

REALPAGE INC  
Form S-1/A  
June 07, 2010

**Table of Contents**

**As filed with the Securities and Exchange Commission on June 7, 2010**

**Registration No. 333-166397**

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

**Amendment No. 1  
to  
Form S-1  
REGISTRATION STATEMENT  
Under  
The Securities Act of 1933**

**RealPage, Inc.**

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

**Delaware**

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

**7372**

*(Primary Standard Industrial  
Classification Code Number)*

**75-2788861**

*(I.R.S. Employer  
Identification Number)*

**4000 International Parkway  
Carrollton, Texas 75007  
Tel: (972) 820-3000**

*(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)*

**Timothy J. Barker  
4000 International Parkway  
Carrollton, Texas 75007  
Tel: (972) 820-3000**

*(Name, address, including zip code, and telephone number, including area code, of agent for service)*

***Copies to:***

**Paul R. Tobias**  
**Wilson Sonsini Goodrich & Rosati,**  
**Professional Corporation**  
**900 S. Capital of Texas Hwy.**  
**Las Cimas IV, Fifth Floor**  
**Austin, Texas 78746**  
**Tel: (512) 338-5400**

**William H. Hinman Jr.**  
**Simpson Thacher & Bartlett LLP**  
**2550 Hanover Street**  
**Palo Alto, California 94304**  
**Tel: (650) 251-5000**

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

---

**Table of Contents**

The information in this prospectus is not complete and may be changed. Neither we nor the selling stockholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and neither we nor the selling stockholders are soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 7, 2010

Shares

**RealPage, Inc.**

Common Stock

This is the initial public offering of our common stock. We are selling \_\_\_\_\_ shares of common stock and the selling stockholders identified in this prospectus are selling \_\_\_\_\_ shares of common stock. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

Prior to this offering, there has been no public market for our common stock. The initial public offering price of our common stock is expected to be between \$ \_\_\_\_\_ and \$ \_\_\_\_\_ per share. We will apply to list our common stock on the NASDAQ Global Market under the symbol **RP**

The underwriters have an option to purchase a maximum of \_\_\_\_\_ additional shares from the selling stockholders to cover over-allotments.

**Investing in our common stock involves risks. See Risk Factors on page 11.**

	<b>Price to Public</b>	<b>Underwriting Discounts and Commissions</b>	<b>Proceeds to RealPage</b>	<b>Proceeds to Selling Stockholders</b>
Per share	\$	\$	\$	\$
Total	\$	\$	\$	\$

Delivery of the shares of common stock will be made on or about \_\_\_\_\_, 2010.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

**Credit Suisse**

**Deutsche Bank Securities**

**William Blair & Company**

**RBC Capital Markets**

**JMP Securities**

**Pacific Crest Securities**

The date of this prospectus is \_\_\_\_\_, 2010.

---

**TABLE OF CONTENTS**

	<b>Page</b>
<u>Prospectus Summary</u>	1
<u>Risk Factors</u>	11
<u>Special Note Regarding Forward-Looking Statements and Industry Data</u>	36
<u>Use of Proceeds</u>	37
<u>Dividend Policy</u>	38
<u>Capitalization</u>	39
<u>Dilution</u>	41
<u>Selected Consolidated Financial Data</u>	43
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	47
<u>Business</u>	79
<u>Management</u>	96
<u>Executive Compensation</u>	104
<u>Certain Relationships and Related Party Transactions</u>	127
<u>Principal and Selling Stockholders</u>	131
<u>Description of Capital Stock</u>	135
<u>Shares Eligible for Future Sale</u>	140
<u>Material U.S. Federal Income Tax and Estate Tax Consequences to Non-U.S. Holders</u>	142
<u>Underwriting</u>	146
<u>Notice to Canadian Residents</u>	152
<u>Legal Matters</u>	153
<u>Experts</u>	153
<u>Where You Can Find Additional Information</u>	153
<u>Index to Consolidated Financial Statements</u>	F-1
<u>EX-4.7</u>	
<u>EX-10.2.E</u>	
<u>EX-10.2.F</u>	
<u>EX-10.2.G</u>	
<u>EX-10.2.H</u>	
<u>EX-10.6.A</u>	
<u>EX-10.49</u>	
<u>EX-10.50</u>	
<u>EX-10.51</u>	
<u>EX-10.52</u>	
<u>EX-23.1</u>	

**You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.**

**Dealer Prospectus Delivery Obligation**

**Until \_\_\_\_\_, 2010 (25 days after the commencement of this offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.**

---

**Table of Contents**

**PROSPECTUS SUMMARY**

*This summary highlights information contained elsewhere in this prospectus and does not contain all of the information you should consider in making your investment decision. You should read this entire prospectus carefully, especially the risks of investing in our common stock discussed under Risk Factors and the consolidated financial statements and related notes included elsewhere in this prospectus, before making an investment decision.*

**Company Overview**

We are a leading provider of on demand software solutions for the rental housing industry. Our broad range of property management solutions enables owners and managers of single-family and a wide variety of multi-family rental property types to manage their marketing, pricing, screening, leasing, accounting, purchasing and other property operations. Our on demand software solutions are delivered through an integrated software platform that provides a single point of access and a shared repository of prospect, resident and property data. By integrating and streamlining a wide range of complex processes and interactions among the rental housing ecosystem of owners, managers, prospects, residents and service providers, our platform optimizes 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 March 31, 2010, over 5,900 customers used one or more of our on demand software solutions to help manage the operations of approximately 4.9 million rental housing units. Our customers include nine of the ten largest multi-family property management companies in the United States, ranked as of January 1, 2010 by the National Multi Housing Council, based on number of units managed.

We sell our solutions through our direct sales organization. Our total revenues were approximately \$83.6 million, \$112.6 million, \$140.9 million and \$41.4 million in 2007, 2008, 2009 and the three months ended March 31, 2010, respectively. In the same periods, we had operating (loss) income of approximately (\$1.6 million), (\$0.4 million), \$6.9 million and \$1.1 million, respectively, and net (loss) income of approximately (\$3.1 million), (\$3.2 million), \$28.4 million and (\$0.2 million), respectively. Net income for 2009 included a discrete tax benefit of approximately \$26.0 million as a result of a reduction of our net deferred tax assets valuation allowance.

Our Adjusted EBITDA in 2007, 2008, 2009 and the three months ended March 31, 2010 was approximately \$6.0 million, \$13.1 million, \$25.6 million and \$7.2 million, respectively. We believe Adjusted EBITDA is useful to investors in evaluating our operating performance. Our management uses Adjusted EBITDA in conjunction with accounting principles generally accepted in the United States, or GAAP, operating performance measures as part of its 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. Adjusted EBITDA should not be considered as an alternative financial measure to net (loss) income, which is the most directly comparable financial measure calculated in accordance with GAAP, or any other measure of financial performance calculated in accordance with GAAP. The following table presents a reconciliation of net (loss) income to Adjusted EBITDA:

**Three Months  
Ended March  
31,**



	Year Ended December 31,			2010 (unaudited)
	2007	2008	2009	
			(in thousands)	
Net (loss) income	\$ (3,143)	\$ (3,209)	\$ 28,429	\$ (203)
Depreciation and asset impairment	4,854	9,847	9,231	2,456
Amortization of intangible assets	2,273	2,095	5,784	2,214
Interest expense, net	1,510	2,152	4,528	1,464
Income tax expense (benefit)		703	(26,028)	(118)
Stock-based compensation expense	490	1,476	2,805	1,094
Acquisition-related expense			844	324
Adjusted EBITDA	\$ 5,984	\$ 13,064	\$ 25,593	\$ 7,231

## **Table of Contents**

For further discussion regarding Adjusted EBITDA, see footnote 5 to the table in Selected Consolidated Financial Data.

## **Industry Overview**

The rental housing market is large and characterized by challenging and location-specific operating requirements, diverse industry participants, significant mobility among residents and a variety of property types, including single-family and a wide range of multi-family property types, including conventional, affordable, privatized military, student and senior housing. According to the U.S. Census Bureau American Housing Survey for the United States: 2007, there were 39.3 million rental housing units in the United States in 2007. Based on U.S. Census Bureau data and our own estimates, we believe that the overall size of the U.S. rental housing market, including rent, utilities and insurance, exceeds \$300 billion annually. We estimate that the total addressable market for our current on demand software solutions is approximately \$5.5 billion per year. This estimate assumes that each of the 39.3 million rental units in the United States has the potential to generate annually a range of approximately \$100 in revenue per unit for single-family units to approximately \$240 in revenue per unit for conventional multi-family units. We base this potential revenue assumption on our review of the purchasing patterns of our existing customers with respect to our on demand software solutions, the on demand software solutions currently utilized by our existing customers, the number of units our customers manage with these solutions and our current pricing for our on demand software solutions.

Rental property management spans both the resident lifecycle and the operations of a property. The resident lifecycle can be separated into four key stages: prospect, applicant, residency and post-residency. Each stage of the lifecycle has unique requirements, such as identifying and capturing quality prospects, processing applications, assessing applicants credit risk, processing payments to and from residents and service providers and managing resident turnover. In addition to managing the resident lifecycle, property owners and managers must also manage the operations of their properties, including material and service provider procurement, insurance and risk mitigation, utility and energy management, information technology and telecommunications management, accounting, expense tracking and management, document management, security, staff hiring and training, staff performance measurement and management and marketing. A property owner's or manager's ability to effectively address these requirements can significantly impact their revenue and profitability.

A variety of software applications have been developed to automate many of these functions. However, these applications often require property owners and managers to implement a myriad of third-party and/or internally developed point solutions. These solutions can be expensive to implement and maintain and are often ineffective at helping property owners and managers increase rental revenue and reduce costs.

## **The RealPage Solution**

We provide a platform of on demand software solutions that integrate and streamline rental property management business functions. Our solutions enable owners and managers of single-family and a wide variety of multi-family rental property types, including conventional, affordable, privatized military, student and senior housing, to manage their marketing, pricing, screening, leasing, accounting, purchasing and other property operations. These functions have traditionally been addressed by individual, disparate applications. 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 business processes. Our solutions contribute to a more efficient property management process and an improved experience for all of the constituents involved in the rental housing ecosystem, including owners, managers, prospects, residents and service providers.

The benefits of our solutions for our customers include the following:

*Increased revenues.* Our solutions help our customers improve sales and marketing effectiveness, optimize pricing and occupancy and improve collection of rental payments, utility expenses, late fees and other charges.

**Table of Contents**

*Reduced operating costs.* Our solutions help our customers streamline and automate many ongoing property management functions, centralize certain property operations, control purchasing by on-site personnel and eliminate the need to own and support property management applications and associated hardware infrastructure.

*Improved quality of service for residents and prospects.* Our solutions expedite the processing of a variety of recurring transactions and increase the frequency and quality of communication with residents and prospects, providing higher resident satisfaction and increased differentiation from competing properties that do not use our solutions.

*Streamlined and simplified property management business processes.* Our solutions share data and automate the workflow of certain business processes, thereby eliminating redundant data entry and simplifying many recurring tasks.

*Ability to integrate third-party products and services.* Our open architecture and application framework facilitate the integration of third-party applications and services into our solutions.

*Increased visibility into property performance.* Our integrated platform and common data repository enable owners and managers to gain a comprehensive view of the operational and financial performance of each of their properties.

*Simple implementation and support.* Our solutions include pre-configured extensions that meet the specific needs of a variety of property types and can be easily tailored by our customers to meet the specific needs of their properties or business processes.

*Improved scalability.* Our application infrastructure is designed to evolve with our customers' needs.

The competitive strengths of our solutions are as follows:

*Integrated on demand software platform based on a common data repository.* Our solutions are delivered through an integrated on demand software platform that provides a single point of access via the Internet to all of our products and a common repository of prospect, resident and property data.

*Large and growing ecosystem of property owners, managers, prospects, residents and service providers.* Our solutions automate and streamline many of the recurring transactions and interactions among a large and expanding rental housing ecosystem of property owners and managers, prospects, residents and service providers.

*Comprehensive platform of on demand software solutions for property management.* We provide what we believe to be the broadest range of on demand capabilities for managing the resident lifecycle and core operational processes for residential property management.

*Deep rental housing industry expertise.* We design our solutions based on our extensive rental housing industry expertise, insight into industry trends and developments and best practices.

*Open cloud computing architecture.* Our cloud computing architecture enables our solutions to interface with many of our customers' existing systems and allows our customers to outsource the management of third-party business applications.

## **Our Strategy**

We intend to leverage the breadth of our solutions and industry presence to solidify our position as a leading provider of on demand software solutions to the rental housing industry. The key elements of our strategy to accomplish this objective are as follows:

acquire new customers;

increase the adoption of additional solutions within our existing customer base;

## **Table of Contents**

add new solutions to our platform; and

pursue acquisitions of complementary businesses, products and technologies.

## **Risks Affecting Us**

Our business is subject to a number of risks that you should understand before making an investment decision. These risks are discussed more fully in **Risk Factors** following this prospectus summary. Some of these risks are:

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

we have a history of operating losses and may not maintain profitability in the future;

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

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

we face intense competitive pressures and our failure to compete successfully could harm our operating results;

we may not be able to continue to add new customers, which could adversely affect our operating results; and

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

## **Company Information**

We were incorporated in the State of Delaware in December 2003 through a merger with our predecessor entity, RealPage, Inc., a Texas corporation, which was originally incorporated in November 1998 as Seren Capital Acquisition Corp. Our principal executive offices are located at 4000 International Parkway, Carrollton, Texas 75007, and our telephone number is (972) 820-3000. Our website address is [www.realpage.com](http://www.realpage.com). The information on, or that can be accessed through, our website is not part of this prospectus.

RealPage®, OneSite, OneSite Leasing and Rents, OneSite Facilities, OneSite Purchasing, OneSite Accounting™, OneSite Budgeting, Propertyware, HUDManager, RentRoll, i-CAM, Tenant Pro, Spectra, CrossFire®, CrossFire Contact Center, CrossFire Leasing Portal, CrossFire Resident Portal, CrossFire Studio, M/PF Research, YieldStar, YieldStar Price Optimizer, LeasingDesk, LeasingDesk Screening, LeasingDesk Insurance Services™, eRenterPlan, Credit Optimizer, Velocity, OpsTechnology, OpsMarket, OpsAdvantage™, OpsBuyer, OpsBid and Domin@8 are our trademarks and registered trademarks appearing in this prospectus. All other trademarks and trade names appearing in this prospectus are the property of their respective owners.

**Table of Contents****The Offering**

Common stock offered by us	shares
Common stock offered by the selling stockholders	shares
Total common stock offered	shares
Common stock to be outstanding after this offering	shares
Use of proceeds	We intend to use the net proceeds from this offering to pay accumulated and unpaid dividends on our outstanding shares of Series A, Series A1 and Series B convertible preferred stock that have accrued at a rate of 8% per annum of the original issue price of each such share of preferred stock, compounded quarterly, which amounted to \$0.8 million as of May 31, 2010, to repay approximately \$17.9 million of our indebtedness outstanding as of May 31, 2010 and for general corporate purposes, including working capital. We also may use a portion of the net proceeds to acquire complementary businesses or technologies. We will not receive any proceeds from the sale of shares by the selling stockholders. See Use of Proceeds.
Risk factors	You should read the Risk Factors section of this prospectus for a discussion of factors that you should consider carefully before deciding to invest in shares of our common stock.
Proposed NASDAQ Global Market symbol	RP

The number of shares of common stock that will be outstanding after this offering is based on 111,158,442 shares of our common stock outstanding as of March 31, 2010 and excludes:

17,148,381 shares of common stock issuable upon the exercise of options outstanding as of March 31, 2010 under our 1998 Stock Incentive Plan, with a weighted average exercise price of \$2.32 per share;

170,000 shares of common stock issuable upon exercise of options outstanding as of March 31, 2010 issued to directors pursuant to stock option agreements outside of our 1998 Stock Incentive Plan, with a weighted average exercise price of \$3.53 per share; and

shares of common stock reserved for future issuance under our 2010 Equity Incentive Plan, which will become effective in connection with this offering (including shares of common stock reserved, as of , for future issuance under our 1998 Stock Incentive Plan, which shares will be added to the shares reserved under our 2010 Equity Incentive Plan, upon its effectiveness).

**Table of Contents**

Unless otherwise indicated, the information in this prospectus assumes:

a -for- reverse stock split of our common stock and convertible preferred stock to be effected prior to the completion of this offering;

the conversion of all outstanding shares of our convertible preferred stock into 58,087,500 shares of common stock effective upon the completion of this offering;

no exercise of options outstanding as of March 31, 2010;

no exercise by the underwriters of their right to purchase up to            shares of common stock to cover over-allotments; and

the filing of our amended and restated certificate of incorporation and the effectiveness of our amended and restated bylaws, which will occur immediately upon the completion of this offering.



**Table of Contents****Summary Consolidated Financial Data**

The following tables present summary consolidated financial data for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010 and summary consolidated balance sheet data as of December 31, 2007, 2008 and 2009 and March 31, 2010. We have derived the consolidated statement of operations data for the years ended December 31, 2007, 2008, and 2009 and the consolidated balance sheet data as of December 31, 2008 and 2009 from our audited consolidated financial statements, which appear elsewhere in this prospectus. We have derived the consolidated balance sheet data as of December 31, 2007 from our audited consolidated financial statements that are not included in this prospectus. We have derived the consolidated statement of operations data for the three months ended March 31, 2009 and 2010 and the consolidated balance sheet data as of March 31, 2010 from our unaudited consolidated financial statements included elsewhere in this prospectus. You should read this information in conjunction with our consolidated financial statements, the related notes to these financial statements and the information in Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

	<b>Year Ended December 31,</b>			<b>Three Months Ended</b>	
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2009</b>	<b>2010</b>
	<b>(in thousands, except per share data)</b>			<b>(unaudited)</b>	<b>(unaudited)</b>
Revenue:					
On demand	\$ 62,592	\$ 95,192	\$ 128,377	\$ 29,264	\$ 37,207
On premise	11,560	7,582	3,860	1,437	1,868
Professional and other	9,429	9,794	8,665	1,942	2,303
 Total revenue	 83,581	 112,568	 140,902	 32,643	 41,378
Cost of revenue	35,703	46,058	58,513	13,035	17,858
 Gross profit	 47,878	 66,510	 82,389	 19,608	 23,520
Operating expense:					
Product development	21,708	28,806	27,446	6,711	8,315
Sales and marketing	18,047	23,923	27,804	6,180	7,540
General and administrative	9,756	14,135	20,210	4,536	6,522
 Total operating expenses	 49,511	 66,864	 75,460	 17,427	 22,377
 Operating (loss) income	 (1,633)	 (354)	 6,929	 2,181	 1,143
Interest expense, net	(1,510)	(2,152)	(4,528)	(985)	(1,464)
 Net (loss) income before taxes	 (3,143)	 (2,506)	 2,401	 1,196	 (321)
Income tax expense (benefit)		703	(26,028)	69	(118)
 Net (loss) income	 \$ (3,143)	 \$ (3,209)	 \$ 28,429	 \$ 1,127	 \$ (203)
 Net (loss) income attributable to common stockholders:					
Basic	\$ (9,143)	\$ (10,658)	\$ 10,611	\$ (292)	\$ (1,353)

Diluted	\$ (9,143)	\$ (10,658)	\$ 10,611	\$ (292)	\$ (1,353)
---------	------------	-------------	-----------	----------	------------

**Table of Contents**

	Year Ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009 (unaudited)	2010 (unaudited)
(in thousands, except per share data)					
Net (loss) income per share attributable to common stockholders:					
Basic	\$ (0.45)	\$ (0.38)	\$ 0.22	\$ (0.01)	\$ (0.03)
Diluted	\$ (0.45)	\$ (0.38)	\$ 0.21	\$ (0.01)	\$ (0.03)
Weighted average shares used in computing net (loss) income per share attributable to common stockholders:					
Basic	20,446	27,773	47,869	47,521	51,517
Diluted	20,446	27,773	51,025	47,521	51,517
Pro forma net income per share attributable to common stockholders (unaudited) <sup>(1)</sup> :					
Basic			\$ 0.27		\$ (0.00)
Diluted			\$ 0.26		\$ (0.00)
Pro forma weighted average shares outstanding used in computing net income per share attributable to common stockholders (unaudited) <sup>(2)</sup> :					
Basic			105,957		109,605
Diluted			109,113		109,605
As of December 31, 2007, 2008, 2009 (in thousands)					
<b>As of March 31, 2010 (unaudited)</b>					
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents <sup>(3)</sup>	\$ 2,731	\$ 4,248	\$ 4,427	\$	3,038
Total current assets	30,414	49,119	51,003		47,594
Total assets	59,518	102,340	142,113		154,000
Total current liabilities	57,682	79,206	82,068		89,531
Total deferred revenue	41,052	47,232	49,428		51,062
Current and long-term debt <sup>(4)</sup>	23,809	48,943	53,990		61,185
Total liabilities	87,954	129,622	136,757		147,571
Preferred stock	78,534	71,675	71,832		73,008
Total stockholders' deficit	(106,970)	(98,957)	(66,476)		(66,579)
<b>Other Financial Data:</b>					
Adjusted EBITDA <sup>(5)</sup>	\$ 5,984	\$ 13,064	\$ 25,593	\$	7,231
Operating cash flow	4,441	7,962	24,758		7,198
Capital expenditures	7,122	10,263	9,509		2,917

	As of December 31,			As of March 31,
	2007	2008	2009	2010
<b>Selected Operating Data:</b>				
Number of on demand customers at period end	2,199	2,669	5,032	5,977
Number of on demand units at period end (in thousands)	2,800	3,833	4,551	4,912
Total number of employees at period end	654	922	1,141	1,249
	8			

---

**Table of Contents**

- (1) Pro forma net income per share represents net income divided by the pro forma weighted average shares outstanding as though the conversion of our redeemable convertible preferred stock into common stock occurred on the original issuance dates.
- (2) Pro forma weighted average shares outstanding reflects the conversion of our redeemable convertible preferred stock (using the if-converted method) into common stock as though the conversion had occurred on the original dates of issuance.
- (3) Excludes restricted cash.
- (4) Includes capital lease obligations.
- (5) We define Adjusted EBITDA as net (loss) income plus depreciation and asset impairment, amortization of intangible assets, interest expense, net, income tax expense (benefit), stock-based compensation expense and acquisition-related expense.

We believe that the use of Adjusted EBITDA is useful to investors and other users of our financial statements in evaluating our operating performance because it provides them with an additional tool to compare business performance across companies and across periods. We believe that:

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

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

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 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.

**Table of Contents**

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

	Year Ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009 (unaudited)	2010 (unaudited)
	(in thousands)				
Net (loss) income	\$ (3,143)	\$ (3,209)	\$ 28,429	\$ 1,127	\$ (203)
Depreciation and asset impairment	4,854	9,847	9,231	2,043	2,456
Amortization of intangible assets	2,273	2,095	5,784	1,362	2,214
Interest expense, net	1,510	2,152	4,528	985	1,464
Income tax expense (benefit)		703	(26,028)	69	(118)
Stock-based compensation expense	490	1,476	2,805	565	1,094
Acquisition-related expense			844		324
Adjusted EBITDA	\$ 5,984	\$ 13,064	\$ 25,593	\$ 6,151	\$ 7,231

The following table presents stock-based compensation included in each expense category:

	Year Ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009 (unaudited)	2010 (unaudited)
	(in thousands)				
Cost of revenue	\$ 48	\$ 104	\$ 367	\$ 67	\$ 123
Product development	251	727	1,175	246	507
Sales and marketing	110	277	498	98	164
General and administrative	81	368	765	154	300
Total stock-based compensation expense	\$ 490	\$ 1,476	\$ 2,805	\$ 565	\$ 1,094

**Table of Contents**

**RISK FACTORS**

*An investment in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with the financial and other information contained in this prospectus, including our consolidated financial statements and related notes, before deciding whether to purchase shares of our common stock. If any of the following risks actually occurs, our business, financial condition, results of operations and future prospects could be materially and adversely affected. In that event, the market price of our common stock could decline and you could lose part or all of your investment.*

**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 prospectus. Some of the important factors that could cause our revenues and operating results to fluctuate from quarter to quarter include:

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

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

our ability to increase sales to existing customers and attract new customers;

changes in our pricing policies or those of our competitors;

the variable nature of our sales and implementation cycles;

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

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

technical difficulties, service interruptions or security breaches;

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

changes in the legal, regulatory or compliance environment related to the rental housing industry, fair credit reporting, payment processing, privacy, utility billing, the Internet and e-commerce;

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 acquisitions in a cost-effective and timely manner;

litigation and settlement costs, including unforeseen costs; 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 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-



**Table of Contents**

quarter comparisons of our revenues and operating results may not be meaningful and the results of any one quarter should not be relied upon as an indication of future performance.

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

Prior to the fiscal quarter ended March 31, 2009, we had not been profitable on a quarterly or annual basis. We experienced net losses of \$3.1 million and \$3.2 million in 2007 and 2008, respectively. As of March 31, 2010, our accumulated deficit was \$90.0 million. While we have experienced significant growth over recent quarters and our net income was \$28.4 million in 2009, we may not be able to sustain or increase our growth or profitability in the future. Net income for 2009 included a discrete tax benefit of approximately \$26.0 million as a result of a reduction of our net deferred tax assets valuation allowance. We expect to make significant future expenditures related to the development and expansion of our business. In addition, following the completion of this offering, we expect that our general and administrative expenses will increase due to the additional operational and reporting costs associated with being a public company. As a result of these increased expenditures and expenses, we will need to generate and sustain increased revenue to achieve future profitability expectations. We may incur significant losses in the future for a number of reasons, including the other risks and uncertainties described in this prospectus. 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, 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 have experienced rapid growth over the past three years. We increased our number of employees from 532 as of December 31, 2006 to 1,249 as of March 31, 2010 and our number of on demand customers from 1,469 as of December 31, 2006 to 5,977 as of March 31, 2010. We increased the number of on demand product centers that we offer from 20 as of December 31, 2006 to 41 as of March 31, 2010 and have added four on premise property management systems as a result of a February 2010 acquisition. In addition, in the past, we have grown and expect to continue to grow through acquisitions. For example, we recently acquired the assets of Domin-8 Enterprise Solutions, Inc., which was a holding company for several on premise property management systems. Our ability to effectively manage our anticipated future growth will depend on, among other things, the following:

- successfully supporting and maintaining a broad range of solutions;
- maintaining continuity in our senior management and key personnel;
- attracting, retaining, training and motivating our employees, particularly technical, customer service and sales personnel;
- enhancing our financial and accounting systems and controls;
- enhancing our information technology infrastructure; 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 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.

**Table of Contents**

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

We manage a complex platform of solutions that consists of our property management systems and integrated software-enabled value-added services. Many of our solutions include a large number of product centers that are highly integrated and require interoperability with each other and our other solutions, 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 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 or unexpected performance issues from time to time. For example, our solutions may face interoperability difficulties with software operating systems or programs being used by our customers, or new releases, upgrades, fixes or the integration of acquired technologies may have unanticipated consequences on the operation and performance of our other solutions. If we encounter integration challenges or discover errors in our solutions late in our development cycle, it may cause us to delay our launch dates. Any major integration or interoperability issues or launch delays could have a material adverse effect on our revenues, operating income and reputation.

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

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

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

We have also experienced, and expect to continue to experience, some number of consolidations of our customers with other parties. If one of our customers consolidates with a party who is not a customer, our customer may decide not to continue to use our solutions. In addition, if one of our customers is consolidated with another customer, the acquiring customer may have negotiated lower prices for our solutions or may use fewer of our solutions than the acquired customer. In each case, the consolidated entity may attempt to negotiate lower prices for using our solutions

as a result of their increased size. These consolidations may cause us to lose customers or require us to reduce prices as a result of enhanced customer leverage, which could cause our financial performance and operating results to be adversely affected.

**Table of Contents**

***Because we 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 are typically one year. As a result, much of the revenue we report in each quarter is deferred revenue from customer agreements entered into during previous quarters. Consequently, a decline in new or renewed customer agreements in any one quarter will not be fully reflected in our revenue or our results of operations until future periods. Accordingly, this revenue recognition model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.

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

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

our 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 build and promote our brand; and

perceived security, 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 acquisition of assets from Domin-8 Enterprise Solutions, Inc. in February 2010. We expect to continue making acquisitions. The success of our future acquisition strategy will depend on our ability to identify, negotiate, complete and integrate acquisitions. Acquisitions are inherently risky, and any acquisitions we complete may not be successful. Any acquisitions we pursue would involve numerous risks, including the following:

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

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

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

insufficient revenue to offset our increased expenses associated with acquisitions;

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

**Table of Contents**

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

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

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

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

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

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

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

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

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

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

The ability of our customers to access our service is critical to our business. We currently serve a majority of our customers from a primary data center located in Carrollton, Texas. We also maintain a secondary data center in downtown Dallas, Texas, approximately 20 miles from our primary data center. Services of our most recent acquisitions are provided from data centers located in Wisconsin, Ohio, Texas and Winnipeg, Canada. It is our intent to migrate all data centers to our primary and secondary data centers in Carrollton and Dallas. Any event resulting in extended interruption or delay in our customers' access to our services or their data could harm our operating results. There can be no certainty that the measures we have taken to eliminate single points of failure in the primary and secondary data centers will be effective to



**Table of Contents**

prevent or minimize interruptions to our operations. Our facilities are vulnerable to interruption or damage from a number of sources, many of which are beyond our control, including, without limitation:

extended power loss;

telecommunications failures from multiple telecommunication providers;

natural disaster or an act of terrorism;

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

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

theft and vandalism of equipment; and

actions or events caused by or related to third parties.

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

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

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

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

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

Our customer agreements provide that we maintain certain service level commitments to our customers relating primarily to product functionality, network uptime, critical infrastructure availability and hardware replacement. For example, our service level agreements generally require that our solutions are available 98% of the time during coverage hours (normally 6:00 a.m. through 10:00 p.m. Central time daily) 365 days per year. If we are unable to meet the stated service level commitments, we may be contractually obligated to provide customers with refunds or credits. Additionally, if we fail to meet our service level commitments a

## **Table of Contents**

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

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

The market for our solutions is intensely competitive, fragmented and rapidly changing with 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.

We face competition primarily from point solution providers, including traditional software vendors, application service providers, or ASPs, and other software as a service, or SaaS, providers. Our competitors vary depending on our product and service. Our principal competitors in the multi-family enterprise resource planning, or ERP, market are AMSI Property Management (owned by Infor Global Solutions, Inc.), MRI Software LLC and Yardi Systems, Inc. These competitors offer both software and ASP delivery platforms. In the last 12 months Yardi Systems, Inc. has expanded into other competitive areas through smaller acquisitions and internally developed systems. In the single-family market, our ERP systems compete primarily with AppFolio, Inc.

We offer a number of software-enabled value-added services that compete with a disparate and large group of competitors. In the applicant screening market, our principal competitors are ChoicePoint Inc. (a subsidiary of Reed Elsevier Group plc), First Advantage Corporation (a subsidiary of The First American Corporation), TransUnion Rental Screening Solutions, Inc. (a subsidiary of TransUnion LLC) and Yardi Systems, Inc. (following its recent acquisition of RentGrow Inc., an applicant screening provider). In the insurance market, our principal competitors are Assurant, Inc., Bader Company and a number of national insurance underwriters (including GEICO Corporation) that market renters insurance. There are many smaller screening and insurance providers in the risk mitigation area that we encounter less frequently, but they nevertheless present a competitive presence in the market.

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

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

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

## **Table of Contents**

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

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

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

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

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

take advantage of acquisition and other opportunities more readily;

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

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

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

We integrate our software-enabled value-added services with competitive ERP applications for some of our customers. We also provide services to assist in the implementation, training, support and hosting with respect to the integration of some of our competitors' applications with our solutions. We sometimes rely on the cooperation of our competitors to implement solutions for our customers. However, frequently our reliance on the cooperation of our competitors can result in delays in integration. There is no assurance that our competitors, even if contractually obligated to do so, will continue to cooperate with us or will not prospectively alter their obligations to do so. We also occasionally develop interfaces between our software-enabled value-added services and competitor ERP systems without their cooperation or consent. There is no assurance that our competitors will not alter their applications in ways that inhibit integration or assert that their intellectual property rights restrict our ability to integrate our solutions with their applications. If our competitors do not continue to cooperate with us or if they alter their applications in ways that inhibit or restrict the integration of our solutions and we are not able to find alternative ways to integrate our solutions with our competitors' applications, our business will be harmed.

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

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

**Table of Contents**

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

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

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

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

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

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

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

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

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

Our success depends, in part, on our ability to process high volumes of customer data and enhance existing solutions and develop new solutions rapidly and cost effectively. We currently maintain an office in Hyderabad, India where we employ development and data processing personnel. We believe that performing these activities in Hyderabad increases the efficiency and decreases the costs of our development and data processing efforts. Managing and staffing international operations requires management's attention and



**Table of Contents**

financial resources. The level of cost-savings achieved by our international operations may not exceed the amount of investment and additional resources required to manage and operate these international operations. Additionally, if we experience problems with our workforce or facilities in Hyderabad, our business could be harmed due to delays in product release schedules or data processing services.

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

We rely on a number of third-party providers, including, but not limited to, computer hardware and software vendors and database providers, to deliver our solutions. We currently utilize equipment, software and services from Avaya Inc., Cisco Systems, Inc., Dell Inc., EMC Corporation, Microsoft Corporation, Oracle Corporation and salesforce.com, inc., as well as many other smaller providers. Our OneSite Accounting service relies on a SaaS-based accounting system developed and maintained by a third-party service provider. We host this application in our data centers and provide supplemental development resources to extend this accounting system to meet the unique requirements of the rental housing industry. Our shared cloud portfolio reporting service will utilize software licensed from IBM. We expect to utilize additional service providers as we expand our platform. Although the third-party technologies and services that we currently require are commercially available, such technologies and services may not continue to be available on commercially reasonable terms, or at all. Any loss of the right to use any of these technologies or services could result in delays in the provisioning of our solutions until alternative technology is either developed by us, or, if available, is identified, obtained and integrated, and such delays could harm our business. It also may be time consuming and costly to enter into new relationships. Additionally, any errors or defects in the third-party technologies we utilize or delays or interruptions in the third-party services we rely on could result in errors, failures or disruptions of our services, which also could harm our business.

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

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



**Table of Contents**

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

In connection with our payment processing services, we collect resident funds and subsequently remit these resident funds to our customers after varying holding periods. These funds are settled through our sponsor bank, and in the case of EFT, our Originating Depository Financial Institution, or ODFI. Currently, we rely on Wells Fargo, N.A. and JPMorgan Chase Bank, N.A. as our sponsor banks. In 2010, we expect to enter into similar sponsor bank relationships with one or more other national banking institutions. The custodial balances that we hold for our customers at our sponsor bank are identified in our consolidated balance sheets as restricted cash and the corresponding liability for these custodial balances is identified as customer deposits. Our payment processing business and related maintenance of custodial accounts subjects us to a number of risks, including, but not limited to:

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

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

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

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

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

our inability to increase our fees at times when Visa and MasterCard increase their merchant transaction processing fees.

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

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

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

significant fines and sanctions by processing networks or governmental bodies, any of which could result in harm to our business and damage to our reputation.

We also rely upon our customers as users of our system to promote security of the system and the data within it, such as administration of customer-side access credentialing and control of customer-side display of

**Table of Contents**

data. On occasion, our customers have failed to perform these activities in such a manner as to prevent unauthorized access to data. To date, these breaches have not resulted in claims against us or in material harm to our business, but we cannot be certain that the failure of our customers in future periods to perform these activities will not result in claims against us, which could expose us to potential litigation and harm to our reputation.

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

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

As we continue to increase our customer base, the number of users accessing our on demand software solutions over the Internet will continue to increase. Increased traffic could result in slow access speeds. Since our customer agreements typically include service availability commitments, slow access speeds or our failure to accommodate increased traffic could result in breaches of our customer agreements. In addition, the market for our solutions is characterized by rapid technological advances and changes in customer requirements. In order to accommodate increased traffic and respond to technological advances and evolving customer requirements, we expect that we will be required to make future investments in our network architecture. If we do not implement future upgrades to our network architecture cost-effectively, or if we experience prolonged delays or unforeseen difficulties in connection with upgrading our network architecture, our service quality may suffer and our operating results could be harmed.

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

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

**Table of Contents**

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

The market for on demand software solutions in the rental housing industry delivered via the Internet through a web browser is rapidly growing but still relatively immature compared to the market for traditional on premise software installed on a customer's local personal computer or server. It is uncertain whether the on demand delivery model will achieve and sustain high levels of demand and market acceptance, making our business and future prospects difficult to evaluate and predict. While our existing customer base has widely accepted this new model, our future success will depend, to a large extent, on the willingness of our potential customers to choose on demand software solutions for business processes that they view as critical. Many of our potential customers have invested substantial effort and financial resources to integrate traditional enterprise software into their businesses and may be reluctant or unwilling to switch to on demand software solutions. Some businesses may be reluctant or unwilling to use on demand software solutions because they have concerns regarding the risks associated with security capabilities, reliability and availability, among other things, of the on demand delivery model. If potential customers do not consider on demand software solutions to be beneficial, then the market for these solutions may not further develop, or it may develop more slowly than we expect, either of which would adversely affect our operating results.

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

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

- reducing the number of occupied sites and units on which we earn revenue;
- preventing our customers from expanding their businesses and managing new properties;
- causing our customers to reduce spending on our solutions;
- subjecting us to increased pricing pressure in order to add new customers and retain existing customers;
- causing our customers to switch to lower-priced solutions provided by our competitors or internally-developed solutions;
- delaying or preventing our collection of outstanding accounts receivable; and
- causing payment processing losses related to an increase in customer insolvency.

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

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges or opportunities, including the need to develop new solutions or enhance our existing solutions, enhance our operating infrastructure or acquire businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock.

Debt financing secured by us in the future could involve additional restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms

**Table of Contents**

satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges or opportunities could be significantly limited.

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

On September 3, 2009, we entered into a credit facility with Wells Fargo Capital Finance, LLC (formerly Wells Fargo Foothill, LLC) and Comerica Bank. As amended on February 10, 2010, the credit facility provides for borrowings of up to \$55.0 million, including a revolving facility of up to \$10.0 million, which is subject to a borrowing base and provides for a sublimit of \$5.0 million for the issuance of letters of credit on our behalf, and a term loan facility of \$45.0 million. At March 31, 2010, we had no outstanding indebtedness under the revolving facility and approximately \$41.9 million of outstanding indebtedness under the term loan facility. Our interest expense in 2009 and the three months ended March 31, 2010 for the credit facility was approximately \$0.9 million and \$0.8 million, respectively.

Advances under the credit facility may be voluntarily prepaid, and must be prepaid with the proceeds of certain dispositions, extraordinary receipts, indebtedness and equity, with excess cash flow and in full upon a change in control. Our lenders have waived the requirement under the credit facility that we prepay the credit facility with the proceeds of this offering. However, this waiver will expire if we do not complete this offering by December 31, 2010. Voluntary prepayments and mandatory prepayments from the proceeds of indebtedness and equity are subject to a prepayment premium of 2.0% in the first year of the credit facility, which is reduced to 1.5% in the event the credit facility is terminated and prepaid in full from the proceeds of this offering, 1.0% in the second year of the facility, 0.5% in the third year of the facility and 0% thereafter. Such prepayments will be applied first to reduce the term loan, and then to reduce availability under the revolver.

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

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

- incur additional indebtedness or guarantee indebtedness of others;
- create liens on our assets;
- enter into mergers or consolidations;
- dispose of assets;
- prepay indebtedness or make changes to our governing documents and certain of our agreements;
- pay dividends and make other distributions on our capital stock, and redeem and repurchase our capital stock;
- make investments, including acquisitions;
- enter into transactions with affiliates; and



make capital expenditures.

Our credit facility also contains customary affirmative covenants, including, among other things, requirements to: take certain actions in the event we form or acquire new subsidiaries; hold annual meetings with our lenders; provide copies of material contracts and amendments to our lenders; locate our collateral only at specified locations; and use commercially reasonable efforts to ensure that certain material contracts

**Table of Contents**

permit the assignment of the contract to our lenders; subject in each case to customary exceptions and qualifications. We are also required to comply with a fixed charge coverage ratio, which is a ratio of our EBITDA to our fixed charges as determined in accordance with the credit facility, of 1.225:1.00 for each period until August 31, 2010, and 1.25:1.00 thereafter, and a senior leverage ratio, which is a ratio of the outstanding principal balance of our term loan plus our outstanding revolver usage to our EBITDA as determined in accordance with the credit facility, of 2.25:1.00 for each period until December 31, 2009, with step-downs until September 30, 2011, when the ratio is set at 1.35:1.00 for such period and thereafter.

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

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

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

We also have substantial equipment lease obligations, which totaled approximately \$1.8 million as of March 31, 2010. If we are unable to generate sufficient cash flow from our operations or cash from other sources in order to meet the payment obligations under these equipment leases, we may lose the right to possess and operate the equipment used in our business, which would substantially impair our ability to provide our solutions and could have a material adverse

effect on our liquidity or results of operations.

## **Table of Contents**

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

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

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

Any intellectual property rights claim against us or our customers, with or without merit, could be time-consuming, expensive to litigate or settle and could divert management's attention and our financial resources. Any such litigation could force us to stop selling, incorporating or using our solutions that include the challenged intellectual property or redesign those solutions that use the technology. In addition, we may have to pay damages if we are found to be in violation of a third party's rights. We may have to procure a license for the technology, which may not be available on reasonable terms, if at all, may significantly increase our operating expenses or may require us to restrict our business activities in one or more respects. As a result, we may also be required to develop alternative non-infringing technology, which could require significant effort and expense. We cannot assure you we would be able to develop alternative solutions or, if alternative solutions were developed, that they would perform as required or be accepted in the relevant markets. In some instances, if we are unable to offer non-infringing technology, or obtain a license for such technology, we will be required to refund some or the entire license fee paid for the infringing technology to our customers.

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

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

Our success depends significantly on our ability to protect our proprietary rights to the technologies we use in our solutions. If we are unable to protect our proprietary rights adequately, our competitors could use the intellectual property we have developed to enhance their own products and services, which could harm our business. We rely on a combination of copyright, service mark, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection. We currently have no issued patents or pending patent applications and may be unable to obtain patent protection in

the future. In addition, if any patents are issued in the future, they may not provide us with any competitive advantages, may not be issued in a manner that gives us the protection that we seek and may be successfully challenged by third parties. Unauthorized parties may attempt to copy or otherwise obtain and use the technologies underlying our solutions. Monitoring unauthorized use of our technologies is difficult, and we do not know whether the steps we have taken will prevent unauthorized use of our technology. If we are unable to protect our proprietary rights, we may find ourselves at a

## **Table of Contents**

competitive disadvantage to others who have not incurred the substantial expense, time and effort required to create similar innovative products.

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

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

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

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

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

On June 15, 2009, a prospective resident of one of our customers filed a class action lawsuit styled *Minor v. RealPage, Inc.* against us in the U.S. District Court for the Central District of California, which was transferred to the United States District Court for the Eastern District of Texas (No. 4:09CV-00439). The plaintiff has alleged two individual claims and three class-based causes of action against us. Individually, the plaintiff alleges that we (i) willfully failed to employ reasonable procedures to ensure the maximum accuracy of our resident screening reports as required by 15 U.S.C. § 1681e(b) and, in the alternative, (ii) negligently (within the meaning of 15 U.S.C. § 1681o(a)) failed to employ reasonable procedures to ensure the maximum accuracy of our resident screening reports, as required by 15 U.S.C. § 1681e(b), in each case stemming from our provision of a report that allegedly included inaccurate criminal conviction information. The plaintiff seeks actual, statutory and punitive damages on her individual claims. In her capacity as the putative class representative, the plaintiff also alleges that we: (i) willfully

failed to provide legally mandated disclosures upon a consumer's request inconsistent with 15 U.S.C. § 1681g; (ii) willfully failed to provide prompt notice of consumers' disputes to the data furnishers who provided us with the information whose accuracy was in question, as required by 15 U.S.C. § 1681i(a)(2); and (iii) willfully failed to provide prompt notice of consumers' disputes to the consumer reporting agencies providing us with the information whose accuracy was

**Table of Contents**

in question, as required by 15 U.S.C. § 1681i(f). She seeks statutory and punitive damages, a declaration that our practices and procedures are in violation of the Fair Credit Reporting Act and attorneys' fees and costs. Because this lawsuit is at an early stage, it is not possible to predict its outcome. We believe that we have meritorious defenses to the claims in this case and intend to defend it vigorously. See Business Legal Proceedings for further information regarding this claim.

On March 4, 2008, we were named as a defendant in a class action lawsuit styled *Taylor, et al. v. Axiom Corp., et al.* filed in the U.S. District Court for the Eastern District of Texas (No. 2:07-CV-00001). Plaintiffs alleged that we obtained and held motor vehicle records in bulk from the State of Texas, an allegedly improper purpose in violation of the federal Driver's Privacy Protection Act, or the DPPA. In addition, the plaintiffs alleged that we obtained these records for the purpose of re-selling them, another allegedly improper purpose in violation of the DPPA. Plaintiffs further purported to represent a putative class of approximately 20.0 million individuals affected by the defendants' alleged DPPA violations. They sought statutory damages of \$2,500 per each violation of the DPPA, punitive damages and an order requiring defendants to destroy information obtained in violation of the DPPA. In September 2008, the Eastern District of Texas dismissed plaintiffs' complaint for failure to state a claim. The plaintiffs subsequently appealed the dismissal to the U.S. Court of Appeals for the Fifth Circuit. In November 2009, the Fifth Circuit heard oral argument on the appeal. A decision has not yet been rendered. We believe that the claims are without merit, but there are no assurances as to the outcome of the litigation. See Business Legal Proceedings for further information regarding this claim.

In March 2010, the District Attorney of Ventura County, California issued an administrative subpoena to us seeking certain information related to our provision of utility billing services in the State of California. A representative of the District Attorney has informed us that the subpoena was issued in connection with a general investigation of industry practices with respect to utility billing in California. Utility billing in California is subject to regulation by state law and various state administrative agencies, including the California Public Utility Commission, or the CPUC, and the Division of Weights and Measures, or the DWM. We have provided the District Attorney with the information requested in the subpoena. As of June 4, 2010, the District Attorney's office has not initiated an administrative or other enforcement action against us, nor have they asserted any violations of the applicable regulations by us. Given the early stage of this investigation, it is difficult to predict its outcome and whether the District Attorney will pursue an administrative or other enforcement action against us in the State of California and what the result of any such action would be. However, penalties or assessments of violations of regulations promulgated by the CPUC or DWM may be calculated on a per occurrence basis. Due to the large number of billing transactions we process for our customers in California, our potential liability in an enforcement action could be significant. If the District Attorney ultimately pursues an administrative or other enforcement action against us, we believe that we have meritorious defenses to the potential claims and would defend them vigorously. However, even if we were successful in defending against such claims, the proceedings could result in significant costs and divert management's attention. See Business Legal Proceedings for further information regarding this claim.

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

We provide warranties to customers of certain of our solutions relating primarily to product functionality, network uptime, critical infrastructure availability and hardware replacement. General errors, defects, inaccuracies or other performance problems in the software applications underlying our solutions or inaccuracies in the data we provide to our customers could result in financial or other damages to our customers. There can be no assurance that any limitations of liability set forth in our contracts would be enforceable or would otherwise protect us from liability for damages. We maintain general liability insurance coverage, including coverage for errors and omissions, in amounts and under terms that we believe are appropriate. There can be no assurance that this coverage will continue to be available on terms acceptable to us, or at all, or in sufficient amounts to cover one or more large product liability



claims, or that the insurer will not deny coverage for any future claim. The successful assertion of one or more large product liability claims against us that exceeds available insurance coverage, could have a material adverse effect on our business, prospects, financial condition and results of operations.

**Table of Contents**

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

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

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

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

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

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

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

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

executive officers.

**Table of Contents**

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

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

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

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

We hold insurance agent licenses from a number of individual state departments of insurance and are subject to state governmental regulation and supervision in connection with the operation of our LeasingDesk insurance business. This state governmental supervision could reduce our profitability or limit the growth of our LeasingDesk insurance business by increasing the costs of regulatory compliance, limiting or restricting the solutions we provide or the methods by which we provide them or subjecting us to the possibility of regulatory actions or proceedings. Our continued ability to maintain these insurance agent licenses in the jurisdictions in which we are licensed depends on our compliance with the rules and regulations promulgated from time to time by the regulatory authorities in each of these jurisdictions. Furthermore, state insurance departments conduct periodic examinations, audits and investigations of the affairs of insurance agents.

In all jurisdictions, the applicable laws and regulations are subject to amendment or interpretation by regulatory authorities. Generally, such authorities are vested with relatively broad discretion to grant, renew and revoke licenses and approvals and to implement regulations. Accordingly, we may be precluded or temporarily suspended from

carrying on some or all of the activities of our LeasingDesk insurance business or otherwise be fined or penalized in a given jurisdiction. No assurances can be given that our LeasingDesk insurance business can continue to be conducted in any given jurisdiction as it has been conducted in the past.

**Table of Contents**

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

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

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

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

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

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

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

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

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

## **Table of Contents**

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

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

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

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

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

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

## **Risks Related to this Offering and Ownership of our Common Stock**

### ***The concentration of our capital stock owned by insiders upon the completion of this offering will limit your ability to influence corporate matters.***

We anticipate that our executive officers, directors, current 5% or greater stockholders and entities affiliated with them will together beneficially own approximately % of our common stock following this offering, or % if the underwriters exercise their over-allotment option in full. Further, we anticipate that Stephen T. Winn, our Chief Executive Officer and Chairman of the Board, and entities beneficially owned by Mr. Winn will hold an aggregate of approximately % of our common stock following this offering, or % if the underwriters exercise their over-allotment option in full. This significant concentration of ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. Depending on the size of the offering and the number of shares of common stock, if any, to be sold in the offering by Mr. Winn and entities beneficially owned by Mr. Winn, Mr. Winn, and entities beneficially owned by Mr. Winn, may be able to control our management and affairs and matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership may have the effect of delaying or preventing a change of control, including a merger, consolidation or other business combination involving us, or



discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change of control would benefit our other stockholders.

**Table of Contents**

***An active, liquid and orderly trading market for our common stock may not develop, the price of our stock may be volatile and you could lose all or part of your investment.***

Before this offering, there has been no public market for shares of our common stock. We cannot predict the extent to which investor interest in our company will lead to the development of a trading market or how liquid that market might become. The initial public offering price for the shares of our common stock will be determined by negotiations among us, the selling stockholders and the underwriters, and may not be indicative of the price that will prevail in the trading market following this offering. In addition, the trading price of our common stock following this offering is likely to be highly volatile and could be subject to wide fluctuations in response to various factors, including, but not limited to, those described in this Risk Factors section, some of which are beyond our control. Factors affecting the trading price of our common stock will include:

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

variations in operating results of similar companies;

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

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

marketing and advertising initiatives by us or our competitors;

the gain or loss of customers;

threatened or actual litigation;

major changes in our board of directors or management;

recruitment or departure of key personnel;

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

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

the overall performance of the equity markets;

sales of our shares of common stock by existing stockholders;

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

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

In addition, the stock market in general, and the market for technology and specifically Internet-related companies, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may harm the market price of our

common stock regardless of our actual operating performance. These fluctuations may be even more pronounced in the trading market for our stock shortly following this offering. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and our resources, whether or not we are successful in such litigation.

**Table of Contents**

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

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

Upon completion of this offering, we will have \_\_\_\_\_ shares of common stock outstanding, assuming no exercise of outstanding options after March 31, 2010. The shares sold in this offering will be immediately tradable without restriction. Of the remaining shares:

\_\_\_\_\_ shares will be eligible for sale immediately upon completion of this offering;

\_\_\_\_\_ shares will be eligible for sale beginning 90 days after the date of this prospectus; and

\_\_\_\_\_ shares will be eligible for sale upon the expiration of lock-up agreements, subject in some cases to volume and other restrictions of Rule 144 and Rule 701 under the Securities Act of 1933, as amended, or the Securities Act.

The lock-up agreements expire 180 days after the date of this prospectus, except that the 180-day period may be extended in certain cases for up to 34 additional days under certain circumstances where we announce or pre-announce earnings or a material event occurs within approximately 17 days prior to, or approximately 16 days after, the termination of the 180-day period. The representatives of the underwriters may, in their sole discretion and at any time without notice, release all or any portion of the securities subject to lock-up agreements.

Following this offering, holders of \_\_\_\_\_ % of our common stock not sold in this offering will be entitled to rights with respect to the registration of these shares under the Securities Act. See Description of Capital Stock Registration Rights. If we register their shares of common stock following the expiration of the lock-up agreements, these stockholders could sell those shares in the public market without being subject to the volume and other restrictions of Rule 144 and Rule 701.

After the closing of this offering, we intend to register approximately \_\_\_\_\_ shares of common stock that have been issued or reserved for future issuance under our stock incentive plans. Of these shares, \_\_\_\_\_ shares will be eligible for sale upon the exercise of vested options after the expiration of the lock-up agreements.

***Because our initial public offering price is substantially higher than the pro forma as adjusted net tangible book value per share of our outstanding common stock, new investors will incur immediate and substantial dilution.***

We expect the initial public offering price of our common stock to be substantially higher than the pro forma as adjusted net tangible book value per share of our common stock based on the total value of our tangible assets less our total liabilities immediately following this offering. Therefore, if you purchase common stock in this offering, you will experience immediate and substantial dilution of approximately \$ \_\_\_\_\_ per share, the difference between the price you pay for our common stock and its pro forma as adjusted net tangible book value after the completion of this offering. Furthermore, investors purchasing common stock in this offering will own only approximately \_\_\_\_\_ % of our shares outstanding after the completion of this offering even though they will have contributed \_\_\_\_\_ % of the total consideration received by us in connection with our sales of common stock. After this offering, we will have an aggregate of \_\_\_\_\_ shares of common stock authorized but unissued and not reserved for issuance under our stock option plans or otherwise. We intend to continue to actively pursue strategic acquisitions. We may pay for such acquisitions,

partly or in full, through the issuance of additional equity. Following the completion of this offering, we may issue shares of our common stock without any action or approval by our stockholders. Any issuance of shares in connection with our acquisitions, the exercise of stock options or otherwise would dilute the percentage ownership held by the investors who purchase our shares in this offering.

**Table of Contents**

***Our management will have broad discretion over the use of the proceeds we receive in this offering and might not apply the proceeds in ways that increase the value of your investment.***

Our management will have broad discretion in the application of the net proceeds of this offering. We intend to use net proceeds of this offering to pay accumulated and unpaid dividends on our outstanding shares of Series A, Series A1 and Series B convertible preferred stock that have accrued at a rate of 8% per annum of the original issue price of each such share of preferred stock, compounded quarterly, which amounted to \$0.8 million as of May 31, 2010, and to repay approximately \$17.9 million of our indebtedness outstanding as of May 31, 2010. Although we currently expect to apply the net proceeds from this offering primarily for working capital and general corporate purposes, which may include future investments in, or acquisitions of, complementary businesses, products or technologies, we cannot specify with certainty how we will apply these net proceeds and our use of the net proceeds of this offering may not increase the value of your investment.

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

We expect that our amended and restated certificate of incorporation and our amended and restated bylaws, to be effective upon the completion of this offering, will contain provisions that could delay or prevent a change in control of our company. These provisions could also make it more difficult for stockholders to elect directors and take other corporate actions. These provisions include:

not providing for cumulative voting in the election of directors;

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

prohibiting stockholder action by written consent; and

requiring advance notification of stockholder nominations and proposals.

These and other provisions we expect to be included in our amended and restated certificate of incorporation and our amended and restated bylaws, to be effective upon the completion of this offering, and under Delaware law could discourage potential takeover attempts, reduce the price that investors might be willing to pay in the future for shares of our common stock and result in the market price of our common stock being lower than it would be without these provisions. See Description of Capital Stock Preferred Stock and Description of Capital Stock Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws.

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

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

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

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. If we do not pay cash dividends, you could receive a return on your investment in our common stock only if the market price of our

common stock has increased when you sell your shares. In addition, the terms of our credit facilities currently restrict our ability to pay dividends.

**Table of Contents**

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA**

This prospectus contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally in Prospectus Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations, Business and Executive Compensation. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, potential market opportunities and the effects of competition. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as anticipates, believes, could, seeks, estimates, expects, intends, may, plans, potential, predicts, would or similar expressions and the negatives of those terms.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss these risks in greater detail in Risk Factors and elsewhere in this prospectus. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this prospectus. You should read this prospectus and the documents that we have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

This prospectus also contains estimates and other information concerning our industry, including market opportunity, size and growth rates, that are based on industry and government publications, reports, surveys and forecasts, including those generated by the United States Census Bureau and the National Multi Housing Council, and on assumptions that we have made that are based on that data, our review of the purchasing patterns of our existing customers with respect to our current on demand software solutions, the on demand software solutions currently utilized by our existing customers, the number of units our customers manage with these solutions and customer demand for our solutions. This information involves a number of assumptions and limitations, and you are cautioned not to give undue weight to these estimates. With respect to information contained in industry and government publications, surveys and forecasts, we have assessed the information in the publications and found it to be reasonable and believe the publications are reliable. While we believe the market opportunity and market size information included in this prospectus is based on reasonable assumptions, such information is inherently imprecise. In addition, projections, assumptions and estimates of the future performance of the industry in which we operate and the markets we serve are necessarily subject to a high degree of uncertainty and risk, including those described in Risk Factors.



**Table of Contents****USE OF PROCEEDS**

We estimate that the net proceeds from our sale of \_\_\_\_\_ shares of common stock in this offering at an assumed initial public offering price of \$ \_\_\_\_\_ per share, the midpoint of the price range set forth on the front cover of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses, will be approximately \$ \_\_\_\_\_ million. A \$1.00 increase (decrease) in the assumed initial public offering price of \$ \_\_\_\_\_ per share would increase (decrease) our net proceeds to us from this offering by approximately \$ \_\_\_\_\_ million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses that we expect to pay. We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders.

We intend to use the net proceeds from this offering to pay accumulated and unpaid dividends on our outstanding shares of Series A, Series A1 and Series B convertible preferred stock that have accrued at a rate of 8% per annum of the original issue price of each such share of preferred stock, compounded quarterly, which amounted to \$0.8 million as of May 31, 2010, and to repay approximately \$17.9 million of our indebtedness outstanding as of May 31, 2010. As a result of the anticipated payment of accumulated and unpaid dividends on our Series A, Series A1 and Series B convertible preferred stock, certain of our affiliates who are holders of our Series A, Series A1 and Series B convertible preferred stock will receive a portion of the net proceeds from this offering.

The outstanding indebtedness under our unsecured subordinated promissory notes held by certain holders of our preferred stock has a stated maturity of the earlier of either October 1, 2013 for notes issued December 31, 2008 or April 1, 2014 for notes issued April 23, 2010, immediately prior to this offering or immediately prior to our acquisition by another person or the sale of all or substantially all of our assets. At March 31, 2010, we had \$7.5 million of outstanding indebtedness under the unsecured subordinated promissory notes and on April 23, 2010, we issued additional unsecured promissory notes having an aggregate principal amount of approximately \$0.4 million. These outstanding amounts bear interest at a per annum rate equal to 8.0%. Pursuant to the terms of our unsecured subordinated promissory notes, we will be required to repay the outstanding principal amount and all accrued and unpaid interest under our unsecured subordinated promissory notes from the net proceeds from this offering. We expect this repayment to be approximately \$ \_\_\_\_\_ million.

The outstanding indebtedness under our secured promissory notes held by HV Capital Investors, L.L.C. has a stated maturity of August 1, 2013. At March 31, 2010, we had \$10.0 million of outstanding indebtedness under two secured promissory notes in principal amount of \$5.0 million each. These outstanding amounts bear interest at a per annum rate equal to 13.75%, payable quarterly in arrears. We intend to use net proceeds of this offering to repay all indebtedness outstanding under one or both of our secured promissory notes. We expect this repayment to be approximately \$ \_\_\_\_\_ million.

We currently do not intend to prepay with the proceeds from this offering any additional outstanding indebtedness.

The principal reasons for this offering are to establish a public market for our common stock, provide liquidity for our stockholders and facilitate our future access to public markets. Other than as described above, we do not have current specific plans for the use of a significant portion of the net proceeds from this offering. However, we generally intend to use our remaining net proceeds from this offering for working capital and general corporate purposes. We may also use a portion of the net proceeds received by us from this offering for the future acquisition of, or investment in, businesses, products or technologies that enhance or add new services or additional functionality to our solutions, further solidify our market position or allow us to offer complementary products, services or technologies which we believe will further enhance our competitive position. Accordingly, our management will have broad discretion in the

application of these proceeds and investors will be relying on the judgment of our management regarding their application.

Pending use of the proceeds from this offering, we intend to invest the remaining proceeds in short-term, interest-bearing investment grade securities.

**Table of Contents**

**DIVIDEND POLICY**

We do not expect to pay dividends on our common stock for the foreseeable future. Instead, we anticipate that all of our earnings will be used for the operation and growth of our business. Any future determination to declare cash dividends would be subject to the discretion of our board of directors and would depend upon various factors, including our results of operations, financial condition and liquidity requirements, restrictions that may be imposed by applicable law and our contracts and other factors deemed relevant by our board of directors. In addition, the terms of our credit facilities currently restrict our ability to pay dividends.



Redeemable convertible preferred stock Series C, \$0.001 par value:

3,025,000 authorized, issued and outstanding,

actual; shares authorized, no shares issued or

outstanding, pro forma; no shares authorized issued and

outstanding, pro forma as adjusted

13,569

Total redeemable convertible preferred stock

\$ 73,008

\$

\$

(1) Includes capital lease obligations.

**Table of Contents**

	<b>As of March 31, 2010</b>		
	<b>Actual</b>	<b>Pro Forma (unaudited) (in thousands)</b>	<b>Pro Forma As Adjusted (unaudited)</b>
Stockholders' (deficit) equity:			
Common stock, \$0.001 par value per share 135,000,000 shares authorized; 53,485,265 issued and 53,070,942 outstanding, actual; shares authorized, issued and outstanding, pro forma; shares authorized, issued and outstanding, pro forma as adjusted	\$ 53		
Preferred stock, \$0.001 par value; no shares authorized, issued or outstanding, actual or pro forma; shares authorized, no shares issued or outstanding, pro forma as adjusted			
Additional paid in capital	24,283		
Treasury stock	(942)		
Accumulated deficit	(90,000)		
Accumulated other comprehensive income	27		
Total stockholders' (deficit) equity	(66,579)		
Total capitalization	\$ 67,614	\$	\$

The number of pro forma and pro forma as adjusted shares of common stock shown as issued and outstanding in the table are based on the number of shares of our common stock outstanding as of March 31, 2010 and excludes:

17,148,381 shares of common stock issuable upon the exercise of options outstanding as of March 31, 2010 under our 1998 Stock Incentive Plan, with a weighted average exercise price of \$2.32 per share;

170,000 shares of common stock issuable upon exercise of options outstanding as of March 31, 2010 issued to directors pursuant to stock option agreements outside of our 1998 Stock Incentive Plan, with a weighted average exercise price of \$3.53 per share; and

shares of common stock reserved for future issuance under our 2010 Equity Incentive Plan, which will become effective in connection with this offering (including shares of common stock reserved, as of , for future issuance under our 1998 Stock Incentive Plan, which shares will be added to the shares reserved under our 2010 Equity Incentive Plan, upon its effectiveness).

A \$1.00 increase or decrease in the assumed initial public offering price would result in an approximately \$ million decrease or increase in each of pro forma as adjusted cash and cash equivalents, additional paid-in capital, total stockholders' (deficit) equity and total capitalization.

**Table of Contents****DILUTION**

As of March 31, 2010, our pro forma net tangible book value (deficit) was approximately \$( ) million, or \$( ) per share of common stock. Our pro forma net tangible book value (deficit) per share represents the amount of our total tangible assets less our liabilities, divided by the shares of common stock outstanding at March 31, 2010 after giving effect to the -for- reverse stock split of our common stock and convertible preferred stock to be effected prior to the completion of this offering and the conversion of all outstanding shares of our convertible preferred stock into 58,087,500 shares of common stock effective upon the completion of this offering. Our pro forma as adjusted net tangible book value at March 31, 2010 would have been \$ million, or \$ per share of common stock after giving effect to our sale of shares of common stock in this offering at an assumed initial public offering price of \$ per share, the midpoint of the price range set forth on the front cover of this prospectus. Our pro forma as adjusted net tangible book value also assumes the deduction of (i) estimated underwriting discounts and commissions and offering expenses, (ii) the application of a portion of the proceeds of this offering to pay accumulated and unpaid dividends on our outstanding shares of Series A, Series A1 and Series B convertible preferred stock that have accrued at a rate of 8%, per annum of the original issue price of each such share of preferred stock, compounded quarterly, which amounted to \$0.8 million as of May 31, 2010, and (iii) the application of a portion of the proceeds of this offering to repay approximately \$17.9 million of our indebtedness outstanding as of May 31, 2010.

This represents an immediate increase in net tangible book value of \$ per share to existing stockholders and an immediate dilution in net tangible book value of \$ per share to purchasers of common stock in this offering.

The following table illustrates this dilution:

Assumed initial offering price per share		\$
Pro forma net tangible book value per share as of March 31, 2010	\$ ( )	
Increase per share attributable to this offering		
Pro forma as adjusted net tangible book value per share after this offering		
Net tangible book value dilution per share to new investors in this offering		\$

If all our outstanding options and warrants had been exercised, our pro forma net tangible book value (deficit) as of March 31, 2010 would have been \$( ) million, or \$( ) per share, and the pro forma as adjusted net tangible book value after this offering would have been \$ million, or \$ per share, causing dilution to new investors of \$ per share.

The following table summarizes, on a pro forma as adjusted basis as of March 31, 2010, the total number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid to us by existing stockholders and by new investors purchasing shares in this offering at the initial public offering price of \$ , the midpoint of the price range set forth on the front cover of this prospectus, before deducting estimated underwriting discounts and commissions and estimated offering expenses:

Shares Purchased	Total	Average Price Per
------------------	-------	-------------------

Edgar Filing: REALPAGE INC - Form S-1/A

	<b>Number</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	<b>Share</b>
Existing stockholders	111,158,442	%	\$	%	\$
New investors					
Totals		100.0%	\$	\$	100.0%

The calculations in the foregoing table are based on 111,158,442 shares of our common stock as of March 31, 2010 and exclude:

17,148,381 shares of common stock issuable upon the exercise of options outstanding as of March 31, 2010 under our 1998 Stock Incentive Plan, with a weighted average exercise price of \$2.32 per share;



**Table of Contents**

170,000 shares of common stock issuable upon exercise of options outstanding as of March 31, 2010 issued to directors pursuant to stock option agreements outside of our 1998 Stock Incentive Plan, with a weighted average exercise price of \$3.53 per share; and

shares of common stock reserved for future issuance under our 2010 Equity Incentive Plan, which will become effective in connection with this offering (including shares of common stock reserved, as of , for future issuance under our 1998 Stock Incentive Plan, which shares will be added to the shares reserved under our 2010 Equity Incentive Plan, upon its effectiveness).

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL DATA**

We have derived the consolidated statements of operations data for the years ended December 31, 2007, 2008 and 2009 and the consolidated balance sheet data as of December 31, 2008 and 2009 from our audited consolidated financial statements, which have been audited by Ernst & Young LLP, independent registered public accounting firm, and are included elsewhere in this prospectus. We have derived the consolidated statement of operations data for the years ended December 31, 2005 and 2006 and the consolidated balance sheet data as of December 31, 2005 and 2006 from our unaudited consolidated financial statements that are not included in this prospectus. We have derived the consolidated statement of operations data for the three months ended March 31, 2009 and 2010 and the consolidated balance sheet data as of March 31, 2010 from our unaudited consolidated financial statements included elsewhere in this prospectus. We have derived the consolidated balance sheet data as of December 31, 2007 from our audited consolidated financial statements, which have been audited by Ernst & Young LLP, but are not included in this prospectus. You should read the following selected consolidated financial data in conjunction with our consolidated financial statements and related notes, the information in Management's Discussion and Analysis of Financial Condition and Results of Operations and the other financial information included elsewhere in this prospectus. Our historical results are not necessarily indicative of our future results.

	<b>Year Ended December 31,</b>					<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2009</b>	<b>2010</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>				<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>(in thousands, except per share data)</b>						
<b>Consolidated Statements of Operations Data:</b>							
Revenue:							
On demand	\$ 21,049	\$ 36,525	\$ 62,592	\$ 95,192	\$ 128,377	\$ 29,264	\$ 37,207
On premise	17,277	15,183	11,560	7,582	3,860	1,437	1,868
Professional and other	4,801	6,937	9,429	9,794	8,665	1,942	2,303
Total revenue	43,127	58,645	83,581	112,568	140,902	32,643	41,378
Cost of revenue	29,168	29,596	35,703	46,058	58,513	13,035	17,858
Gross profit	13,959	29,049	47,878	66,510	82,389	19,608	23,520
Operating expense:							
Product development	15,075	16,959	21,708	28,806	27,446	6,711	8,315
Sales and marketing	7,142	10,487	18,047	23,923	27,804	6,180	7,540
General and administrative	5,782	6,267	9,756	14,135	20,210	4,536	6,522
Total operating expense	27,999	33,713	49,511	66,864	75,460	17,427	23,377
Operating (loss) income	(14,040)	(4,664)	(1,633)	(354)	6,929	2,181	1,143

Edgar Filing: REALPAGE INC - Form S-1/A

Interest expense, net	(381)	(508)	(1,510)	(2,152)	(4,528)	(985)	(1,464)
(Loss) income before taxes	(14,421)	(5,172)	(3,143)	(2,506)	2,401	1,196	(321)
Income tax expense (benefit)				703	(26,028)	69	(118)
Net (loss) income	\$ (14,421)	\$ (5,172)	\$ (3,143)	\$ (3,209)	\$ 28,429	\$ 1,127	\$ (203)
Net (loss) income attributable to common stockholders:							
Basic	\$ (19,426)	\$ (10,590)	\$ (9,143)	\$ (10,658)	\$ 10,611	\$ (292)	\$ (1,353)
Diluted	\$ (19,426)	\$ (10,590)	\$ (9,143)	\$ (10,658)	\$ 10,611	\$ (292)	\$ (1,353)

**Table of Contents**

	Year Ended December 31,					Three Months Ended March 31,	
	2005 (unaudited)	2006 (unaudited)	2007	2008	2009	2009 (unaudited)	2010 (unaudited)
	(in thousands, except per share data)						
Net (loss) income per share attributable to common stockholders:							
Basic	\$ (1.02)	\$ (0.53)	\$ (0.45)	\$ (0.38)	\$ 0.22	\$ (0.01)	\$ (0.03)
Diluted	\$ (1.02)	\$ (0.53)	\$ (0.45)	\$ (0.38)	\$ 0.21	\$ (0.01)	\$ (0.03)
Weighted average number of shares used in computing net (loss) income per share attributable to common stockholders:							
Basic	19,087	20,021	20,446	27,773	47,869	47,521	51,517
Diluted	19,087	20,021	20,446	27,773	51,025	47,521	51,517
Pro forma net income per share attributable to common stockholders (unaudited) <sup>(1)</sup> :							
Basic					\$ 0.27		\$ (0.00)
Diluted					\$ 0.26		\$ (0.00)
Pro forma weighted average shares used in computing net income per share attributable to common stockholders (unaudited) <sup>(2)</sup> :							
Basic					105,957		109,605
Diluted					109,113		109,605

	As of December 31,					As of March 31,
	2005 (unaudited)	2006 (unaudited)	2007	2008	2009	2010 (unaudited)
	(in thousands)					
<b>Consolidated Balance Sheet Data:</b>						
Cash and cash equivalents <sup>(3)</sup>	\$ 5,341	\$ 2,493	\$ 2,731	\$ 4,248	\$ 4,427	\$ 3,038
Total current assets	16,951	18,843	30,414	49,119	51,003	47,594
Total assets	27,292	32,511	59,518	102,340	142,113	154,000
Total current liabilities	40,560	50,490	57,682	79,206	82,068	89,531

Edgar Filing: REALPAGE INC - Form S-1/A

Total deferred revenue	33,114	36,283	41,052	47,232	49,428	51,062
Current and long-term debt <sup>(4)</sup>	3,849	6,682	23,809	48,943	53,990	61,185
Total liabilities	49,275	59,485	87,954	129,622	136,757	147,571
Preferred stock	66,514	72,300	78,534	71,675	71,832	73,008
Total stockholders deficit	(88,497)	(99,274)	(106,970)	(98,957)	(66,476)	(66,579)
<b>Other Financial Data:</b>						
Adjusted EBITDA <sup>(5)</sup>	\$ (8,162)	\$ (692)	\$ 5,984	\$ 13,064	\$ 25,593	\$ 7,231
Operating cash flow	(2,614)	969	4,441	7,962	24,758	7,198
Capital expenditures	3,970	5,597	7,122	10,263	9,509	2,917

44

**Table of Contents**

	As of December 31,					As of
	2005	2006	2007	2008	2009	March 31, 2010
<b>Selected Operating Data</b>						
<b>(unaudited):</b>						
Number of on demand customers at period end	1,025	1,469	2,199	2,669	5,032	5,977
Number of on demand units at period end (in thousands)	1,181	1,708	2,800	3,833	4,551	4,912
Total number of employees at period end	478	532	654	922	1,141	1,249

- (1) Pro forma net income per share represents net income divided by the pro forma weighted average shares outstanding as though the conversion of our redeemable convertible preferred stock into common stock occurred on the original issuance dates.
- (2) Pro forma weighted average shares outstanding reflects the conversion of our redeemable convertible preferred stock (using the if-converted method) into common stock as though the conversion had occurred on the original dates of issuance.
- (3) Excludes restricted cash.
- (4) Includes capital lease obligations.
- (5) We define Adjusted EBITDA as net (loss) income plus depreciation and asset impairment, amortization of intangible assets, interest expense, net, income tax expense (benefit), stock-based compensation expense and acquisition-related expense.

We believe that the use of Adjusted EBITDA is useful to investors and other users of our financial statements in evaluating our operating performance because it provides them with an additional tool to compare business performance across companies and across periods. We believe that:

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

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

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 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.

**Table of Contents**

The following table presents a reconciliation of net (loss) income to Adjusted EBITDA (unaudited):

	2005	Year Ended December 31,				Three Months Ended	
	2006	2007	2008	2009	2009	2010	
	(in thousands)						
Net (loss) income	\$ (14,421)	\$ (5,172)	\$ (3,143)	\$ (3,209)	\$ 28,429	\$ 1,127	\$ (203)
Depreciation and asset impairment	1,788	2,698	4,854	9,847	9,231	2,043	2,456
Amortization of intangible assets	4,090	1,241	2,273	2,095	5,784	1,362	2,214
Interest expense, net	381	508	1,510	2,152	4,528	985	1,464
Income tax expense (benefit)				703	(26,028)	69	(118)
Stock-based compensation expense		33	490	1,476	2,805	565	1,094
Acquisition-related expense					844		324
Adjusted EBITDA	\$ (8,162)	\$ (692)	\$ 5,984	\$ 13,064	\$ 25,593	\$ 6,151	\$ 7,231

The following table presents stock-based compensation included in each expense category:

	2005	Year Ended December 31,				Three Months Ended	
	2006	2007	2008	2009	2009	2010	
	(in thousands)						
						(unaudited)	(unaudited)
Cost of sales		\$ 48	\$ 104	\$ 367	\$ 67	\$ 123	
Product development		251	727	1,175	246	507	
Sales and marketing		110	277	498	98	164	
General and administrative	\$ 33	81	368	765	154	300	
Total stock-based compensation expense	\$ 33	\$ 490	\$ 1,476	\$ 2,805	\$ 565	\$ 1,094	



**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis of our financial condition and results of operations should be read together with Selected Consolidated Financial Data and our financial statements and accompanying notes included elsewhere in this prospectus. This discussion contains forward-looking statements, based on current expectations and related to our plans, estimates, beliefs and anticipated future financial performance. These statements involve risks and uncertainties and our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those set forth under Risk Factors, Special Note Regarding Forward-Looking Statements and Industry Data and elsewhere in this prospectus.*

**Overview**

We are a leading provider of on demand software solutions for the rental housing industry. Our broad range of property management solutions 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. We deliver our on demand software solutions via the Internet through an integrated software platform that provides a single point of access and a shared repository of prospect, resident and property data.

We derive a substantial majority of our revenue from sales of our on demand software solutions. We also derive revenue from our professional and other services. A small percentage of our revenue is derived from sales of our on premise software solutions to our existing on premise customers. Our on demand software solutions are sold pursuant to subscription license agreements, and our on premise software solutions are sold pursuant to term or perpetual license agreements and associated maintenance agreements. Typically, we price our solutions based primarily on the number of units the customer manages with our solutions. For our insurance and transaction-based solutions, we price based on a fixed commission rate of earned premiums or a fixed rate per transaction, respectively. We sell our solutions through our direct sales organization and derive substantially all of our revenue from sales in the United States. Our revenue has increased from \$83.6 million in 2007 to \$140.9 million in 2009 and was \$41.4 million in the three months ended March 31, 2010. The increase in revenue has primarily been driven by increased sales of our on demand software solutions, a substantial amount of which has been derived from purchases of additional on demand software solutions by our existing customers. In 2009 and in the three months ended March 31, 2010, our on demand revenue represented 91.1% and 89.9% of our total revenue, respectively.

While the adoption of on demand software solutions in the rental housing industry is growing rapidly, it remains at a relatively early stage of development. Additionally, there is a low level of penetration of our on demand software solutions in our existing customer base. We believe these factors present us with significant opportunities to generate revenue through sales of additional on demand software solutions. Our existing and potential customers base their decisions to invest in our solutions on a number of factors, including general economic conditions. Accordingly, macroeconomic conditions negatively impacted our business in 2009 and in the three months ended March 31, 2010 and may continue to negatively impact our business.

Our company was formed in 1998 to acquire Rent Roll, Inc., which marketed and sold on premise property management systems for the conventional and affordable multi-family rental housing markets. In June 2001, we released OneSite, our first on demand property management system. Since 2002, we have expanded our on demand software solutions to include a number of software-enabled value-added services that provide complementary sales and marketing, asset optimization, risk mitigation, billing and utility management and spend management capabilities. In connection with this expansion, we have allocated greater resources to the development and infrastructure needs of

developing and increasing sales of our suite of on demand software solutions. In addition, since July 2002, we have completed 13 acquisitions of complementary technologies and businesses (including our recent February 2010 acquisition) to supplement our internal product development and sales and marketing efforts, enabling us to expand the scope of our solutions, the types of rental housing properties served by our solutions and our customer base.

**Table of Contents****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 consolidated financial statements. We monitor the key performance indicators reflected in the following table:

	Year Ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009 (unaudited)	2010 (unaudited)
	(in thousands, except dollar per unit data)				
Revenue:					
Total revenue	\$ 83,581	\$ 112,568	\$ 140,902	\$ 32,643	\$ 41,378
On demand revenue	\$ 62,592	\$ 95,192	\$ 128,377	\$ 29,264	\$ 37,207
On demand revenue as a percentage of total revenue	74.9%	84.6%	91.1%	89.6%	89.9%
Ending on demand units	2,800	3,833	4,551	3,948	4,912
Average on demand units	2,293	3,138	4,128	3,890	4,732
On demand revenue per average on demand unit	\$ 27.30	\$ 30.34	\$ 31.10	\$ 30.09	\$ 31.45
Adjusted EBITDA	\$ 5,984	\$ 13,064	\$ 25,593	\$ 6,151	\$ 7,231
Adjusted EBITDA as a percentage of total revenue	7.2%	11.6%	18.2%	18.8%	17.5%

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

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

*Ending on demand units.* This metric represents the number of rental housing units managed by our customers with one or more of our on demand software solutions at the end of the period. We use ending on demand units to measure the success of our strategy of increasing the number of rental housing units managed with our on demand software solutions. Property unit counts are provided to us by our customers as new sales orders are processed. Property unit counts may be adjusted periodically as information related to our customers' properties is updated or supplemented, which could result in adjusting the number of units previously reported. We expect ending on demand units will continue to increase in 2010 and 2011.

*On demand revenue per average on demand unit.* This metric represents on demand revenue for the period presented divided by average on demand units for the same period. For interim periods, the calculation is performed on an annualized basis. We calculate average on demand units as the average of the beginning and ending on demand units for each quarter in the period presented. We monitor this metric to measure our success in increasing the number of on demand software solutions utilized by our customers to manage their rental housing units, our overall revenue and profitability. On demand revenue per average on demand unit for the three months ended March 31, 2010 is annualized.

*Adjusted EBITDA.* We define this metric as net (loss) income plus depreciation and asset impairment; amortization of intangible assets; interest expense, net; income tax expense (benefit); stock-based

**Table of Contents**

compensation expense and acquisition-related expense. We believe that the use of Adjusted EBITDA is useful in evaluating our operating performance because it excludes certain non-cash expenses, including depreciation, amortization and stock-based compensation. Adjusted EBITDA is not determined in accordance with accounting principles generally accepted in the United States, or GAAP, and should not be considered as a substitute for or superior to financial measures determined in accordance with GAAP. For further discussion regarding Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income, refer to the table below. Our Adjusted EBITDA grew from approximately \$6.0 million in 2007 to approximately \$25.6 million in 2009 and approximately \$7.2 million in the three months ended March 31, 2010, as a result of our efforts to expand market share and increase revenue.

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

	Year Ended December 31,			Three Months Ended	
	2007	2008	2009	2009	2010
	(in thousands)				
Net (loss) income	\$ (3,143)	\$ (3,209)	\$ 28,429	\$ 1,127	\$ (203)
Depreciation and asset impairment	4,854	9,847	9,231	2,043	2,456
Amortization of intangible assets	2,273	2,095	5,784	1,362	2,214
Interest expense, net	1,510	2,152	4,528	985	1,464
Income tax expense (benefit)		703	(26,028)	69	(118)
Stock-based compensation expense	490	1,476	2,805	565	1,094
Acquisition-related expense			844		324
Adjusted EBITDA	\$ 5,984	\$ 13,064	\$ 25,593	\$ 6,151	\$ 7,231

**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. In 2007, 2008, 2009 and the three months ended March 31, 2010, we generated revenue of \$83.6 million, \$112.6 million, \$140.9 million and \$41.4 million, respectively.

**On Demand Revenue**

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

In 2007, 2008, 2009 and the three months ended March 31, 2010, revenue from our on demand software solutions was approximately \$62.6 million, \$95.2 million, \$128.4 million and \$37.2 million, respectively, representing approximately 74.9%, 84.6%, 91.1% and 89.9% of our total revenue for the same periods. Revenue from our on

demand software solutions has continued to increase in absolute dollars and as a percentage of our total revenue as we have ceased actively marketing our on premise software solutions to new customers and as many of our existing on premise customers have transitioned to our on demand software solutions. We expect our on demand revenue to continue to increase in absolute dollars and as a percentage of revenue in 2010, although the actual percentage of revenue may vary from period to period due to a number of factors, including the impact of acquisitions and revenue derived from our professional and other services related to our on demand software solutions.

## **Table of Contents**

### *On Premise Revenue*

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

We no longer actively market our 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 continue to support our recently acquired on premise software solutions, we expect that many of the customers who license these solutions will transition to our on demand software solutions over time.

In 2007, 2008, 2009 and the three months ended March 31, 2010, revenue from our on premise software solutions was approximately \$11.6 million, \$7.6 million, \$3.9 million and \$1.9 million, respectively, representing approximately 13.8%, 6.7%, 2.7% and 4.5% of our total revenue for the same periods, respectively. Revenue from our on premise software solutions has continued to decrease in absolute dollars as we have ceased actively marketing our on premise software solutions to new customers and as many of our existing on premise customers have transitioned to our on demand software solutions. We expect our on premise revenue to decrease over time in absolute dollars and as a percentage of our total revenue; however, our February 2010 acquisition could result in a near-term increase in on premise revenue in terms of both absolute dollars and as a percentage of our total revenue until we transition these customers to our on demand software solutions. In addition, the actual percentage of revenue may vary from period to period due to a number of factors, including the impact of our recent and potential future acquisition of on premise software solutions.

### *Professional and Other Revenue*

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

We complement our solutions with professional and other services. In 2007, 2008, 2009 and the three months ended March 31, 2010, revenue from professional and other services was approximately \$9.4 million, \$9.8 million, \$8.7 million and \$2.3 million, respectively, representing approximately 11.3%, 8.7%, 6.2% and 5.6% of our total revenue for the same periods, respectively. We expect professional and other services will represent 10.0% or less of our total revenue in 2010 consistent with 2008 and 2009 performance.

### *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 costs, overhead costs and depreciation based on headcount. We expect our cost of revenue in 2010 to increase in absolute dollars.

***Operating Expenses***

We classify our operating expenses into three categories: product development, sales and marketing, and general and administrative. Our operating expenses primarily consist of personnel costs, which includes compensation, employee benefits and payroll taxes, costs for third-party contracted development, marketing, legal, accounting and consulting services and other professional service fees. Personnel costs for each category



**Table of Contents**

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.

Our operating expenses increased in absolute dollars in each of 2008 and 2009 as we have built infrastructure and added employees across all categories in order to accelerate and support our growth and to expand our markets. We expect our operating expenses in 2010 to continue to increase in absolute dollars as compared to 2009, as the capacity we have added in prior years is more fully utilized and we continue to create operating leverage.

*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, we established a product development and service center in Hyderabad, India to take advantage of strong technical talent at lower personnel costs compared to the United States. We expect our product development expenses in 2010 to increase in absolute dollars.

*Sales and marketing.* Sales and marketing expense consists primarily of personnel costs for our sales, marketing and business development employees and executives, travel and entertainment and marketing programs. Marketing programs consist of advertising, tradeshow, user conferences, public relations, industry sponsorships and affiliations and product marketing. 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. We expect our sales and marketing expense in 2010 to increase in absolute dollars.

*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. We expect our general and administrative expense in 2010 to increase in absolute dollars as compared to 2009 primarily due to the increased costs of operating as a public company.

***Interest Expense, Net***

Interest expense, net, consists primarily of interest income and interest expense. Interest income represents earnings from our cash, cash equivalents and short-term investments. Interest expense is associated with our term loan, revolver, secured promissory note, promissory note issued to preferred stockholders, capital lease obligations and certain acquisition-related liabilities. Total amounts outstanding under our interest-bearing obligations at December 31, 2007, 2008 and 2009 and March 31, 2010 include:

	2007	As of December 31, 2008                      2009 (in thousands)		As of March 31, 2010 (unaudited)
Term loan	\$ 9,583	\$ 12,650	\$ 33,688	\$ 41,875
Revolver	8,584	10,000		
Secured promissory note		10,000	10,000	10,000
Promissory notes issued to preferred stockholders		11,064	8,173	7,493
Capital lease obligations	5,642	5,229	2,129	1,817

Interest bearing acquisition-related liabilities	3,455	2,966	2,470	2,301
--	-------	-------	-------	-------

We expect interest expense to decrease in absolute dollars and as a percentage of our total revenue in the periods following this public offering as we anticipate repaying a portion of our outstanding term loan and repaying all of our secured promissory note and promissory notes issued to preferred stockholders.

## **Table of Contents**

### ***Income Taxes***

Historically, we have incurred annual operating losses and have not benefited from these losses and have only provided for state and foreign income taxes. As of December 31, 2009, we had net operating loss carry forwards for federal and state income tax purposes of approximately \$67.2 million. In December 2009, based on current year income and projected future year income, we concluded that it is more likely than not that the net deferred tax assets recorded will be realized. As such, we deemed it appropriate to decrease this valuation allowance by \$27.0 million during 2009. If not utilized, our federal net operating loss and tax credit carry forwards will begin to expire in 2018. While not currently subject to an annual limitation, the utilization of these carry forwards may become subject to an annual limitation because of provisions in the Internal Revenue Code that are applicable if we experience an ownership change, which may occur, for example, as a result of this offering or other issuances of stock.

### **Critical Accounting Policies**

Our consolidated financial statements are prepared in accordance with GAAP. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application, while in other cases, management's judgment is required in selecting among available alternative accounting standards that allow different accounting treatment for similar transactions. The preparation of our consolidated financial statements and related disclosures require us to make estimates, assumptions and judgments that affect the reported amount of assets, liabilities, revenue, costs and expenses, and related disclosures. We base our estimates and assumptions on historical experience and other factors that we believe to be reasonable under the circumstances. In some instances, we could reasonably use different accounting estimates, and in some instances results could differ significantly from our estimates. We evaluate our estimates and assumptions on an ongoing basis. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

We believe that the assumptions and estimates associated with revenue recognition, 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 have the greatest potential impact on our consolidated financial statements. Therefore, we believe the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving our management's judgments, assumptions and estimates.

### ***Revenue Recognition***

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

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

For multi-element arrangements that include multiple 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;

**Table of Contents**

*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, we allocate arrangement consideration based on our estimated selling price of the on demand software solution and VSOE of the selling price of the professional services.

*On Demand Revenue*

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

License and subscription fees are comprised of a charge billed at the initial order date and monthly or annual subscription fees for accessing our on demand software solutions.

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

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.

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

*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 license 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.

**Table of Contents*****Accounts Receivable***

For several of our solutions, we invoice our customers prior to the period in which service is provided. Accounts receivable represent trade receivables from customers when we have invoiced for software solutions and/or services and we have not yet received payment. We present accounts receivable net of an allowance for doubtful accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments, or the customer cancelling prior to the service being rendered. In doing so, we consider the current financial condition of the customer, the specific details of the customer account, the age of the outstanding balance, the current economic environment and historical credit trends. As a result of a portion of our allowance being for services not yet rendered, a portion of our allowance is charged as an offset to deferred revenue, which does not have an effect on the statement of operations. Any change in the assumptions used in analyzing a specific account receivable might result in an additional allowance for doubtful accounts being recognized in the period in which the change occurs.

***Business Combinations***

When we acquire businesses, we allocate the total consideration to the fair value of tangible assets and liabilities and identifiable intangible assets acquired. Any residual purchase price is recorded as goodwill. The allocation of the purchase price requires management to make significant estimates in determining the fair values of assets acquired and liabilities assumed, especially with respect to intangible assets. These estimates are based on the application of valuation models using historical experience and information obtained from the management of the acquired companies. These estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted average cost of capital and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain and unpredictable. In addition, unanticipated events and circumstances may occur which may affect the accuracy or validity of these estimates. Beginning in 2009, we began including the fair value of contingent consideration to be paid within the total consideration allocated to the fair value of the assets acquired and the liabilities assumed.

***Goodwill and Other Intangible Assets with Indefinite Lives***

We test goodwill and other intangible assets with indefinite lives for impairment separately on an annual basis in the fourth quarter of each year. Additionally, we test goodwill and other intangible assets with indefinite lives in the interim if events and circumstances indicate that goodwill and other intangible assets with indefinite lives may be impaired. The events and circumstances that we consider include the significant under-performance relative to projected future operating results and significant changes in our overall business and/or product strategies. We evaluate impairment of goodwill using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying amount. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying amount of the goodwill of that reporting unit and determination of the impairment charge, if any. We evaluate other intangible assets with indefinite lives by estimating the fair value of those assets based on estimated future earnings derived from the assets using an income approach model. If the carrying amount of the other intangible assets with indefinite lives exceeds the fair value, we recognize an impairment loss equal to the amount by which the carrying amount exceeds the fair market value of the asset. If an event occurs that causes us to revise our estimates and assumptions used in analyzing the value of our goodwill and 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 recorded goodwill and other intangible assets with indefinite lives in conjunction with all seven of our business acquisitions completed since the beginning of 2007. We test goodwill for impairment based on a single reporting unit. We believe we operate in a single reporting unit because our chief operating decision maker does not regularly review

our operating results other than at a consolidated level for purposes of decision making regarding resource allocation and operating performance.



**Table of Contents*****Impairment of Long-lived Assets***

We perform an impairment review of long-lived assets held and used whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important that could trigger an impairment review include, but are not limited to, significant under-performance relative to projected future operating results, significant changes in the manner of our use of the acquired assets or our overall business and/or product strategies and significant industry or economic trends. When we determine that the carrying value of a long-lived asset may not be recoverable based upon the existence of one or more of these indicators, we determine the recoverability by comparing the carrying amount of the asset to net future undiscounted cash flows that the asset is expected to generate. We would then recognize an impairment charge equal to the amount by which the carrying amount exceeds the fair market value of the asset.

***Intangible Assets***

Intangible assets consist of acquired developed product technologies, acquired customer relationships, vendor relationships, non-competition agreements and trade names. We record intangible assets at fair value and amortize those with finite lives over the shorter of the contractual life or the estimated useful life. We estimate the useful lives of acquired developed product technologies and customer relationships based on factors that include the planned use of each developed product technology and the expected pattern of future cash flows to be derived from each developed product technology and existing customer relationships. We include amortization of acquired developed product technologies in cost of revenue, amortization of acquired customer relationships in sales and marketing expenses and amortization of vendor relationships and non-competition agreements in general and administrative expenses in our consolidated statements of operations.

***Stock-Based Compensation***

Prior to January 1, 2006, we accounted for share-based awards, including stock options, to employees using the intrinsic value method. Under the intrinsic value method, compensation expense was measured on the date of award as the difference, if any, between the deemed fair value of our common stock and the option exercise price, multiplied by the number of options granted. The option exercise prices and fair value of our common stock are determined by our board of directors based on a review of various objective and subjective factors. No compensation expense was recorded for stock options issued to employees prior to January 1, 2006 because all options were granted in fixed amounts and with fixed exercise prices at least equal to the fair value of our common stock at the date of grant.

Effective January 1, 2006, we changed our accounting treatment to recognize compensation expense based on the fair value of all share-based awards granted, modified, repurchased or cancelled on or after that date.

Our stock-based compensation is measured on the grant date based on the fair value of the award and is recognized as an expense over the requisite service period, which is generally the vesting period, on a straight-line basis.

The fair value of share-based awards is calculated through the use of option pricing models. These models require subjective assumptions regarding future share price volatility and the expected life of each option grant.

The fair value of employee stock options granted since January 1, 2006 was estimated at the grant date using the Black-Scholes option pricing model by applying the following weighted average assumptions:

Risk-free interest rates	1.5-4.8%
Expected option life (in years)	6

Dividend yield	0%
Expected volatility	50-60%

At each stock option grant date, we utilized peer group data to calculate our expected volatility. Expected volatility was based on historical and expected volatility rates of comparable publicly traded peers. The expected life of each option grant is based on existing employee exercise patterns and our historical pre-vested

**Table of Contents**

forfeiture experience. The risk-free interest rate was based on the treasury yield rate with a maturity corresponding to the expected option life assumed at the grant date.

Changes to the underlying assumptions may have a significant impact on the underlying value of the stock options, which could have a material impact on our consolidated financial statements.

We have granted stock options at exercise prices above the fair value of our common stock as of the grant date, as determined by our compensation committee on a contemporaneous basis. Given the absence of any active market for our common stock, the fair value of the common stock underlying stock options granted was determined by our compensation committee, with input from our management. In arriving at these valuations, our compensation committee and management also considered contemporaneous third-party valuations.

***Valuation of Common Stock***

In 2009 and through June 2010, we granted options to purchase shares of our common stock as follows:

<b>Grant Date</b>	<b>Options Granted</b>	<b>Exercise Price Per Share</b>	<b>Fair Value Per Share</b>
February 2009	1,437,500	\$ 3.00	\$ 2.72
June 2009	571,000	3.00	2.88
September 2009	1,763,000	3.00	2.52
October 2009	225,000	3.00	2.52
November 2009	472,500	3.00	2.52
December 2009	100,000	3.00	2.83
February 2010	1,841,000	3.75	3.37
April 2010	25,000	3.75	3.37
May 2010	932,000	4.00	3.98
June 2010	300,000	4.00	3.98

***Significant Factors in Determining Fair Value***

For all grant dates in 2009 and 2010, we granted employees options at exercise prices greater than the fair value of the underlying common stock at the time of grant, as determined by our compensation committee on a contemporaneous basis. To determine the fair value of our common stock, we consider many factors, including:

- our current and historical operating performance;
- our expected future operating performance;
- our financial condition at the grant date;
- the liquidation rights and other preferences of our preferred stock;
- any recent privately negotiated sales of our securities to independent third parties;
- input from management;

the lack of marketability of our common stock;

the potential future marketability of our common stock;

the business risks inherent in our business and in technology companies, generally;

the market performance of comparable publicly traded companies; and

the U.S. and global capital market conditions.

**Table of Contents***Valuation Methodologies Used in Determining Fair Value*

In valuing our common stock, we utilize a probability weighted expected return method to estimate the value of our common stock based upon an analysis of expected future cash flows considering possible future liquidity events, as well as the liquidation rights and other preferences of our preferred stock. In determining the value of our common stock on each grant date in 2009 and 2010, we considered two possible scenarios: the completion of an initial public offering, or the IPO Scenario, and remaining private, or the Private Scenario. For purposes of determining the fair market value of our common stock on each grant date in 2009 and 2010, we estimated the probability of the future liquidity event being our initial public offering at 75% and remaining a private company at 25%.

In valuing our common stock in the IPO Scenario, we utilize a market approach that estimates the fair value of a company by applying to that company the market multiples of comparable publicly traded companies. Based on the range of these observed multiples, we apply judgment in determining an appropriate multiple to apply to our metrics in order to derive an indication of value. In connection with valuing our common stock under the IPO Scenario for grants in February, June and September 2009, we determined fair value based on the probability of going public in 2009, 2010 or 2011. In connection with valuing our common stock under the IPO Scenario for grants in December 2009 and February and May 2010, we determined the probability of going public in 2010 or 2011. For each of the grants in 2009 and 2010, we concluded that the market value of invested capital to revenue multiple would yield the most appropriate indication of value for us based on our projections.

In valuing our common stock in the Private Scenario, we apply the income and market approaches utilizing a terminal period value and a residual revenue growth rate of 5.5% in the terminal year based on our expectation of long-term growth. In connection with valuing our common stock under the Private Scenario, we apply the income approach utilizing discounted cash flows. We concluded that this was the best indication of value because, beginning in the fourth quarter of 2008, we had moved towards a long-term expectation of earnings.

*Fair Value of Stock Option Grants in 2009 and 2010*

*February 2009.* In connection with our stock option grants in February 2009, we considered the factors described above as well as a contemporaneous valuation report dated February 27, 2009. The valuation used a risk-adjusted discount of 24.75% and an estimated time to an initial public offering between one and three years, as well as a scenario in which the company would continue as a private entity. As we considered scenarios of liquidity through an initial public offering during 2009, 2010, 2011, or remaining private, a non-marketability discount was estimated at 20.0%, 28.0%, 33.0% and 40.0% for each of the scenarios, respectively. The expected outcomes were weighted 25.0% toward an initial public offering during 2009, 25.0% toward an initial public offering during 2010, 25.0% toward an initial public offering during 2011 and 25.0% toward continuation as a private company. This valuation indicated a fair value of \$2.72 per share for our common stock and we granted options at an exercise price of \$3.00 per share.

*June 2009.* In connection with our stock option grants in June 2009, we considered the factors described above, including the slight recovery of the U.S. and global capital markets and its impact on our short term projected revenue growth and comparable publicly traded peers since the grants in February 2009, as well as a contemporaneous valuation report dated June 4, 2009. The valuation used a risk-adjusted discount of 24.75% and an estimated time to an initial public offering between one and three years, as well as a scenario in which the company would continue as a private entity. As we considered scenarios of liquidity through an initial public offering during 2009, 2010, 2011, or remaining private, a non-marketability discount was estimated at 18.0%, 29.0%, 35.0% and 43.0% for each of the scenarios, respectively. The expected outcomes were weighted 25.0% toward an initial public offering during 2009, 25.0% toward an initial public offering during 2010, 25.0% toward an initial public offering during 2011 and 25.0% toward continuation as a private company. This valuation indicated a fair value of \$2.88 per share for our common

stock and we granted options at an exercise price of \$3.00 per share.

*September 2009.* In connection with our stock option grants in September 2009, we considered the factors described above, including the continued recovery of the U.S. and global capital markets offset by the

**Table of Contents**

reduction in our projected revenue growth due to mixed expectations of projected macroeconomic conditions since the grants in June 2009, as well as a contemporaneous valuation report dated September 18, 2009. The valuation used a risk-adjusted discount of 22.0% and an estimated time to an initial public offering between one and three years, as well as a scenario in which the company would continue as a private entity. As we considered scenarios of liquidity through an initial public offering during 2009, 2010, 2011, or remaining private, a non-marketability discount was estimated at 13.0%, 26.0%, 33.0% and 41.0% for each of the scenarios, respectively. The expected outcomes were weighted 25.0% toward an initial public offering during 2009, 25.0% toward an initial public offering during 2010, 25.0% toward an initial public offering during 2011 and 25.0% toward continuation as a private company. This valuation indicated a fair value of \$2.52 per share for our common stock and we granted options at an exercise price of \$3.00 per share.

*October and November 2009.* In connection with our stock options grants in October and November, we continued to use the \$2.52 per share valuation analyzed in September. Our board of directors reviewed the events since the grant of options in September 2009 and the continued recovery of the U.S. capital markets and concluded that there had been no significant change in our performance to cause an increase or decrease in the per share valuation of our common stock and granted options at an exercise price of \$3.00 per share.

*December 2009.* In connection with our stock option grants in December 2009, we considered the factors described above, including our improved sales performance and outlook and the improved market performance of our comparable public company peers since the September 2009 grants, as well as a contemporaneous valuation report dated December 15, 2009. The valuation used a risk-adjusted discount of 19.5% and an estimated time to an initial public offering between one and two years, as well as a scenario in which the company would continue as a private entity. As we considered scenarios of liquidity through an initial public offering during 2010, 2011, or remaining private, a non-marketability discount was estimated at 24.0%, 32.0% and 42.0% for each of the scenarios, respectively. The expected outcomes were weighted 50.0% toward an initial public offering during 2010, 25.0% toward an initial public offering during 2011 and 25.0% toward continuation as a private company. This valuation indicated a fair value of \$2.83 per share for our common stock and we granted options at an exercise price of \$3.00 per share.

*February 2010.* In connection with our stock option grants in February 2010, we considered the factors described above, including our improved sales performance and outlook and the improved market performance of our comparable public company peers since the December 2009 grants, as well as a contemporaneous valuation report dated February 25, 2010. The valuation used a risk-adjusted discount of 20.0% and an estimated time to an initial public offering between one and two years, as well as a scenario in which the company would continue as a private entity. As we considered scenarios of liquidity through an initial public offering during 2010, 2011, or remaining private, a non-marketability discount was estimated at 22.0%, 31.0% and 41.0% for each of the scenarios, respectively. The change in the non-marketability discount from the previous grants relates to an increase in the likelihood of our initial public offering occurring in the more current term. The expected outcomes were weighted 75% toward an initial public offering (75% toward an offering in 2010 and 25% toward an offering in 2011) and 25% toward continuation as a private company. This valuation indicated a fair value of \$3.37 per share for our common stock and we granted options at an exercise price of \$3.75 per share.

*April and May 2010.* In connection with our stock option grants in April and May 2010, we considered the factors described above, including our improved sales performance and outlook and the improved market performance of our comparable public company peers since the February 2010 grants, as well as a contemporaneous valuation report dated May 12, 2010 for the May 2010 grants. The valuation used a risk-adjusted discount of 18.0% and an estimated time to an initial public offering between one and two years, as well as a scenario in which the company would continue as a private entity. As we considered scenarios of liquidity through an initial public offering during 2010, 2011, or remaining private, a non-marketability discount was estimated at 16.0%, 24.0% and 34.0% for each of the

scenarios, respectively. The change in the non-marketability discount from the previous grants relates to an increase in the likelihood of our initial public offering occurring in the more current term. The expected outcomes were weighted 75% toward an initial public offering (75% toward an offering in 2010 and 25% toward an offering in 2011) and 25% toward



## **Table of Contents**

continuation as a private company. This valuation indicated a fair value of \$3.98 per share for our common stock and we granted options at an exercise price of \$4.00 per share.

*June 2010.* In connection with our stock option grants in June 2010, we continued to use the \$3.98 per share valuation analyzed in May. Our board of directors reviewed the events since the grant of options in May 2010 and concluded that there had been no significant change in our performance to cause an increase or decrease in the per share valuation of our common stock and granted options at an exercise price of \$4.00 per share.

Due to our additional option grants and restricted stock grants since March 31, 2010, we expect to recognize \$0.6 million in incremental stock-based compensation expense during the year ending December 31, 2010. In future periods, our stock-based compensation expense is expected to increase as a result of our existing unrecognized stock-based compensation and as we issue additional stock-based awards to continue to attract and retain employees and independent directors.

Assuming the sale of shares contemplated by this offering is consummated at \$      per share, which is the midpoint of the range of the initial public offering prices listed on the cover page of this prospectus, the aggregate intrinsic values of vested and unvested options to purchase shares of our common stock outstanding as of March 31, 2010 would be \$      million and \$      million, respectively. Although it is possible that the completion of this offering will add value to the shares of our common stock because they will have increased liquidity and marketability, the amount of any additional value cannot be measured with precision or certainty.

## ***Income Taxes***

Income taxes are provided based on the liability method, which results in income tax assets and liabilities arising from temporary differences. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. The liability method requires the effect of tax rate changes on current and accumulated deferred income taxes to be reflected in the period in which the rate change was enacted. The liability method also requires that deferred tax assets be reduced by a valuation allowance unless it is more likely than not that the assets will be realized.

We may recognize the tax benefit from uncertain tax positions only if it is at least more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon settlement with the taxing authorities. Upon our adoption of the related standard, there was no liability for uncertain tax positions due to the fact that there were no material identified tax benefits that were considered uncertain positions.

We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. We consider whether a valuation allowance is needed on our deferred tax assets by evaluating all positive and negative evidence relative to its ability to recover deferred tax assets, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, we begin with historical results, if any, and incorporate assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies, if any. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses. Given the nature of our recurring revenue streams, we believe we have a reasonable basis to estimate future taxable income. Prior to the year ended December 31, 2009, we had incurred losses and it was difficult to assert that deferred tax assets were recoverable with this negative evidence. In calendar year 2009, we generated profits on an annual basis. Additionally, we believe it is more likely than not that our temporary differences will reverse and

provide taxable income prior to the expiration of our net operating losses. Based on consideration of the weight of positive and negative evidence, including forecasted operating results, we concluded that there was sufficient

**Table of Contents**

positive evidence that a portion of our deferred tax assets are more likely than not recoverable as of December 31, 2009. Accordingly, we reversed \$27.0 million of our valuation allowance at year-end.

Our effective tax rates are primarily affected by the amount of our taxable income or losses in the various taxing jurisdictions in which we operate, the amount of federal and state net operating losses and tax credits, the extent to which we can utilize these net operating loss carryforwards and tax credits and certain benefits related to stock option activity.

***Capitalized Product Development Costs***

We capitalize specific product development costs, including costs to develop software products or the software components of our solutions to be marketed to our customers, as well as software programs to be used solely to meet our internal needs. The costs incurred in the preliminary stages of development related to research, project planning, training, maintenance and general and administrative activities, and overhead costs are expensed as incurred. The costs of relatively minor upgrades and enhancements to the software are also expensed as incurred. Once an application has reached the development stage, internal and external costs incurred in the performance of application development stage activities, including materials, services and payroll-related costs for employees are capitalized, if direct and incremental, until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. We also capitalize costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Capitalized costs are recorded as part of property and equipment. Internal use software is amortized on a straight-line basis over its estimated useful life, generally three years. We capitalized \$1.5 million, \$1.4 million and \$0.4 million of product development costs during the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010, respectively, and recognized amortization expense of \$0.8 million, \$0.9 million, \$1.3 million, \$0.3 million and \$0.3 million during the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, respectively, included as a component of cost of revenue. Unamortized product development cost was \$2.9 million, \$3.1 million and \$3.1 million at December 31, 2008 and 2009 and the three months ended March 31, 2010, respectively. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. There were no impairments to internal use software during the years ended December 31, 2007, 2008 or 2009 and the three months ended March 31, 2010.

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

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

**Consolidated Statements of Operations Data**

	Year Ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009 (unaudited)	2010 (unaudited)
	(in thousands)				
Revenue:					
On demand	\$ 62,592	\$ 95,192	\$ 128,377	\$ 29,264	\$ 37,207
On premise	11,560	7,582	3,860	1,437	1,868
Professional and other	9,429	9,794	8,665	1,942	2,303
Total revenue	83,581	112,568	140,902	32,643	41,378
Cost of revenue <sup>(1)</sup>	35,703	46,058	58,513	13,035	17,858
Gross profit	47,878	66,510	82,389	19,608	23,520
Operating expense:					
Product development <sup>(1)</sup>	21,708	28,806	27,446	6,711	8,315
Sales and marketing <sup>(1)</sup>	18,047	23,923	27,804	6,180	7,540
General and administrative <sup>(1)</sup>	9,756	14,135	20,210	4,536	6,522
Total operating expenses	49,511	66,864	75,460	17,427	22,377
Operating (loss) income	(1,633)	(354)	6,929	2,181	1,143
Interest expense, net	(1,510)	(2,152)	(4,528)	(985)	(1,464)
Net (loss) income before taxes	(3,143)	(2,506)	2,401	1,196	(321)
Income tax expense (benefit)		703	(26,028)	69	(118)
Net (loss) income	\$ (3,143)	\$ (3,209)	\$ 28,429	\$ 1,127	\$ (203)

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

	Year Ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009 (unaudited)	2010 (unaudited)
	(in thousands)				

Edgar Filing: REALPAGE INC - Form S-1/A

Cost of revenue	\$ 48	\$ 104	\$ 367	\$ 67	\$ 123
Product development	251	727	1,175	246	507
Sales and marketing	110	277	498	98	164
General and administrative	81	368	765	154	300

61

---

**Table of Contents**

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.

	Year Ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009	2010
	(as a percentage of total revenue)				
Revenue:					
On demand	74.9%	84.6%	91.1%	89.6%	89.9%
On premise	13.8	6.7	2.7	4.5	4.5
Professional and other	11.3	8.7	6.2	5.9	5.6
Total revenue	100.0	100.0	100.0	100.0	100.0
Cost of revenue	42.7	40.9	41.5	39.9	43.2
Gross profit	57.3	59.1	58.5	60.1	56.8
Operating expense:					
Product development	26.0	25.6	19.5	20.6	20.1
Sales and marketing	21.6	21.3	19.7	18.9	18.2
General and administrative	11.7	12.6	14.3	13.9	15.8
Total operating expenses	59.3	59.5	53.5	53.4	54.1
Operating (loss) income	(2.0)	(0.4)	5.0	6.7	2.8
Interest expense, net	(1.8)	(1.9)	(3.2)	(3.0)	(3.5)
Net (loss) income before taxes	(3.8)	(2.3)	1.8	3.7	(0.8)
Income tax expense (benefit)		0.6	(18.5)	0.2	(0.3)
Net (loss) income	(3.8)	(2.9)	20.3	3.5	(0.5)

**Three Months Ended March 31, 2009 and 2010****Revenue**

	Three Months Ended March 31,			%
	2009	2010	Change	
	(in thousands, except dollar per unit data)			
Revenue:				
On demand	\$ 29,264	\$ 37,207	\$ 7,943	27.1%
On premise	1,437	1,868	431	30.0%
Professional and other	1,942	2,303	361	18.6%

Edgar Filing: REALPAGE INC - Form S-1/A

Total revenue	\$ 32,643	\$ 41,378	\$ 8,735	26.8%
On demand unit metrics:				
Ending on demand units	3,948	4,912	964	24.4%
Average on demand units	3,890	4,732	842	21.6%
Annualized on demand revenue per average on demand unit	\$ 30.09	\$ 31.45	\$ 1.36	4.5%

*On demand revenue.* Our on demand revenue increased \$7.9 million, or 27.1%, for the three months ended March 31, 2010 as compared to same period in 2009, primarily due to an increase in rental property units managed with our on demand solutions and an increase in the number of our on demand solutions utilized by our existing customer base.

*On premise revenue.* On premise revenue increased \$0.4 million, or 30.0%, for the three months ended March 31, 2010 as compared to the same period in 2009, primarily as a result of our February 2010

**Table of Contents**

acquisition. During February 2010, we completed a strategic acquisition of assets that included on premise software solutions that have been historically marketed and sold pursuant to perpetual license agreements and related maintenance agreements. During the first quarter of 2010, the February 2010 acquisition contributed \$1.3 million of revenue related to maintenance agreements and perpetual license sales. The revenue increase from the February 2010 acquisition was partially offset by our decision to cease actively marketing our legacy on premise solutions in 2003 and our efforts to migrate customers of our on premise solutions to our on demand solutions. While we intend to continue to support our recently acquired on premise software solutions, we expect that many of the customers who license these solutions will over time transition to our on demand software solutions.

*Professional and other revenue.* Professional and other services revenue increased \$0.4 million, or 18.6%, for the three months ended March 31, 2010 as compared to the same period in 2009, primarily due to an increase in revenue from consulting services.

*Total revenue.* Our total revenue increased \$8.7 million, or 26.8%, for the three months ended March 31, 2010 as compared to the same period in 2009, primarily due to an increase in rental property units managed with our on demand solutions and improved penetration of our on demand solutions into our customer base.

*On demand unit metrics.* As of March 31, 2010, one or more of our on demand solutions was utilized in the management of 4.9 million rental property units, representing an increase of 964,000 units, or 24% as compared to March 31, 2009. The increase in the number of rental property units managed by one or more of our on demand solutions was due to new customer sales and marketing efforts and our 2009 and 2010 acquisitions contributing approximately 9.7% of ending on demand units as of March 31, 2010. In first quarter of 2010, our annualized on demand revenue per average on demand unit was \$31.45, representing an increase of \$1.36, or 4.5%, as compared to the first quarter of 2009, primarily due to improved penetration of our on demand solutions into our customer base.

**Cost of Revenue**

	<b>Three Months Ended March 31,</b>			<b>% Change</b>
	<b>2009</b>	<b>2010</b>	<b>Change</b>	
			<b>(in thousands)</b>	
Cost of revenue	\$ 11,477	\$ 15,121	\$ 3,644	31.8%
Depreciation and amortization	1,558	2,737	1,179	75.7%
Total cost of revenue	\$ 13,035	\$ 17,858	\$ 4,823	37.0%

*Cost of revenue.* Cost of revenue increased \$4.8 million, or 37.0%, for the three months ended March 31, 2010 as compared to the same period in 2009. The increase in cost of revenue was primarily due to: a \$3.5 million increase from costs related to the increased sales of our solutions, which includes investments in infrastructure and other support services, \$1.0 million increase in non-cash amortization of acquired technology as a result of our 2009 and 2010 acquisitions; a \$0.3 million increase in property and equipment depreciation expense resulting from expanding our infrastructure to support revenue delivery activities; and \$0.1 million increase in stock-based compensation related to our professional services and data center operations personnel. Cost of revenue as a percentage of total revenue was 43.2% for the three months ended March 31, 2010 as compared to 39.9% for the same period in 2009. The increase as a percentage of total revenue was primarily due to an increase in non-cash amortization of acquired technology as a result of our 2009 and 2010 acquisitions and our investment in infrastructure and other support services.





**Table of Contents****Operating Expenses**

	<b>Three Months Ended March 31,</b>			
	<b>2009</b>	<b>2010</b>	<b>Change</b>	<b>% Change</b>
	<b>(in thousands)</b>			
Product development	\$ 6,217	\$ 7,772	\$ 1,555	25.0%
Depreciation and amortization	494	543	49	9.9%
Total product development expense	\$ 6,711	\$ 8,315	\$ 1,604	23.9%

*Product development.* Product development expense increased \$1.6 million, or 23.9%, for the three months ended March 31, 2010 as compared to the same period in 2009. The increase in product development expense was primarily due to: a \$1.0 million increase in personnel expense primarily related to the associated costs to support our growth initiatives and the addition of new solutions; a \$0.3 million increase in stock-based compensation related to product development personnel; and \$0.2 million increase in general product development activities such as maintenance and license fees.

	<b>Three Months Ended March 31,</b>			
	<b>2009</b>	<b>2010</b>	<b>Change</b>	<b>% Change</b>
	<b>(in thousands)</b>			
Sales and marketing	\$ 5,120	\$ 6,511	\$ 1,391	27.2%
Depreciation and amortization	1,060	1,029	(31)	(2.9)%
Total sales and marketing expense	\$ 6,180	\$ 7,540	\$ 1,360	22.0%

*Sales and marketing.* Sales and marketing expense increased \$1.4 million, or 22.0%, for the three months ended March 31, 2010 as compared to the same period in 2009. The increase in sales and marketing expense was primarily due to: a \$0.5 million increase in personnel expense; a \$0.5 million increase in marketing program expense in the first quarter of 2010 as part of our strategy to expand our market share and further penetrate our existing customer base with sales of additional on demand solutions; and a \$0.4 million increase in general sales and marketing activities such as travel and consulting related fees.

	<b>Three Months Ended March 31,</b>			
	<b>2009</b>	<b>2010</b>	<b>Change</b>	<b>% Change</b>
	<b>(in thousands)</b>			
General and administrative	\$ 4,253	\$ 6,161	\$ 1,908	44.9%
Depreciation and amortization	283	361	78	27.6%

Total general and administrative expense	\$ 4,536	\$ 6,522	\$ 1,986	43.8%
--	----------	----------	----------	-------

*General and administrative.* General and administrative expense increased \$2.0 million, or 43.8%, for the three months ended March 31, 2010 as compared to the same period in 2009. The increase in general and administrative expense was primarily due to: a \$0.9 million increase in personnel expense related to accounting, management information systems, legal, human resources and business development staff to support the growth in our business; a \$0.2 million increase in professional fees primarily related to pursuing acquisition opportunities; a \$0.2 million increase in stock-based compensation; and a \$0.7 million increase other general and administrative activities such as travel, consulting and facility and information technology related expense driven by the investments in our administrative support functions.

***Interest Expense, Net***

Interest expense, net, increased \$0.5 million, or 48.5%, for the three months ended March 31, 2010 as compared to the same period in 2009. The increase in interest expense, net, was primarily due to higher average debt balances related to the financing of our 2009 and 2010 acquisitions.

**Table of Contents*****Provision for Taxes***

Our effective tax rate was approximately 37% for the three months ended March 31, 2010. In the three months ended March 31, 2010, we incurred a tax benefit of \$0.1 million resulting from our net loss before taxes. In the three months ended March 31, 2009, we incurred tax expense of \$0.1 million primarily as a result of state income tax expense, and we did not benefit our losses until December 2009.

**Year Ended December 31, 2008 and 2009*****Revenue***

	<b>Year Ended December 31,</b>			<b>%</b>
	<b>2008</b>	<b>2009</b>	<b>Change</b>	<b>Change</b>
	<b>(in thousands, except dollar per unit data)</b>			
Revenue:				
On demand	\$ 95,192	\$ 128,377	\$ 33,185	34.9%
On premise	7,582	3,860	(3,722)	(49.1)
Professional and other	9,794	8,665	(1,129)	(11.5)
<b>Total revenue</b>	<b>\$ 112,568</b>	<b>\$ 140,902</b>	<b>\$ 28,334</b>	<b>25.2</b>
On demand unit metrics:				
Ending on demand units	3,833	4,551	718	18.7
Average on demand units	3,138	4,128	990	31.5
On demand revenue per average on demand unit	\$ 30.34	\$ 31.10	\$ 0.76	2.5

*On demand revenue.* Our on demand revenue increased \$33.2 million, or 34.9%, in 2009 as compared to 2008, primarily due to a 31.5% increase in the average on demand units managed with our on demand software solutions and an increase in the number of our on demand software solutions utilized by our existing customer base.

*On premise revenue.* On premise revenue decreased \$3.7 million, or (49.1)%, in 2009 as compared to 2008, primarily due to the impact of our decision to cease actively marketing our on premise software solutions and our efforts to migrate customers of our on premise software solutions to our on demand software solutions. In addition, our on premise software solution for conventional multi-family properties, RentRoll, was discontinued and was no longer supported after July 2009.

*Professional and other revenue.* Professional and other services revenue decreased \$1.1 million, or (11.5)%, in 2009 as compared to 2008, primarily due to a decrease in revenue from training and consulting services and a decrease in revenue from sub-meter installations.

*Total revenue.* Our total revenue increased \$28.3 million, or 25.2%, in 2009 as compared to 2008, primarily due to an increase in rental property units managed with our on demand software solutions and improved penetration of our on demand software solutions into our customer base.

*On demand unit metrics.* As of December 31, 2009, one or more of our on demand software solutions was utilized in the management of 4.6 million rental housing units, representing an increase of 718,000 units, or 18.7%, as compared to 2008. The increase in the number of rental units managed by one or more of our on demand software solutions was primarily due to new customer sales and marketing efforts, our 2009 acquisitions, which contributed approximately 3.8% of ending on demand units, and to a lesser degree, migration of our current customers from our on premise software solutions to our on demand software solutions. In 2009, our on demand revenue per average on demand unit was \$31.10, representing an increase of \$0.76, or 2.5%, as compared to 2008, primarily due to improved penetration of our on demand software solutions into our customer base.

**Table of Contents****Cost of Revenue**

	Year Ended December 31,			% Change
	2008	2009	Change (in thousands)	
Cost of revenue	\$ 40,783	\$ 51,260	\$ 10,477	25.7%
Depreciation and amortization	5,275	7,253	1,978	37.5
Total cost of revenue	\$ 46,058	\$ 58,513	\$ 12,455	27.0

*Cost of revenue.* Cost of revenue increased \$12.5 million, or 27.0%, in 2009 as compared to 2008. The increase in cost of revenue was primarily due to: a \$10.2 million increase from costs related to the increased sales of our solutions; a \$1.1 million increase in non-cash amortization of acquired technology as a result of our 2008 and 2009 acquisitions; a \$0.8 million increase in property and equipment depreciation expense resulting from expanding our infrastructure to support revenue delivery activities; and \$0.3 million increase in stock-based compensation related to our professional services and data center operations personnel.

**Operating Expenses**

	Year Ended December 31,			% Change
	2008	2009	Change (in thousands)	
Product development	\$ 26,514	\$ 25,277	\$ (1,237)	(4.7)%
Depreciation and amortization	2,292	2,169	(123)	(5.4)
Total product development expense	\$ 28,806	\$ 27,446	\$ (1,360)	(4.7)

*Product development.* Product development expense decreased \$1.4 million, or (4.7)%, in 2009 as compared to 2008. The decrease in product development expense was primarily due to: the absence of non-recurring charges related to the discontinuance of a business development project in 2008; a decrease in third-party development costs; and a decrease in depreciation of property and equipment. The decrease was partially offset by an increase in stock-based compensation in 2009 related to our product development personnel.

	Year Ended December 31,			% Change
	2008	2009	Change (in thousands)	
Sales and marketing	\$ 21,649	\$ 23,744	\$ 2,095	9.7%
Depreciation and amortization	2,274	4,060	1,786	78.5

Total sales and marketing expense	\$ 23,923	\$ 27,804	\$ 3,881	16.2
-----------------------------------	-----------	-----------	----------	------

*Sales and marketing.* Sales and marketing expense increased \$3.9 million, or 16.2%, in 2009 as compared to 2008. The increase in sales and marketing expense was primarily due to: a \$1.7 million increase in non-cash intangible amortization related to our 2008 and 2009 acquisitions, which included acquired customer relationships and key supplier and vendor relationships; a \$1.5 million increase in personnel expense and a \$1.0 million increase in marketing program expense in 2009 as part of our strategy to expand our market share and further penetrate our existing customer base with sales of additional on demand software solutions; and a \$0.2 million increase in stock-based compensation related to our sales and marketing personnel.

	Year Ended December 31,			% Change
	2008	2009	Change (in thousands)	
General and administrative	\$ 12,979	\$ 18,923	\$ 5,944	45.8%
Depreciation and amortization	1,156	1,287	131	11.3
Total general and administrative expense	\$ 14,135	\$ 20,210	\$ 6,075	43.0

**Table of Contents**

*General and administrative.* General and administrative expense increased \$6.1 million, or 43.0%, in 2009 as compared to 2008. The increase in general and administrative expense was primarily due to: a \$2.8 million increase in personnel expense and expense related to accounting, management information systems, legal, human resources and business development staff to support the growth in our business; a \$0.7 million increase in legal fees primarily related to pursuing and closing acquisition opportunities; a \$0.4 million increase in stock-based compensation; and an increase in various other general and administrative expenses driven by the investments in our administrative functions.

**Interest Expense, Net**

Interest expense, net, increased \$2.4 million, or 110.4%, in 2009 as compared to 2008. The increase in interest expense, net, was primarily due to higher average debt balances related to the financing of our acquisitions and the issuance of notes payable to holders of our preferred stock in December 2008 in payment of accrued dividends. See Note 7 to Notes to Consolidated Financial Statements for the year ended December 31, 2009.

**Provision for Taxes**

We have not incurred federal income taxes due to the carry forward of net operating losses. At December 31, 2009, we had a net operating loss carry forward for federal income tax purposes of approximately \$67.2 million that will begin to expire in 2018. We have historically offset all of our net deferred tax assets by a valuation allowance. However, in December 2009, based on current year income and our projections of future income, we concluded it was more likely than not that certain of our deferred tax assets would be realizable, and therefore the valuation allowance was reduced by \$27.0 million.

**Year Ended December 31, 2007 and 2008****Revenue**

	<b>Year Ended December 31,</b>			
	<b>2007</b>	<b>2008</b>	<b>Change</b>	<b>% Change</b>
	<b>(in thousands, except dollar per unit data)</b>			
Revenue:				
On demand	\$ 62,592	\$ 95,192	\$ 32,600	52.1%
On premise	11,560	7,582	(3,978)	(34.4)
Professional and other	9,429	9,794	365	3.9
Total revenue	\$ 83,581	\$ 112,568	\$ 28,987	34.7
On demand unit metrics:				
Ending on demand units	2,800	3,833	1,033	36.9
Average on demand units	2,293	3,138	845	36.9
On demand revenue per average on demand unit	\$ 27.30	\$ 30.34	\$ 3.04	11.1

*On demand revenue.* On demand revenue increased \$32.6 million, or 52.1%, in 2008 as compared to 2007, primarily due to an increase in rental property units managed with our on demand software solutions and an increase in the number of our on demand software solutions utilized by our existing customer base.



*On premise revenue.* On premise revenue decreased \$4.0 million, or (34.4)%, in 2008 as compared to 2007. The revenue decrease was primarily due to: our higher focus on sales of our on demand software solutions; a decrease in the number of rental property units utilizing our on premise software solutions, which was a result of customers converting to our on demand software solutions, not renewing their on premise software license or customers property sites turning over due to their sale or change in property management company.

**Table of Contents**

*Professional and other revenue.* Professional and other revenue increased \$0.4 million, or 3.9%, in 2008 as compared to 2007, primarily due to increased consulting and implementation activity associated with new sales of our on demand software solutions, which was partially offset by lower training and seminar revenue.

*Total revenue.* Our total revenue increased \$29.0 million, or 34.7%, in 2008 as compared to 2007, primarily due to an increase in rental property units managed with our on demand software solutions and improved penetration of our on demand software solutions into our customer base.

*On demand unit metrics.* As of December 31, 2008, one or more of our on demand software solutions was utilized in the management of 3.8 million rental property units, an increase of approximately 1.0 million units, or 36.9%, as compared to 2007. The increase in the number of rental property units managed by one or more of our on demand software solutions was primarily due to new customer sales and marketing efforts, our 2008 acquisitions, which contributed approximately 10.5% of ending on demand units, and, to a lesser degree, migration of our current customers from our on premise software solutions. In 2008, our on demand revenue per average on demand unit was \$30.34, representing an increase of \$3.04, or 11.1%, as compared to 2007, primarily due to improved penetration of our on demand software solutions into our customer base.

**Cost of Revenue**

	2007	Year Ended December 31, 2008		% Change
		(in thousands)		
		2008	Change	
Cost of revenue	\$ 32,056	\$ 40,783	\$ 8,727	27.2%
Depreciation and amortization	3,647	5,275	1,628	44.6
Total cost of revenue	\$ 35,703	\$ 46,058	\$ 10,355	29.0

*Cost of revenue.* Cost of revenue increased \$10.4 million, or 29.0%, in 2008 as compared to 2007. The increase in cost of revenue was primarily due to: a \$8.6 million increase from costs related to the increased sales of our solutions; a \$1.3 million increase in property and equipment depreciation expense resulting from expanding our infrastructure to support revenue delivery activities; and a \$0.3 million increase in non-cash amortization of acquired technology as a result of our 2008 acquisitions.

**Operating Expenses**

	2007	Year Ended December 31, 2008		% Change
		(in thousands)		
		2008	Change	
Product development	\$ 20,459	\$ 26,514	\$ 6,055	29.6%
Depreciation and amortization	1,249	2,292	1,043	83.5
Total product development	\$ 21,708	\$ 28,806	\$ 7,098	32.7

*Product development.* Product development expense increased \$7.1 million, or 32.7%, in 2008 as compared to 2007. The increase in product development expense was primarily due to: a \$3.8 million increase in personnel expense primarily related to the associated costs to support our growth initiatives and the addition of new solutions; a \$1.0 million increase in depreciation of property and equipment from expanding our infrastructure to support our revenue growth; a \$0.8 million non-cash asset disposal resulting from the discontinuance of a business development project in 2008; and a \$0.5 million increase in stock-based compensation related to our product development personnel.

**Table of Contents**

	Year Ended December 31,			% Change
	2007	2008 (in thousands)	Change	
Sales and marketing	\$ 16,215	\$ 21,649	\$ 5,434	33.5%
Depreciation and amortization	1,832	2,274	442	24.1
Total sales and marketing expense	\$ 18,047	\$ 23,923	\$ 5,876	32.6

*Sales and marketing.* Sales and marketing expense increased \$5.9 million, or 32.6%, in 2008 as compared to 2007. The increase in sales and marketing expense was primarily due to: a \$3.2 million increase in personnel expense related to expanding our sales and marketing workforce as part of our strategy to increase our market share and further penetrate our existing customer base with additional on demand software solutions; a \$1.5 million increase in marketing program expense in support of our growth strategy; a \$0.4 million increase in property and equipment depreciation expense; and a \$0.2 million increase in stock-based compensation related to our sales and marketing personnel.

	Year Ended December 31,			% Change
	2007	2008 (in thousands)	Change	
General and administrative	\$ 9,357	\$ 12,979	\$ 3,622	38.7%
Depreciation and amortization	399	1,156	757	189.7
Total general and administrative expense	\$ 9,756	\$ 14,135	\$ 4,379	44.9

*General and administrative.* General and administrative expense increased \$4.4 million, or 44.9%, in 2008 as compared to 2007. The increase in general and administrative expense was primarily due to: a \$2.4 million increase in personnel expense related to an increase in accounting, management information systems, legal and human resources personnel to support the growth in our business; a \$0.8 million increase in depreciation of property and equipment in 2008 driven by the investments in our administrative support functions; a \$0.3 million increase in stock-based compensation related to our general and administrative personnel; and an increase various other general and administrative expenses driven by the investment in our administrative functions necessary to support our growth.

***Interest Expense, Net***

Interest expense, net, increased \$0.6 million, or 42.5%, in 2008 as compared to 2007. The increase in interest expense, net, was primarily due to higher average debt balances related to the financing of our acquisition activities.

***Provision for Taxes***

We have recorded a valuation allowance related to income taxes to reflect uncertainties associated with the realization of deferred tax assets. As a result, the benefit from income taxes is zero in 2007.

## **Quarterly Results of Operations**

The following table presents our unaudited consolidated quarterly results of operations for the nine fiscal quarters ended March 31, 2010. This information is derived from our unaudited consolidated financial statements, and includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for fair statement of our financial position and operating results for the quarters presented. Operating results for these periods are not necessarily indicative of the operating results for a full year. Historical results are not necessarily indicative of the results to be expected in future periods. You should read this data together

**Table of Contents**

with our consolidated financial statements and the related notes to these financial statements included elsewhere in this prospectus.

	<b>Three Months Ended,</b>								
	<b>March 31, 2008</b>	<b>June 30, 2008</b>	<b>September 30, 2008</b>	<b>December 31, 2008</b>	<b>March 31, 2009</b>	<b>June 30, 2009</b>	<b>September 30, 2009</b>	<b>December 31, 2009</b>	<b>March 31, 2010</b>
	(in thousands)								
Revenue:									
Demand	\$ 20,724	\$ 22,486	\$ 24,520	\$ 27,462	\$ 29,264	\$ 30,852	\$ 33,069	\$ 35,192	\$ 37,200
Premise	2,140	1,902	1,766	1,774	1,437	1,441	468	514	1,800
Professional and other	1,936	2,351	2,982	2,525	1,942	2,175	2,117	2,431	2,300
Total revenue	24,800	26,739	29,268	31,761	32,643	34,468	35,654	38,137	41,300
Cost of revenue <sup>(1)</sup>	10,060	10,811	12,074	13,113	13,035	14,568	15,201	15,709	17,850
Gross profit	14,740	15,928	17,194	18,648	19,608	19,900	20,453	22,428	23,500
Operating expense:									
Product development <sup>(1)</sup>	6,668	7,074	6,932	8,132	6,711	6,887	6,675	7,173	8,310
Sales and marketing <sup>(1)</sup>	5,308	5,600	6,325	6,690	6,180	6,833	7,363	7,428	7,540
General and administrative <sup>(1)</sup>	3,173	3,456	3,648	3,858	4,536	4,187	4,552	6,935	6,520
Total operating expenses	15,149	16,130	16,905	18,680	17,427	17,907	18,590	21,536	22,370
Operating (loss) income	(409)	(202)	289	(32)	2,181	1,993	1,863	892	1,140
Interest expense, net	(460)	(418)	(493)	(781)	(985)	(998)	(1,123)	(1,422)	(1,400)
(Loss) income before taxes	(869)	(620)	(204)	(813)	1,196	995	740	(530)	(300)
Income tax expense (benefit)		65		638	69	85	64	(26,246)	(110)
(Loss) income	\$ (869)	\$ (685)	\$ (204)	\$ (1,451)	\$ 1,127	\$ 910	\$ 676	\$ 25,716	\$ (200)

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

	<b>Three Months Ended,</b>								
	<b>March 31, 2008</b>	<b>June 30, 2008</b>	<b>September 30, 2008</b>	<b>December 31, 2008</b>	<b>March 31, 2009</b>	<b>June 30, 2009</b>	<b>September 30, 2009</b>	<b>December 31, 2009</b>	<b>March 31, 2010</b>
	(in thousands)								

Edgar Filing: REALPAGE INC - Form S-1/A

Cost of revenue	\$ 19	\$ 23	\$ 21	\$ 41	\$ 67	\$ 85	\$ 103	\$ 112	\$ 123
Product development	181	158	170	218	246	252	277	400	507
Sales and marketing	39	76	76	86	98	117	135	148	164
General and administrative	57	98	101	112	154	159	211	241	300
Total stock-based compensation expense	\$ 296	\$ 355	\$ 368	\$ 457	\$ 565	\$ 613	\$ 726	\$ 901	\$ 1,094

**Table of Contents**

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

	<b>Three Months Ended,</b>								
	<b>March 31, 2008</b>	<b>June 30, 2008</b>	<b>September 30, 2008</b>	<b>December 31, 2008</b>	<b>March 31, 2009</b>	<b>June 30, 2009</b>	<b>September 30, 2009</b>	<b>December 31, 2009</b>	<b>March 31, 2010</b>
	(as a percentage of total revenue)								
Revenue:									
On demand	83.6%	84.1%	83.8%	86.5%	89.6%	89.5%	92.7%	92.3%	89.9%
On premise	8.6	7.1	6.0	5.5	4.5	4.2	1.4	1.3	4.5
Professional and other	7.8	8.8	10.2	8.0	5.9	6.3	5.9	6.4	5.6
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cost of revenue:									
Software and services	40.6	40.4	41.3	41.3	39.9	42.3	42.6	41.2	43.2
Gross profit	59.4	59.6	58.7	58.7	60.1	57.7	57.4	58.8	56.8
Operating expense:									
Product development	26.9	26.5	23.7	25.6	20.6	20.0	18.7	18.8	20.1
Sales and marketing	21.4	20.9	21.6	21.1	18.9	19.8	20.7	19.5	18.2
General and administrative	12.8	12.9	12.5	12.1	13.9	12.1	12.8	18.2	15.8
Total operating expenses	61.1	60.3	57.8	58.8	53.4	51.9	52.2	56.5	54.1
Operating (loss) income	(1.6)	(0.8)	1.0	(0.1)	6.7	5.8	5.2	2.3	2.8
Interest expense, net	(1.9)	(1.6)	(1.7)	(2.5)	(3.0)	(2.9)	(3.1)	(3.7)	(3.5)
Net (loss) income before taxes	(3.5)	(2.4)	(0.7)	(2.6)	3.7	2.9	2.1	(1.4)	(0.8)
Income tax expense (benefit)		0.2		2.0	0.2	0.2	0.2	(68.8)	(0.3)
Net (loss) income	(3.5)	(2.6)	(0.7)	(4.6)	3.5	2.7	1.9	67.4	(0.5)

Our revenue increased in each of the quarters presented above primarily as a result of increases in rental property units managed with our on demand software solutions, successful efforts to increase the number of on demand software solutions utilized by our customer base and our 2008, 2009 and 2010 acquisitions. To date, we have not experienced any significant impact on our results of operations due to seasonality.

Cost of revenue increased over the course of the quarters presented above primarily due to increase in operating costs related to the increased sales of our solutions; higher technology support costs in order to support our growth; the cost of revenue added by our acquisitions; and higher non-cash amortization of technology acquired through our



acquisitions. While cost of revenue increased in absolute dollars, gross margin has remained relatively consistent in each of the quarters presented, except for the three months ended March 31, 2010. Cost of revenue as a percentage of total revenue increased during the three months ended March 31, 2010 as compared to previous quarters primarily due to an increase in non-cash amortization of acquired technology as a result of our acquisitions and our investment in infrastructure and other support services.

Operating expense has steadily increased in absolute dollars over the course of the quarters presented above primarily due to increased personnel related expenses in support of our growth initiatives in addition to incremental expenses associated with acquired companies. Operating expense may vary as a result of the timing of sales and marketing activities, the timing of acquisitions or the discontinuance of projects, among other factors. For example, operating expense decreased from the fourth quarter of 2008 to the first quarter of 2009 primarily due to a decline in product development expense attributable to the discontinuance of a business development project during the fourth quarter of 2008. Additionally, during the fourth quarter of 2009, operating expense increased as a percentage of revenue when compared to the prior three quarters primarily as a result of an increase in general and administrative expense associated with higher professional fees and other costs related to pursuing acquisition opportunities combined with incremental general and administrative expense associated with the acquisitions we completed during the third and fourth quarters of

**Table of Contents**

2009. Since our inception, we have made significant investments in developing new solutions, enhancing existing solutions, and expanding our sales and marketing efforts in order to increase our market share and to further penetrate our existing customer base with additional on demand software solutions. As a result of these investments, we have experienced significant revenue growth, which has resulted in a trend of decreased operating expense as a percentage of our total revenue.

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

We anticipate that our investor and analyst presentations will include Adjusted EBITDA. We define Adjusted EBITDA as net (loss) income plus depreciation and asset impairment, amortization of intangible assets, interest expense, net, income tax expense (benefit), stock-based compensation expense and acquisition-related expense. We believe that the use of Adjusted EBITDA is useful to investors and other users of our financial statements in evaluating our operating performance because it provides them with an additional tool to compare business performance across companies and across periods. We believe that:

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

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

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.

**Table of Contents**

The following table presents a reconciliation of net (loss) income to Adjusted EBITDA for the nine fiscal quarters ended March 31, 2010:

	<b>Three Months Ended,</b>								
	<b>March 31, 2008</b>	<b>June 30, 2008</b>	<b>September 30, 2008</b>	<b>December 31, 2008</b>	<b>March 31, 2009</b>	<b>June 30, 2009</b>	<b>September 30, 2009</b>	<b>December 31, 2009</b>	<b>March 31, 2010</b>
	(in thousands)								
Net (loss) income	\$ (869)	\$ (685)	\$ (204)	\$ (1,451)	\$ 1,127	\$ 910	\$ 676	\$ 25,716	\$ (203)
Depreciation and asset impairment	1,835	2,018	2,244	3,750	2,043	2,470	2,419	2,299	2,456
Amortization of intangible assets	657	333	331	774	1,362	1,322	1,279	1,821	2,414
Interest expense, net	460	418	493	781	985	998	1,123	1,422	1,464
Income tax expense (benefit)		65		638	69	85	64	(26,246)	(118)
Stock-based compensation expense	296	355	368	457	565	613	726	901	1,094
Acquisition-related expense							20	824	324
Adjusted EBITDA	\$ 2,379	\$ 2,504	\$ 3,232	\$ 4,949	\$ 6,151	\$ 6,398	\$ 6,307	\$ 6,737	\$ 7,231

**Liquidity and Capital Resources**

We have financed our operations primarily through private placements of preferred equity securities and common stock, secured credit facilities with commercial lenders, a private placement of subordinated debt securities and cash provided by operating activities. Our primary sources of liquidity as of March 31, 2010 consisted of \$3.0 million of cash and cash equivalents, \$10.0 million available under our revolving line of credit and \$4.9 million of current assets less current liabilities (excluding \$46.9 million of deferred revenue).

Our principal uses of liquidity have been to fund our operations, working capital requirements, capital expenditures and acquisitions and to service our debt obligations. We expect that working capital requirements, capital expenditures and acquisitions will continue to be our principal needs for liquidity over the near term. Our planned capital expenditures for 2010 are not expected to exceed \$12.0 million. In addition, we have made several acquisitions in which a portion of the cash purchase price is payable at various times through 2014. We expect to fund these obligations from cash provided by operating activities.

We believe that our existing cash and cash equivalents, working capital (excluding deferred revenue) and our cash flow from operations, together with the proceeds of this offering, will be sufficient to fund our operations and planned capital expenditures and service our debt obligations for at least the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the timing and size of acquisitions, the expansion of our sales and marketing activities, the timing and extent of spending to support product development efforts, the timing of introductions of new solutions and enhancements to existing solutions and the continuing market acceptance of our solutions. We may enter into acquisitions of, complementary businesses, applications or technologies, in the future, which could require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us, or at all.

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

	Year Ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009	2010
	(in thousands)				
Net cash provided by operating activities	\$ 4,441	\$ 7,962	\$ 24,758	\$ 9,730	\$ 7,198
Net cash used in investing activities	(16,155)	(32,320)	(24,676)	(2,288)	(15,965)
Net cash provided by financing activities	11,952	25,875	97	(2,365)	7,351

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

In the three months ended March 31, 2010, we generated \$7.2 million of net cash from operating activities, which consisted of our net loss of \$0.2 million, offset by net non-cash income of \$5.7 million and changes in working capital of \$1.7 million representing a decrease of \$2.6 million or 26.0%, as compared to the same period in 2009. Net non-cash charges to income primarily consisted of depreciation, amortization and stock-based compensation expense. The \$1.7 million source of operating cash flow resulting from the change in working capital was primarily due to collection of our accounts receivable offset by the change in deferred

**Table of Contents**

revenue. Our deferred revenue decreased for the three months ended March 31, 2010 as a result of the amortization of annual license fees for on demand and on premise solutions.

In 2009, we generated \$24.8 million of net cash from operating activities, which consisted of our net income of \$28.4 million, offset by net non-cash income of \$8.5 million, representing an increase of \$16.8 million, or 211.0%, as compared to 2008. Net non-cash charges primarily consisted of a non-cash deferred tax benefit offset by depreciation, amortization and stock-based compensation expense. The increase in our net cash from operating activities in 2009 was primarily due to our net income, cash inflows from changes in working capital and greater collection of accounts receivable, which resulted in an improvement in the number of days that sales were outstanding from 68 days in 2008 to 57 days in 2009. This decrease in accounts receivable occurred despite an increase in revenues during the fourth quarter.

In 2008, we generated \$8.0 million of net cash from operating activities, which consisted of our net loss of \$3.2 million, offset by net non-cash charges of \$13.9 million, representing an increase of \$3.5 million, or 79.3%, as compared to 2007. Net non-cash charges to income primarily consisted of depreciation, amortization and stock-based compensation expense. The increase in our net cash from operating activities in 2008 was primarily due to cash outflows from changes in working capital including an increase in accounts receivable of \$7.6 million from increased sales during the fourth quarter, partially offset by an increase in deferred revenues of \$5.6 million. The increase in our net cash from operating activities in 2008 was primarily due to a reduction in our net loss, an increase of \$6.3 million in non-cash charges and an increase in deferred revenue from increased sales during the fourth quarter, partially offset by increases in accounts receivable.

In 2007, we generated \$4.4 million of net cash from operating activities, which consisted of our net loss of \$3.1 million, offset by net non-cash charges of \$7.6 million. Net non-cash charges to income primarily consisted of depreciation, amortization and stock-based compensation expense. Additionally, cash outflows from changes in working capital included an increase in accounts receivable of \$5.2 million from increased sales near the end of the year, partially offset by an increase in deferred revenues of \$4.4 million.

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

In the three months ended March 31, 2010, our investing activities used \$16.0 million. Investing activities consisted of acquisition consideration of \$13.1 million net of cash acquired for our 2010 acquisition, acquisition-related payments of \$0.1 million for commitments related to prior years' acquisitions and \$2.9 million of capital expenditures. The increase in cash used in investing activities from 2009 relates to the consideration paid net of cash acquired for our 2010 acquisition combined with an increase in capital spending.

In 2009, our investing activities used \$24.7 million. Investing activities consisted of acquisition consideration of \$11.6 million net of cash acquired for our 2009 acquisitions, acquisition-related payments of \$3.6 million for commitments related to prior years' acquisitions and \$9.5 million of capital expenditures. The decrease in cash used in investing activities from 2008 relates to a decrease in capital spending of \$0.8 million combined with a decrease in acquisition-related payments of \$6.9 million.

In 2008, our investing activities used \$32.3 million. Investing activities consisted of \$20.1 million for our 2008 acquisitions, acquisition-related payments of \$1.9 million for commitments related to prior years' acquisitions and capital expenditures of \$10.3 million. The increase in cash used in investing activities from 2007 relates to an increase in capital spending of \$3.1 million and an increase in acquisition-related payments of \$13.0 million.

In 2007, our investing activities used \$16.2 million. Investing activities consisted of \$7.0 million for our 2007 acquisition, acquisition-related payments of \$2.1 million for commitments related to prior years' acquisitions and

capital expenditures of \$7.1 million.

Capital expenditures in the three months ended March 31, 2010 and in 2009, 2008 and 2007 were primarily related to investments in technology infrastructure to support our growth initiatives.

***Net Cash Provided by Financing Activities***

Our financing activities provided \$7.4 million in the three months ended March 31, 2010, representing an increase of \$9.7 million, as compared to the same period of 2009. Cash provided by financing activities in

**Table of Contents**

2010 was primarily related to net proceeds from borrowings under our credit facility, offset by payments for scheduled term debt maturities, capital lease obligations and preferred stockholder notes payable. During the same period of 2009, we did not borrow funds under our credit facility and made payments for scheduled term debt maturities, capital lease obligations and preferred stockholder notes payable.

Our financing activities provided \$0.1 million in 2009, representing a decrease of \$25.8 million, or 99.6%, as compared to 2008. Cash provided by financing activities in 2009 was primarily related to net proceeds from refinancing our credit facility, offset by payments for scheduled term debt maturities, capital lease obligations and preferred stockholder notes payable.

Our financing activities provided \$25.9 million in 2008, representing an increase of \$13.9 million, or 116.5%, as compared to 2007. On February 22, 2008, in order to secure capital for future growth and business development activities, we entered into a securities purchase agreement whereby investors purchased an aggregate of 3,025,000 shares of Series C convertible preferred stock at a purchase price of \$4.50 per share resulting in \$13.4 million of net proceeds. Additionally, we had net proceeds of \$4.5 million from our credit facility, \$10.0 million of proceeds from a private placement of a note purchase agreement and common stock issuances of \$0.6 million resulting from employees and third parties exercise of stock options and warrants. These proceeds were offset by \$2.6 million of scheduled payments of capital lease obligations.

Our financing activities provided \$12.0 million in 2007. Cash provided by financing activities in 2007 was primarily related to net proceeds of \$11.5 million from our credit facility and common stock issuances of \$1.1 million resulting from employees and third parties exercise of stock options and warrants. These proceeds were offset by \$0.7 million of scheduled payments of capital lease obligations.

Cash provided by financing activities during the three months ended March 31, 2010 and during 2009, 2008 and 2007 was used to support our operations until we achieved positive operating cash flow, as a funding source for acquisitions and for capital expenditures related to the expansion of our technology infrastructure.

**Contractual Obligations, Commitments and Contingencies**

The following table summarizes, as of December 31, 2009 and as adjusted for our February 2010 debt amendment, our minimum payments for long-term debt and other obligations for the next five years and thereafter:

	Total	Payments Due by Period			More Than 5 years
		Less Than 1 year	1-3 years (in thousands)	3-5 years	
Long-term debt obligations	\$ 61,861	\$ 11,093	\$ 23,443	\$ 27,325	\$
Interest payments on long-term debt obligations <sup>(1)</sup>	13,574	4,840	7,332	1,402	
Capital (finance) leases	2,273	1,670	603		
Operating lease obligations	27,051	4,922	8,197	7,591	6,341
Acquisition-related liabilities <sup>(2)</sup>	4,359	1,653	1,842	864	
	\$ 109,118	\$ 24,178	\$ 41,417	\$ 37,182	\$ 6,341

- (1) The amount of interest payments on long-term debt obligations represents current obligations with interest rates as of December 31, 2009, and is subject to change based on changes to interest rates and our planned prepayment of our currently outstanding long-term debt obligations with the net proceeds of the offering.
- (2) We have made several acquisitions in which a portion of the cash purchase price is payable at various times through 2014.

***Long-Term Debt Obligations***

In September 2009, we entered into a credit facility which provided for a \$35.0 million term loan and a \$10.0 million revolving line of credit. A portion of the proceeds from the credit facility was used to repay the



**Table of Contents**

balance outstanding under our prior credit facility. The term loan and revolving line of credit bear interest at rates of the greater of 7.5%, a stated rate of 5.0% plus LIBOR (or, if greater, 2.5%), or a stated rate of 5.0% plus the bank's prime rate (or, if greater, 3.5%, the federal funds rate plus 0.5% or three month LIBOR plus 1.0%). The term loan and revolving line of credit are collateralized by substantially all our personal property.

In February 2010, we entered into an amendment to the credit facility. Under terms of the amendment, the original term loan was increased by an additional \$10.0 million. This amendment increased the balance outstanding on the term loan to \$43.7 million. The proceeds from the amendment were primarily used to finance the February 2010 acquisition of certain assets of Domin-8 Enterprise Solutions, Inc. The related interest rates and maturity periods remained consistent with the terms of the credit facility. Principal payments on the term loan are due in quarterly installments of approximately \$1.8 million until September 30, 2010, increasing to approximately \$2.3 million until September 30, 2011, increasing to approximately \$2.4 million until September 30, 2012 and increasing to quarterly installments of approximately \$2.5 million through March 31, 2013, with the balance due on June 30, 2013. The effects of the payments related to this amendment have been included in the table above.

Our credit facility contains customary covenants which limit our and certain of our subsidiaries' ability to, among other things, incur additional indebtedness or guarantee indebtedness of others; create liens on our assets; enter into mergers or consolidations; dispose of assets; prepay indebtedness or make changes to our governing documents and certain of our agreements; pay dividends and make other distributions on our capital stock, and redeem and repurchase our capital stock; make investments, including acquisitions; enter into transactions with affiliates; and make capital expenditures. Our credit facility additionally contains customary affirmative covenants, including requirements to, among other things, take certain actions in the event we form or acquire new subsidiaries; hold annual meetings with our lenders; provide copies of material contracts and amendments to our lenders; locate our collateral only at specified locations; and use commercially reasonable efforts to ensure that certain material contracts permits the assignment of the contract to our lenders; subject in each case to customary exceptions and qualifications. We are also required to comply with a fixed charge coverage ratio, which is a ratio of our EBITDA to our fixed charges as determined in accordance with the credit facility, of 1.225:1.00 for each period until August 31, 2010, and 1.25:1.00 thereafter, and a senior leverage ratio, which is a ratio of the outstanding principal balance of our term loan plus our outstanding revolver usage to our EBITDA as determined in accordance with the credit facility, of 2.25:1.00 for each period until December 31, 2009, with step-downs until July 31, 2011, when the ratio is set at 1.35:1.00 for such period and thereafter.

We have obtained waivers under our credit facility, which were not related to a decline in our cash flow. As a result of our ongoing communications with the lenders under our credit facility, our lenders were aware of the transactions and circumstances leading up to the waivers and we expected to receive their approval with regard to such transactions and circumstances, whether in the form of a consent, waiver, amendment or otherwise. Specifically, we have obtained waivers under our credit facility in connection with procedural requirements under our credit agreement relating to; two acquisition transactions we entered into in September 2009; an update to the credit agreement schedules to include a certain arrangement we have in place, and had in place at the time of closing of the credit facility, with our subsidiary that serves as a special purpose vehicle for processing payments, including a guaranty made by us for the benefit of our subsidiary in favor of Wells Fargo Bank; the payment of cash dividends of approximately \$16,000 more than the amount agreed to by the lenders; and with respect to our fixed charge coverage ratio as a result of payments approved by our board of directors and discussed with our lenders for a cash dividend paid in December 2009 and for payments on promissory notes held by holders of our preferred stock in connection with a prior declared dividend. The fixed charge coverage ratio is a ratio of our EBITDA to our fixed charges as determined in accordance with the credit facility, and was required to be 1.225:1.00 for the three-month period ending September 30, 2009, the six-month period ending December 31, 2009 and the most recent compliance period, the nine-month period ending March 31, 2010. Our actual fixed charge coverage ratio for such periods was 1.22 to 1.00, 1.22 to 1.00 and 1.14 to 1.00, respectively. However, excluding the impact of dividend related payments our fixed charge coverage ratio for

such periods was 1.72 to 1:00, 1.44 to 1.00 and 1.38 to 1.00, respectively. In addition to the waivers we obtained from our lenders, on February 10, 2010, we entered into an amendment to the credit facility with the lenders to, among other things, amend the definition of "fixed charges" to specifically exclude the cash dividend payment. In the event the lenders did not waive these defaults or fail to waive any other default under our credit facility, the obligations under the credit facility could be

## **Table of Contents**

accelerated, the applicable interest rate under the credit facility could be increased, and 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.

In August 2008, we entered into a note purchase agreement with a separate lender. Under the terms of the agreement, we issued secured promissory notes in the aggregate principal amount of \$10.0 million with an interest rate of 13.75%, payable quarterly. These notes are to be paid in full before August 1, 2013. These notes are collateralized by all our personal property and are subordinated to the Credit Agreement. The balance of these notes at December 31, 2009 was \$10.0 million.

On December 30, 2008, in connection with a declaration of dividend for all holders of our preferred stock, we issued promissory notes to the holders of our preferred stock in an aggregate principal amount of \$11.1 million. The promissory notes bear interest at a rate of 8% and are payable in 16 consecutive quarterly payments of principal and interest. An additional amount equal to \$0.9 million became payable in September 2009 under the terms of these promissory notes and will be paid upon maturity. The payments may be deferred at the discretion of the board of directors. The balance of these notes at December 31, 2009 was \$8.2 million.

On April 23, 2010 in connection with a declaration of dividend for holders of our Series A Convertible Preferred Stock, Series A1 Convertible Preferred Stock and Series B Convertible Preferred Stock, we issued promissory notes to the holders of those series in an aggregate principal amount of \$0.4 million. The promissory notes bear interest at a rate of 8% and are payable in 16 consecutive quarterly payments of principal and interest, with the first payment due on July 1, 2010. The payments may be deferred at the discretion of the board of directors.

## **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.

## **Recent Accounting Pronouncements**

### ***Accounting Standards Codification***

In September 2009, we adopted the Accounting Standards Codification, or ASC, established by the Financial Accounting Standards Board, or FASB. The FASB established the ASC as the single source of authoritative non-governmental GAAP, superseding various existing authoritative accounting pronouncements. It eliminates the previous GAAP hierarchy and establishes one level of authoritative GAAP. All other literature is considered non-authoritative. The FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue an Accounting Standards Update, or ASU. The FASB will not consider ASUs as authoritative in their own right. ASUs will serve only to update the ASC, provide background information about the guidance and provide the bases for conclusions on the change(s) in the ASC.

### ***Business Combinations***

In December 2007, the FASB issued guidance regarding business combinations, which significantly changes the principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the

identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree, and the goodwill acquired. This statement is effective prospectively, except for certain retrospective adjustments to deferred tax balances, for fiscal years beginning after December 15, 2008. We applied these provisions to our 2009 acquisitions which resulted in expensing related transaction costs and valuing contingent consideration at the date of acquisition.

## **Table of Contents**

### ***Fair Value Measurements***

In September 2009, the FASB issued an ASU providing clarification for measuring the fair value of a liability when a quoted price in an active market for the identical liability is not available. It also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. This ASU is effective for fiscal periods beginning after August 27, 2009. The Company does not believe this update will have a material impact on its consolidated financial statements.

### ***Subsequent Events***

In May 2009, the FASB issued an ASU that established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Although there is new terminology, the standard is based on the same principles as those that currently exist in the auditing standards. The standard, which requires Companies to evaluate the disclosure of subsequent events, is effective for interim or annual periods ending after June 15, 2009. The adoption of this update had no impact on our consolidated results of operations or financial position.

### ***Multiple Element Arrangements***

In October 2009, the FASB issued an ASU that amended the accounting rules addressing revenue recognition for multiple-deliverable revenue arrangements by eliminating the existing criteria that objective and reliable evidence of fair value for undelivered products or services exist in order to be able to separately account for deliverables. Additionally, the ASU provides for elimination of the use of the residual method of allocating arrangement consideration and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables that can be accounted for separately based on their relative selling price. A hierarchy for estimating such selling price is included in the update. This ASU will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company adopted these accounting standards for all periods herein.

In October 2009, the FASB issued an ASU that changes the criteria for determining when an entity should account for transactions with customers using the revenue recognition guidance applicable to the selling or licensing of software. This ASU is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company does not believe this update will have a material impact on its consolidated financial statements.

### **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 \$2.7 million, \$4.2 million, \$4.4 million and \$3.0 million at December 31, 2007, 2008 and 2009 and March 31, 2010, respectively. We held these amounts primarily in cash or money market funds.

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

future interest income.

We had total outstanding debt of \$18.2 million, \$43.7 million, \$51.9 million and \$59.4 million at December 31, 2007, 2008 and 2009 and March 31, 2010, respectively. The interest rate on this debt is variable and adjusts periodically based on the three-month LIBOR rate. If the LIBOR rate changes by 1%, our annual interest expense would change by approximately \$0.6 million.

**Table of Contents****BUSINESS****Company Overview**

We are a leading provider of on demand software solutions for the rental housing industry. Our broad range of property management solutions enables owners and managers of single-family and a wide variety of multi-family rental property types to manage their marketing, pricing, screening, leasing, accounting, purchasing and other property operations. Our on demand software solutions are delivered through an integrated software platform that provides a single point of access and a shared repository of prospect, resident and property data. By integrating and streamlining a wide range of complex processes and interactions among the rental housing ecosystem of owners, managers, prospects, residents and service providers, our platform optimizes 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 March 31, 2010, over 5,900 customers used one or more of our on demand software solutions to help manage the operations of approximately 4.9 million rental housing units. Our customers include nine of the ten largest multi-family property management companies in the United States, ranked as of January 1, 2010 by the National Multi Housing Council, based on number of units managed.

We sell our solutions through our direct sales organization. Our total revenues were approximately \$83.6 million, \$112.6 million, \$140.9 million and \$41.4 million in 2007, 2008, 2009 and the three months ended March 31, 2010, respectively. In the same periods, we had operating (loss) income of approximately (\$1.6 million), (\$0.4 million), \$6.9 million and \$1.1 million, respectively, and net (loss) income of approximately (\$3.1 million), (\$3.2 million), \$28.4 million and (\$0.2 million), respectively. Net income for 2009 included a discrete tax benefit of approximately \$26.0 million as a result of a reduction of our net deferred tax assets valuation allowance.

**Industry Overview**

*The rental housing market is large, growing and complex.*

The rental housing market is large and characterized by challenging and location-specific operating requirements, diverse industry participants, significant mobility among residents and a variety of property types, including single-family and a wide range of multi-family property types, including conventional, affordable, privatized military, student and senior housing. According to the U.S. Census Bureau American Housing Survey for the United States: 2007, there were 39.3 million rental housing units in the United States in 2007. The U.S. Census Bureau divides the rental housing market into the following categories:

<b>Property Size</b>	<b>Number of Estimated Units (in millions)</b>
<i>Single-family properties</i>	
1 unit	13.8
2-4 units	8.1
<i>Multi-family properties</i>	

5-9 units	5.3
10-49 units	8.6
50 or more units	3.5
<b>Total Rental Units</b>	<b>39.3</b>

Based on U.S. Census Bureau data and our own estimates, we believe that the overall size of the U.S. rental housing market, including rent, utilities and insurance, exceeds \$300 billion annually. We estimate that the total addressable market for our current on demand software solutions is approximately \$5.5 billion per year. This estimate assumes that each of the 39.3 million rental units in the United States has the potential to generate annually a range of approximately \$100 in revenue per unit for single-family units to approximately \$240 in revenue per unit for conventional multi-family units. We base this potential revenue



**Table of Contents**

assumption on our review of the purchasing patterns of our existing customers with respect to our on demand software solutions, the on demand software solutions currently utilized by our existing customers, the number of units our customers manage with these solutions and our current pricing for on demand software solutions. Furthermore, the U.S. rental housing market has recently benefited from a number of significant trends, including decreased home ownership resulting in additional renter households and tougher mortgage lending standards reducing first-time home purchases and contributing to lower rates of renter attrition as renters choose to remain in rental units.

***Rental property management spans both the resident lifecycle and the operations of a property.***

The resident lifecycle can be separated into four key stages: prospect, applicant, residency and post-residency. Each stage has unique requirements, and a property owner's or manager's ability to effectively address these requirements can significantly impact revenue and profitability.

<b>Resident Lifecycle Stage</b>	<b>Property Owner/Manager Objectives</b>
Prospect	<ul style="list-style-type: none"> <li>increase number of leads through effective marketing</li> <li>optimize the advertising spending and marketing budget for each property</li> <li>capture every lead in a timely manner</li> <li>create a compelling online experience for each property</li> <li>identify quality prospects</li> <li>determine appropriate market rental rates</li> <li>increase prospect-to-resident conversion rates</li> </ul>
Applicant	<ul style="list-style-type: none"> <li>automate application process</li> <li>assess applicant credit history and ability to pay rent</li> <li>assess applicant criminal background</li> <li>determine optimal rental rates and lease terms required to maximize revenue</li> <li>manage risk through renter's insurance programs</li> </ul>
Residency	<ul style="list-style-type: none"> <li>foster resident retention through effective communications and responsive service</li> <li>manage rental payments and collections</li> <li>maintain property, including improvements and routine maintenance</li> <li>manage service provider network, including utilities and telecommunications vendors</li> <li>renew as high a percentage of lease expirations as possible</li> <li>determine optimal renewal rental rates required to maximize revenue</li> </ul>
Post-residency	<ul style="list-style-type: none"> <li>improve collection of move-out expenses, including uncovered repairs and unpaid utilities</li> <li>manage process to efficiently and cost-effectively prepare the unit for new residents</li> <li>process final account statements and security deposit refunds</li> </ul>

In addition to managing the resident lifecycle, property owners and managers must also manage the operations of their properties. Critical components of property operations include materials and service provider procurement, insurance and risk mitigation, utility and energy management, information technology and telecommunications management, accounting, expense tracking and management, document management, security, staff hiring and training, staff performance measurement and management and marketing.

Managing the resident lifecycle and the operations of a property involves several different constituents, including property owners and managers, prospects, residents and service providers. Property owners can include single-property owners, multi-property owners, national residential apartment syndicators that may own thousands of units through a variety of investment funds and real estate investment trusts, or REITs. Property managers often are

responsible for a large number of properties that can range from single-family units to large apartment communities. Property owners and managers also need to manage a variety of service providers, including utilities, insurance providers, video, voice and data providers and maintenance and capital goods suppliers. Managing these diverse relationships, combined with frequent resident turnover and regulatory and compliance requirements, can make the operations of even a small portfolio of rental properties complex.

## **Table of Contents**

Challenges are compounded for owners and managers responsible for a large portfolio of geographically dispersed properties, which require overseeing potentially hundreds of thousands of individual rental processes.

*Legacy information technology solutions designed to manage the rental housing property management process are inadequate.*

During the 1970 s and 1980 s, the rental housing market was highly fragmented and regionally organized. During this period, the first property management systems and software solutions emerged to help property owners and managers with basic accounting and record keeping functions. These solutions provided limited functionality and scalability and often were not tailored to the specific needs of rental housing property owners and managers.

Beginning in the mid 1990 s, the rental housing market began to consolidate and large, nationally focused and publicly financed companies emerged, which aggregated significant numbers of units. The rise of national real estate portfolio managers, many of them accountable to public shareholders, created a need for more sophisticated and scalable property management systems that included a centralized database and were designed to optimize and automate multiple business processes within the resident lifecycle and property operations. Despite increasing market demands, the available solutions continued to be insufficient to fully address the complex requirements of rental housing property owners and managers, which moved beyond basic accounting and record keeping functions to also include value-added services such as Internet marketing, applicant screening, billing solutions and analytics for pricing and yield optimization.

To address their complex and evolving requirements, many rental housing property owners and managers have historically implemented a myriad of single point solutions and/or internally developed solutions to manage their properties. These solutions can be expensive to implement and maintain and often lack integrated functionality to help owners and managers increase rental revenue or reduce costs. In addition, many rental housing property owners and managers still rely on paper or spreadsheet-based approaches, which are typically time intensive and prone to human error or internal mismanagement. We believe these historical solutions are inadequate because they:

- require significant customization to implement, which frequently inhibits upgrading to new versions or platforms in a timely manner;

- require information technology, or IT, resources to support integration points between property management systems and disparate value-added services;

- require IT resources to implement and maintain data security, data integrity, performance and business continuity solutions;

- lack scalability and flexibility to account for the expansion or contraction of a property portfolio;

- lack robust marketing and tracking capabilities for converting prospects to residents;

- lack effective spend management capabilities for controlling property management costs;

- lack comprehensive analytics for pricing and yield optimization;

- lack workflow level integration;

- do not provide owners and managers with visibility into overall property performance; and

cannot be easily updated to meet new regulations and compliance requirements.

***On demand software solutions are well suited to meet the rental housing market s needs.***

The ubiquitous nature of the Internet, widespread broadband adoption and improved network reliability and security have enabled the deployment and delivery of business-critical applications over the Internet. The on demand delivery model is substantially more cost-effective than traditional on premise software solutions that generally have higher deployment and support costs and require the customer to purchase and maintain the associated servers, storage, networks, security and disaster recovery solutions.

## **Table of Contents**

### **The RealPage Solution**

We provide a platform of on demand software solutions that integrates and streamlines rental property management business functions. Our solutions enable owners and managers of single-family and a wide variety of multi-family rental property types, including conventional, affordable, privatized military, student and senior housing, to manage their marketing, pricing, screening, leasing, accounting, purchasing and other property operations. These functions have traditionally been addressed by individual, disparate applications. 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 business processes. Our solutions contribute to a more efficient property management process and an improved experience for all of the constituents involved in the rental housing ecosystem, including owners, managers, prospects, residents and service providers.

### ***Benefits to Our Customers***

The benefits of our solutions for our customers include the following:

*Increased revenues.* Our solutions enable our customers to increase their revenues by improving their sales and marketing effectiveness, optimizing their pricing and occupancy and improving collection of rental payments, utility expenses, late fees and other charges.

*Reduced operating costs.* Our solutions help our customers reduce costs by streamlining and automating many ongoing property management functions, centralizing and controlling purchasing by on-site personnel and transferring costs from the site to more efficient centrally managed operations. Our on demand delivery model also reduces owners and managers operating costs by eliminating their need to own and support the applications or associated hardware infrastructure. In addition, our integrated solutions consolidate the initial implementation and training costs and ongoing support associated with multiple applications that each provide only components of the functionality provided by our solutions. This is particularly important for property owners and managers who want to reduce enterprise-class IT infrastructure, support and staff training.

*Improved quality of service for residents and prospects.* Our solutions improve the level of service that property owners and managers provide to residents and prospects by enabling many transactions to be completed online, expediting the processing of rental applications, maintenance service requests and payments and increasing the frequency and quality of communication with residents and prospects, providing higher resident satisfaction and increased differentiation from competing properties that do not use our solutions.

*Streamlined and simplified property management business processes.* Our on demand platform provides integrated solutions for managing a wide variety of property management processes that have traditionally been managed manually or through separate applications. Our solutions utilize common authentication that enables data sharing and workflow automation of certain business processes, thereby eliminating redundant data entry and simplifying many recurring tasks. The efficiency of our solutions allows onsite and corporate personnel to utilize their time more effectively and to focus on the strategic priorities of the business. We also make extensive use of online training courseware and our solutions are designed to be usable by new employees almost immediately after their hiring, addressing an acute need of the multi-family industry in which employee turnover is high.

*Ability to integrate third-party products and services.* Our open architecture and application framework facilitate the integration of third-party applications and services into our solutions. This enables property managers to conduct these business functions through the same system that they already use for many of their other tasks and to leverage the same repository of prospect, resident and property data that supports our solutions.

*Increased visibility into property performance.* Our integrated platform and common data repository enable owners and managers to gain a comprehensive view of the operational and financial performance of each of their properties. Our solutions provide a library of standard reports, dashboards, scorecards and alerts, and we also provide interfaces to several widely used report writers and business intelligence tools. In addition, our on demand delivery model makes it possible to deliver benchmark data aggregated across more than 10,000 properties, factor rental payment history into applicant screening processes and create more accurate supply/demand models and statistically based price elasticity models to improve price optimization.

## **Table of Contents**

*Simple implementation and support.* Our solutions include pre-configured extensions that meet the specific needs of a variety of property types and can be easily tailored by our customers to meet more specific requirements of their properties and business processes. We strive to minimize the need for professional consulting services to implement our solutions and train personnel.

*Improved scalability.* We host our solutions for our customers, thereby reducing or eliminating our customers' costs associated with expanding or contracting IT infrastructure as their property portfolios evolve. We also bear the risk of technological obsolescence because we own and manage our data center infrastructure and are continually upgrading it to newer generations of technology without any incremental cost to our customers.

### ***Competitive Strengths of our Solutions***

The competitive strengths of our solutions are as follows:

*Integrated on demand software platform based on a common data repository.* Our solutions are delivered through an integrated on demand software platform that provides a single point of access via the Internet with a common repository of prospect, resident and property data, which permits our solutions to access requested data through offline data transfer or in real-time.

*Large and growing ecosystem of property owners, managers, prospects, residents and service providers.* Through March 31, 2010, we have established a customer base of over 5,900 customers who use one or more of our on demand software solutions to help manage the operations of approximately 4.9 million rental housing units. Our customers include nine of the ten largest multi-family property management companies in the United States, ranked as of January 1, 2010 by the National Multi Housing Council, based on number of units managed. Our solutions automate and streamline many of the recurring transactions and interactions among this large and expanding ecosystem of property owners and managers, prospects, residents and service providers, including prospect inquiries, applications, monthly rent payments and service requests. As the number of constituents of our ecosystem increases, the volume of data in our common data repository and its value to the constituents of our ecosystem grows.

*Comprehensive platform of on demand software solutions for property management.* Our on demand property management systems and integrated software-enabled value-added services provide what we believe to be the broadest range of on demand capabilities for managing the resident lifecycle and core operational processes for residential property management. Our software-enabled value-added services provide complementary sales and marketing, asset optimization, risk mitigation, billing and utility management and spend management capabilities that collectively enable our customers to manage every stage of the resident lifecycle. In addition, we offer shared cloud services, including reporting, payment, document management and training functionality that are common to all of our product families. These comprehensive solutions enable us to address the needs of a wide range of property owners and managers across a broad range of rental housing property types.

*Deep rental housing industry expertise.* We have been serving the rental housing industry exclusively for over 10 years and our 20 most senior management team members have an average of 16 years experience in the rental housing industry. We design our solutions based on our extensive rental housing industry expertise, insight into industry trends and developments and property management best practices that help our customers simplify the challenges of owning and managing rental properties.

*Open cloud computing architecture.* Our cloud computing architecture enables our solutions to interface with our customers' existing systems and allows our customers to outsource the management of third-party business applications. This open architecture enables our customers to buy our solutions incrementally while continuing to use existing third-party solutions, allowing us to shorten sales cycles and increase adoption of our solutions within our

target market.



## **Table of Contents**

### **Our Strategy**

We intend to leverage the breadth of our solutions and industry presence to solidify our position as a leading provider of on demand software solutions to the rental housing industry. The key elements of our strategy to accomplish this objective are as follows:

*Acquire new customers.* We intend to actively pursue new customer relationships with property owners and managers that do not currently use our solutions. In addition to marketing our core property management systems, we will also seek to sell our software-enabled value-added services to customers of other third-party property management systems by utilizing our open architecture to facilitate integration of our solutions with those systems.

*Increase the adoption of additional solutions within our existing customer base.* Many of our customers rely on our property management systems to manage their daily operations and track all of their critical prospect, resident and property information. Additionally, some of our customers utilize our software-enabled value-added services to complement third-party ERP systems. We have continually introduced new software-enabled value-added services to complement our property management systems and marketed our on demand property management systems to our customers who are utilizing third-party ERP systems. We believe that the penetration of our on demand software solutions to date has been modest and that there exists significant potential for additional on demand revenue from sales of our on demand software solutions to our customer base. We have significant opportunities to further leverage the critical role that our solutions play in our customers' operations by increasing the adoption of our on demand property management systems and software-enabled value-added services within our existing customer base, and we intend to actively focus on upselling and cross-selling our solutions to our customers.

*Add new solutions to our platform.* We believe that we offer the most comprehensive platform of on demand software solutions for the rental housing industry. The breadth of our platform enables our customers to control many aspects of the residential rental property management process. We have a unique opportunity to add new capabilities that further enhance our platform, and we intend to continue developing and introducing new solutions to sell to both new and existing customers. These solutions may include localized solutions to support our customers as they grow their international operations. We also intend to develop new relationships with third-party application providers that can use our open architecture to offer additional product and service capabilities to their customers through the use of our platform.

*Pursue acquisitions of complementary businesses, products and technologies.* Since March 2005, we have completed nine acquisitions that have enabled us to expand our platform, enter into new rental property markets and expand our customer base. We intend to continue to selectively evaluate opportunities to acquire businesses and technologies that may help us accomplish these and other strategic objectives.

### **Products and Services**

Our platform consists of our property management systems and five families of software-enabled value-added services. Our software-enabled value-added services provide complementary sales and marketing, asset optimization, risk mitigation, billing and utility management and spend management capabilities that collectively enable our customers to manage the stages of the resident lifecycle. Each of our property management systems and our software-enabled value-added services include multiple product centers that provide distinct capabilities and can be licensed separately or as a bundled package. Each product center is integrated with a central repository