operations and technologies of the companies we acquire;
- diversion of our management’s attention from normal daily operations of our business;
- our inability to maintain the customers, the key employees, the key business relationships and the reputations of the businesses we acquire;
- our inability to generate sufficient revenue from acquisitions to offset our increased expenses associated with acquisitions;
- our responsibility for the liabilities of the businesses we acquire, including, without limitation, liabilities arising out of their failure to maintain effective data security, data integrity, disaster recovery and privacy controls prior to the acquisition, or their infringement or alleged infringement of third party intellectual property, contract or data access rights prior to the acquisition;
- difficulties in complying with new markets or regulatory standards to which we were not previously subject;
- delays in our ability to implement internal standards, controls, procedures and policies in the businesses we acquire; and
- adverse effects of acquisition activity on the key performance indicators we use to monitor our performance as a business.

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

Unanticipated events and circumstances may occur in future periods which may affect the realizability of our intangibles assets recognized through acquisitions. The events and circumstances that we consider include significant

under-performance relative to projected future operating results and significant changes in our overall business and/or product strategies. These events and circumstances may cause us to revise our estimates and assumptions used in analyzing the value of our other intangible assets with indefinite lives, the revision could result in a non-cash impairment charge that could have a material impact on our financial results.
We may be unable to secure the equity or debt funding necessary to finance future acquisitions on terms that are acceptable to us, or at all. If we finance acquisitions by issuing equity or convertible debt securities, our existing stockholders

will likely experience ownership dilution, and if we finance future acquisitions with debt funding, we will incur interest expense and may have to comply with additional financing covenants or secure that debt obligation with our assets.

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

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

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

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

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

The ability of our customers to access our service is critical to our business. We host our products and services, support our operations, and service our customers primarily from our Dallas, Texas-based data centers. Some of our products and services derived from recent acquisitions are hosted and supported from data centers in other geographic locations within the continental United States, many of which are operated by third party data vendors. Until such time that migration of these acquired product and services to our Texas-based data centers can be completed, we will not have sole control over the operations of all data center facilities.

We may fail to provide such service as a result of numerous factors, many of which are beyond our control, including, without limitation: mechanical failure, power outage, human error, physical or electronic security breaches, war, terrorism and related conflicts or similar events worldwide, fire, earthquake, hurricane, flood and other natural disasters, sabotage and vandalism. We attempt to mitigate these risks at our Texas-based data centers or other facilities through various business continuity efforts, including redundant infrastructure, 24 x 7 x 365 system activity monitoring, backup and recovery procedures, use of a secure off-site storage facility for backup media, separate test systems and rotation of management and system security measures, but our precautions may not protect against all potential problems. Disaster recovery procedures are in place to facilitate the recovery of our operations, products and services within the stated service level goals. Our secondary data center is equipped with physical space, power, storage and networking infrastructure and Internet connectivity to support the solutions we provide in the event of the interruption of services at our primary data center. Even with this secondary data center, however, our operations would be interrupted during the transition process should our primary data center experience a failure. Moreover, both our primary and secondary data centers are located in the greater metropolitan Dallas area. As a result, any regional disaster could affect both data centers and result in a material disruption of our services. Furthermore, these business continuity efforts do not support our data centers outside of Texas or any centers operated by third party data vendors. Problems at one or more of our data centers, whether or not within our control, could result in service interruptions or delays that could harm our operating results. Disruptions at our data centers or other facilities could cause disruptions in our services and data or document loss or corruption. This could damage our reputation, cause us to issue credits to customers, subject us to potential liability or costs related to defending against claims or cause customers to terminate or elect not to renew their agreements, any of which could negatively impact our revenues.

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

Our customer agreements provide that we maintain certain service level commitments to our customers relating primarily to product functionality, network uptime, critical infrastructure availability and hardware replacement. For example, our service level agreements generally require that our solutions are available 98% of the time during coverage hours (normally 6:00 a.m. though 10:00 p.m. Central time daily) 365 days per year (other than certain permitted exceptions such as

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maintenance). If we are unable to meet the stated service level commitments, we may be contractually obligated to provide customers with refunds or credits. Additionally, if we fail to meet our service level commitments a specified number of times within a given time frame or for a specified duration, our customers may terminate their agreements with us or extend the term of their agreements at no additional fee. As a result, a failure to deliver services for a relatively short duration could cause us to issue credits or refunds to a large number of affected customers or result in the loss of customers. In addition, we cannot assure you that our customers will accept these credits, refunds, termination or extension rights in lieu of other legal remedies that may be available to them. Our failure to meet our commitments could also result in substantial customer dissatisfaction or loss. Because of the loss of future revenues through the issuance of credits or the loss of customers or other potential liabilities, our revenue could be significantly impacted if we cannot meet our service level commitments to our customers.

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

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

Our competitors vary depending on our product and service. In the market for accounting software we compete with Yardi Systems, Inc. ("Yardi"), MRI Software LLC, Property Solutions International, Inc. (“Property Solutions”), AMSI Property Management (owned by Infor Global Solutions, Inc.), Intacct Corp, NetSuite Inc., Intuit Inc, Oracle Corporation, PeopleSoft and JD Edwards (each owned by Oracle Corporation), SAP AG, Microsoft Corporation, AppFolio Inc. and various smaller providers of accounting software. High costs are typically associated with switching an organization’s accounting software. In the market for property management software, we face competitive pressure from Yardi and its Voyager products, AMSI Property Management (owned by Infor Global Solutions, Inc.), Boston Post (acquired by MRI Software LLC), Jenark (owned by CoreLogic), Entrata (a division of Property Solutions), ResMan and MRI Software LLC. In the single-family market, our accounting and property management systems primarily compete with Yardi, AppFolio Inc., Intuit Inc., DIY Real Estate Solutions (acquired by Yardi), Buildium, LLC, Rent Manager (owned by London Computer Systems, Inc.), and Property Boss Solutions, LLC.

In the market for vertically-integrated cloud computing for multi-family real estate owners and property managers, our only substantial competition is from Yardi. We also compete with cloud computing service providers such as Amazon.com Inc., Rackspace Hosting Inc., International Business Machines Corp. and many others.

We offer a number of software-enabled value-added services that compete with a disparate and large group of competitors. In the applicant screening market, our principal competitors are LexisNexis (a subsidiary of Reed Elsevier Group plc), CoreLogic, Inc. (formerly First Advantage Corporation, an affiliate of The First American Corporation), Property Solutions, TransUnion Rental Screening Solutions, Inc. (a subsidiary of TransUnion LLC), Resident Check Inc., Yardi, On-Site.com and many other smaller regional and local screening companies.

In the insurance market, our principal competitors are Assurant, Inc., Bader Company, CoreLogic, Inc., Property Solutions, Yardi and a number of national insurance underwriters (including GEICO Corporation, The Allstate Corporation, State Farm Fire and Casualty Company, Farmers Insurance Exchange, Nationwide Mutual Insurance Company and United Services Automobile Association) that market renters insurance. There are many smaller screening and insurance providers in the risk mitigation area that we encounter less frequently, but they nevertheless present a competitive presence in the market.

In the customer relationship management (“CRM”) market, we compete with providers of contact center and call tracking services, including LeaseHawk LLC, Yardi, Property Solutions International, Inc., and numerous regional and local contact centers. In addition, we compete with lead tracking solution providers, including LeaseHawk LLC, Lead Tracking Solutions (acquired by Yardi) and Who’s Calling, Inc. In addition, we compete with content syndication providers VaultWare (owned by MRI Software LLC) and rentbits.com, Inc. Finally, we compete with companies providing web portal services, including Apartments24-7.com, Inc., Ellipse Communications, Inc., Property Solutions, G5 Search Marketing, Inc., Spherexx.com, and Yardi. Certain Internet listing services also offer websites for their customers, usually as a free value add to their listing service.

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

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

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

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

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

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

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

In the payment processing market, we compete with Chase Paymentech Solutions, LLC (a subsidiary of JPMorgan Chase & Co.), First Data Corporation, Fiserv, Inc., MoneyGram International, Inc., NWP Services Corporation, On-Site.com, Property Solutions, PayLease LLC, RentPayment.com (a subsidiary of Yapstone, Inc.), Yardi, a number of national banking institutions and those that take payments directly from tenants.

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

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

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

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

- develop superior products or services, gain greater market acceptance and expand their offerings more efficiently or more rapidly;
- adapt to new or emerging technologies and changes in customer requirements more quickly;
- take advantage of acquisition and other opportunities more readily;
- adopt more aggressive pricing policies and devote greater resources to the promotion of their brand and marketing and sales of their products and services; and
- devote greater resources to the research and development of their products and services.

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

We integrate our software-enabled value-added services with competitive property management software for some of our customers. Our application infrastructure, marketed to our customers as the RealPage Cloud, is based on an open architecture that enables third-party applications to access and interface with applications hosted in the RealPage Cloud through our RealPage Exchange platform. Likewise, through this platform our RealPage Cloud services are able to access and interface with other third-party applications, including third-party property management systems. We also provide services to assist in the implementation, training, support and hosting with respect to the integration of some of our competitors' applications with our solutions. We sometimes rely on the cooperation of our competitors to implement solutions for our customers. However, frequently our reliance on the cooperation of our competitors can result in delays in integration. There is no assurance that our competitors, even if contractually obligated to do so, will continue to cooperate with us or will not prospectively alter their obligations to do so. We also occasionally develop interfaces between our software-enabled value-added services and competitor property management software without their cooperation or consent. There is no assurance that our competitors will

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not alter their applications in ways that inhibit or prevent integration or assert that their intellectual property rights restrict our ability to integrate our solutions with their applications. Moreover, regardless of merit, such interface-related activity may result in costly litigation.

On January 24, 2011, Yardi filed a lawsuit in the U.S. District Court for the Central District of California against RealPage, Inc. and DC Consulting, Inc. (the “Yardi Lawsuit”). We answered and filed counterclaims against Yardi, and on July 1, 2012, RealPage and Yardi entered into a comprehensive settlement of all outstanding litigation between them, and the lawsuit was dismissed. As part of the settlement, Yardi and RealPage granted each other perpetual licenses and rights to substantially expanded interfaces so that clients can experience a more full-featured integration between RealPage and Yardi applications. The parties also established ongoing testing environments to facilitate efficient operation of the interfaces. In addition, Yardi granted RealPage a license to certain patents. Under the settlement, RealPage will continue providing hosting services for Yardi software for current clients until July 2017. RealPage also agreed to stop offering hosting services for Yardi software to new customers and to stop providing support or implementation services for Yardi software. While we believe that this settlement comprehensively addressed the matters underlying our dispute with Yardi, if Yardi or other competitors do not cooperate with us, alter their applications in ways that inhibit or restrict the integration of our solutions or assert that their intellectual property rights restrict our ability to integrate our solutions with their applications and we are not able to find alternative ways to integrate our solutions with our competitors’ applications, our business would be harmed.

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

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

We are entering a business environment in which social media integration is playing a significantly increasing role. Social media is a new and rapidly changing industry wherein the rules and regulations related to use and disclosure of personal information is unclear and evolving.

The operation and marketing of multitenant real estate developments is likely to become more dependent upon the use of and integration with social media platforms as communities attempt to reach their current and target customers through applications, such as Facebook, Twitter, LinkedIn and other current and emerging social applications. The use of these applications necessarily involves the disclosure of personal information by individuals participating in social media, and the corresponding utilization of such personal information by our products and services via integration programs and data exchanges. The regulatory framework for social media privacy and security issues is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, transmission and security of personal information by companies on social media platforms have recently come under increased public scrutiny as various government agencies and consumer groups have called for new regulation and changes in industry practices. We are also subject to each social media platform’s terms and conditions for use, application development and integration, which may be modified, restricted, or otherwise changed, affecting and possibly curtailing our ability to offer products and services.

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

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

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

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

The sales and activation cycles for our solutions, from initial contact with a prospective customer to contract execution and activation, vary widely by customer and solution. We do not recognize revenue until the solution is activated. While most of our activations follow a set of standard procedures, a customer's priorities may delay activation and our ability to recognize revenue, which could result in fluctuations in our quarterly operating results. Additionally, certain of our products are offered in suites containing multiple solutions, resulting in additional fluctuation in activations depending on each customer's priorities with respect to solutions included in the suite.

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

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

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

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

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

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

- a reduction in new sales or subscription renewal rates;
- unexpected sales credits or refunds to our customers, loss of customers and other potential liabilities;
- delays in customer payments, increasing our collection reserve and collection cycle;
- diversion of development resources and associated costs;
- harm to our reputation and brand; and
- unanticipated litigation costs.

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

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

Our success depends, in part, on our ability to process high volumes of customer data and enhance existing solutions and develop new solutions rapidly and cost effectively. We currently maintain offices in Hyderabad, India and Manila, Philippines where we employ development and data processing personnel. We believe that performing these activities in