REALPAGE INC
Form 10-Q
August 04, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-34846

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

Delaware	75-2788861
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2201 Lakeside Boulevard Richardson, Texas	75082-4305
(Address of principal executive offices)	(Zip Code)

(972) 820-3000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

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

Class	July 21, 2017
Common Stock, $0.001 par value	82,654,544

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

	June 30, 2017 (unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$324,591	$104,886
Restricted cash	106,479	83,654
Accounts receivable, less allowance for doubtful accounts of $2,553 and $2,468 at June 30, 2017 and December 31, 2016, respectively	89,727	92,367
Prepaid expenses	13,293	10,836
Other current assets	6,061	5,712
Total current assets	540,151	297,455
Property, equipment, and software, net	138,241	130,428
Goodwill	359,420	259,938
Identified intangible assets, net	110,318	74,976
Deferred tax assets, net	63,260	15,665
Other assets	10,057	9,636
Total assets	$1,221,447	$788,098
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$24,400	$21,421
Accrued expenses and other current liabilities	53,316	50,464
Current portion of deferred revenue	101,100	89,583
Current portion of term loan	3,833	5,469
Customer deposits held in restricted accounts	106,616	83,590
Total current liabilities	289,265	250,527
Deferred revenue	5,896	6,308
Term loan, net	116,143	116,657
Convertible notes, net	275,673	—
Other long-term liabilities	34,899	29,843
Total liabilities	721,876	403,335
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, $0.001 par value: 10,000,000 shares authorized and zero shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	—	—
Common stock, $0.001 par value: 125,000,000 shares authorized, 86,801,958 and 86,062,191 shares issued and 82,964,638 and 81,087,353 shares outstanding at June 30, 2017 and December 31, 2016, respectively	87	86
Additional paid-in capital	601,836	534,348
Treasury stock, at cost: 3,837,320 and 4,974,838 shares at June 30, 2017 and December 31, 2016, respectively	(41,364)	(30,358)
Accumulated deficit	(61,015)	(119,260)
Accumulated other comprehensive income (loss)	27	(53)
Total stockholders' equity	499,571	384,763

Total liabilities and stockholders' equity	$1,221,447	$788,098

See accompanying notes.

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RealPage, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue:				
On demand	$154,727	$136,610	$300,940	$260,021
On premise	659	687	1,334	1,459
Professional and other	5,920	5,422	11,951	9,622
Total revenue	161,306	142,719	314,225	271,102
Cost of revenue	67,544	62,078	130,586	116,826
Gross profit	93,762	80,641	183,639	154,276
Operating expenses:				
Product development	21,290	18,878	41,677	36,150
Sales and marketing	39,235	35,129	74,382	67,328
General and administrative	27,370	21,932	51,621	40,278
Total operating expenses	87,895	75,939	167,680	143,756
Operating income	5,867	4,702	15,959	10,520
Interest expense and other, net	(2,786)	(1,074)	(3,872)	(1,782)
Income before income taxes	3,081	3,628	12,087	8,738
Income tax (benefit) expense	(3,132)	1,545	(2,321)	3,659
Net income	$6,213	$2,083	$14,408	$5,079
Net income per share attributable to common stockholders:				
Basic	$0.08	$0.03	$0.18	$0.07
Diluted	$0.08	$0.03	$0.18	$0.07
Weighted average shares used in computing net income per share attributable to common stockholders:				
Basic	79,018	76,363	78,642	76,509
Diluted	81,925	77,161	81,644	77,120

See accompanying notes.

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RealPage, Inc.
Condensed Consolidated Statements of Comprehensive Income
(in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$6,213	$2,083	$14,408	$5,079
(Loss) gain on interest rate swaps, net	(24)	(330)	82	(409)
Foreign currency translation adjustment	48	8	(2)	104
Comprehensive income	$6,237	$1,761	$14,488	$4,774

See accompanying notes.

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RealPage, Inc.
Condensed Consolidated Statements of Stockholders’ Equity
(in thousands)
(unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated other comprehensive income (loss)	Accumulated Deficit	Treasury Shares		Total Stockholders’ Equity
	Shares	Amount				Shares	Amount	
Balance as of December 31, 2016	86,062	$ 86	$534,348	$ (53)	$(119,260)	(4,975)	$(30,358)	$384,763
Cumulative effect of adoption of ASU 2016-09	—	—	6	—	43,837	—	—	43,843
Issuance of common stock	640	1	13,150	—	—	—	—	13,151
Issuance of restricted stock	100	—	(2)	—	—	1,605	2	—
Treasury stock purchases, at cost	—	—	—	—	—	(467)	(11,008)	(11,008)
Stock-based expense	—	—	23,983	—	—	—	—	23,983
Interest rate swap agreements	—	—	—	73	—	—	—	73
Foreign currency translation	—	—	—	(2)	—	—	—	(2)
Reclassification of realized loss on cash flow hedge to earnings, net of tax	—	—	—	9	—	—	—	9
Equity component of convertible notes, net of issuance costs	—	—	61,401	—	—	—	—	61,401
Purchases of convertible note hedges	—	—	(62,549)	—	—	—	—	(62,549)
Issuance of warrants	—	—	31,499	—	—	—	—	31,499
Net income	—	—	—	—	14,408	—	—	14,408
Balance as of June 30, 2017	86,802	$ 87	$601,836	$ 27	$(61,015)	(3,837)	$(41,364)	$499,571

See accompanying notes.

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RealPage, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$14,408	$5,079
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,533	26,822
Amortization of debt discount and issuance costs	1,424	205
Deferred taxes	(3,088)	2,320
Stock-based expense	23,968	19,128
Loss on disposal and impairment of other long-lived assets	87	85
Acquisition-related consideration	1,024	(251)
Changes in assets and liabilities, net of assets acquired and liabilities assumed in business combinations:		
Accounts receivable	6,631	1,251
Prepaid expenses and other current assets	(1,369)	2,656
Other assets	(464)	(243)
Accounts payable	4,066	62
Accrued compensation, taxes, and benefits	(759)	1,828
Deferred revenue	3,607	(1,229)
Other current and long-term liabilities	1,396	2,888
Net cash provided by operating activities	80,464	60,601
Cash flows from investing activities:		
Purchases of property, equipment, and software	(27,129)	(38,486)
Acquisition of businesses, net of cash acquired	(130,878)	(71,305)
Net cash used in investing activities	(158,007)	(109,791)
Cash flows from financing activities:		
Proceeds from term loan	—	124,688
Payments on term loan	(767)	(781)
Payments on revolving line of credit	—	(40,000)
Proceeds from borrowings on convertible notes	345,000	—
Purchase of convertible note hedges	(62,549)	—
Proceeds from issuance of warrants	31,499	—
Deferred financing costs	(10,755)	(392)
Payments on capital lease obligations	(136)	(426)
Payments of acquisition-related consideration	(7,185)	(2,736)
Issuance of common stock	13,151	8,008
Purchase of treasury stock related to stock-based compensation	(11,008)	(2,179)
Purchase of treasury stock under share repurchase program	—	(21,244)
Net cash provided by financing activities	297,250	64,938
Net increase in cash and cash equivalents	219,707	15,748
Effect of exchange rate on cash	(2)	29
Cash and cash equivalents:		
Beginning of period	104,886	30,911
End of period	$324,591	$46,688

See accompanying notes.

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RealPage, Inc.
Condensed Consolidated Statements of Cash Flows, continued
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2017	2016
Supplemental cash flow information:		
Cash paid for interest	$1,976	$1,747
Cash paid for income taxes, net of refunds	$1,157	$1,200
Non-cash investing activities:		
Accrued property, equipment, and software	$951	$8,927

See accompanying notes.

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RealPage, Inc.
Notes to the Condensed Consolidated Financial Statements
(unaudited)

1. The Company

RealPage, Inc., a Delaware corporation (together with its subsidiaries, the “Company” or “we” or “us”), is a technology leader to the real estate industry, helping owners, managers, and investors optimize both operational yields and investment returns. Our platform of data analytics and software solutions enables the rental real estate industry to manage property operations (such as marketing, pricing, screening, leasing, and accounting), identify opportunities through market intelligence, and obtain data-driven insight for better operational and financial decision-making. Our integrated, on demand platform provides a single point of access and a massive repository of real-time lease transaction data, including prospect, renter, and property data. By leveraging data as well as integrating and streamlining a wide range of complex processes and interactions among the apartment real estate ecosystem (owners, managers, prospects, renters, service providers, and investors), our platform helps our clients improve financial and operational performance and prudently place and harvest capital.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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

These financial statements should be read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K filed with the SEC on March 1, 2017 (“Form 10-K”).

Segment and Geographic Information

Our chief operating decision maker is our Chief Executive Officer, who reviews financial information presented on a company-wide basis. As a result, we determined that the Company has a single reporting segment and operating unit structure.

Principally, all of our revenue for the three and six months ended June 30, 2017 and 2016 was earned in the United States. Net property, equipment, and software held consisted of $132.4 million and $125.3 million located in the United States, and $5.8 million and $5.1 million in our international subsidiaries at June 30, 2017 and December 31, 2016, respectively. Substantially all of the net property, equipment, and software held in our international subsidiaries was located in the Philippines, Spain, and India at both June 30, 2017 and December 31, 2016.

Concentrations of Credit Risk

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

Concentrations of credit risk with respect to accounts receivable result from substantially all of our clients being in the residential rental housing market. Our clients, however, are dispersed across different geographic areas. We do not require collateral from clients. We maintain an allowance for doubtful accounts based upon the expected collectability of accounts receivable.

No single client accounted for 10% or more of our revenue or accounts receivable for the three or six months ended June 30, 2017 or 2016.

Accounting Policies and Use of Estimates

The preparation of financial statements in conformity with GAAP requires our management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include the allowance for doubtful accounts; the useful lives of intangible assets and the recoverability or impairment of tangible and intangible asset values; fair value measurements; contingent commissions related to the sale of insurance products; purchase accounting allocations and contingent consideration; revenue and deferred revenue and related reserves; stock-based expense; and our effective income tax rate and the recoverability of deferred tax assets, which are based upon our expectations of future taxable income and allowable deductions. Actual results could differ from these estimates. For greater detail regarding these accounting policies and estimates, refer to our Form 10-K.

Business Combinations

The Company applies the guidance contained in ASC Topic 805, Business Combinations ("ASC 805") in determining whether an acquisition transaction constitutes a business combination. ASC 805 defines a business as consisting of inputs and processes applied to those inputs that have the ability to create outputs. The acquisition transactions in Note 3 were determined to constitute business combinations and were accounted for under ASC 805.

Purchase consideration includes assets transferred, liabilities assumed, and/or equity interests issued by us, all of which are measured at their fair value as of the date of acquisition. Our business combination transactions may be structured to include an up-front cash payment and deferred and/or contingent cash payments to be made at specified dates subsequent to the date of acquisition. Deferred cash payments are included in the acquisition consideration based on their fair value as of the acquisition date. The fair value of these obligations is estimated based on the present value, as of the date of acquisition, of the anticipated future payments. The future payments are discounted using a rate that considers an estimate of the return expected by a market-participant and a measurement of the risk inherent in the cash flows, among other inputs. Deferred cash payments are generally subject to adjustments specified in the underlying purchase agreement related to the seller's indemnification obligations. Contingent cash payments are obligations to make future cash payments to the seller, the payment of which is contingent upon the achievement of stipulated operational or financial targets in the post-acquisition period. Contingent cash payments are included in the purchase consideration at their fair value as of the acquisition date. The fair value of these payments is estimated using a probability weighted discount model based on the achievement of the specified targets. The fair value of these liabilities is re-evaluated on a quarterly basis, and any change is reflected in the line "General and administrative" in the accompanying Condensed Consolidated Statements of Operations. These estimates are inherently uncertain and unpredictable. Unanticipated events and circumstances may occur that would affect the accuracy or validity of these estimates.

The total purchase consideration is allocated to the assets acquired and liabilities assumed based on their estimated fair values. Any excess consideration is classified as goodwill. Acquired intangibles are recorded at their estimated fair value based on the income approach using market-based estimates. Acquired intangibles generally include developed product technologies, which are amortized over their useful life on a straight-line basis, and client relationships, which are amortized over their useful life proportionately to the expected discounted cash flows derived from the asset. When trade names acquired are not classified as indefinite-lived, they are amortized on a straight-line basis over their expected useful life.

Acquisition costs are expensed as incurred and are included in the line "General and administrative" in the accompanying Condensed Consolidated Statements of Operations. We include the results of operations from acquired businesses in our Condensed Consolidated Financial Statements from the effective date of the acquisition.

Derivative Financial Instruments

The Company is exposed to interest rate risk related to our variable rate debt. The Company manages this risk through a program that includes the use of interest rate derivatives, the counterparties to which are major financial institutions. Our objective in using interest rate derivatives is to add stability to interest cost by reducing our exposure to interest rate movements. We do not use derivative instruments for trading or speculative purposes.

Our interest rate derivatives are designated as cash flow hedges and are carried in the Condensed Consolidated Balance Sheets at their fair value. Unrealized gains and losses resulting from changes in the fair value of these instruments are classified as either effective or ineffective. The effective portion of such gains or losses is recorded as a component of accumulated other comprehensive income ("AOCI"), while the ineffective portion is recorded as a component of interest expense in the period of change. Amounts reported in AOCI related to interest rate derivatives are reclassified into interest expense as interest payments are made on our variable-rate debt. If an interest rate derivative agreement is terminated prior to its maturity, the amounts previously recorded in AOCI are recognized into earnings over the period that the forecasted transactions impact earnings. If the hedging relationship is discontinued because it is probable that the forecasted transactions will not occur according to our original strategy, any related

amounts previously recorded in AOCI are recognized in earnings immediately.
Revenue Recognition
We derive our revenue from three primary sources: on demand software solutions, on premise software solutions, and professional 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 client;
- the collection of the fees is probable; and

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

If the fees are not fixed or determinable, we recognize revenues as payments become due from clients or when amounts owed are collected, provided all other conditions for revenue recognition have been met. Accordingly, this may materially affect the timing of our revenue recognition and results of operations.

When arrangements with clients include multiple software solutions and/or services, we allocate arrangement consideration to each deliverable based on its relative selling price. In such circumstances, we determine the relative selling price for each deliverable based on vendor specific objective evidence of selling price ("VSOE"), if available, or our best estimate of selling price ("BESP"). We have determined that third-party evidence of selling price is not available as our solutions and services are not largely interchangeable with those of other vendors. Our process for determining BESP considers multiple factors, including prices charged by us for similar offerings when sold separately, pricing and discount strategies, and other business objectives.

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

On Demand Revenue

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

License and subscription fees are composed of a charge billed at the initial order date and monthly or annual subscription fees for accessing our on demand software solutions. The license fee billed at the initial order date is recognized as revenue on a straight-line basis over the longer of the contractual term or the period in which the client is expected to benefit, which we consider to be three years. Recognition starts once the product has been activated. Revenue from monthly and annual subscription fees is recognized on a straight-line basis over the access period.

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

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

On Premise Revenue

Sales of our on premise software solutions consist of an annual term license, which includes maintenance and support. Clients can renew their annual term license for additional one-year terms at renewal price levels. We recognize revenue for the annual term license and support services on a straight-line basis over the contract term.

We also derive on premise revenue from multiple element arrangements that include perpetual licenses with maintenance and other services to be provided over a fixed term. Revenue is recognized for delivered items using the residual method when we have VSOE of fair value for the undelivered items and all other criteria for revenue recognition have been met.

When VSOE has not been asserted for the undelivered items, we recognize the arrangement fees ratably over the longer of the client support period or the period during which professional services are rendered.

Professional and Other Revenue

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

Fair Value Measurements

Certain assets and liabilities are carried at fair value under GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Legal Contingencies

We review the status of each matter and record a provision for a liability when we consider that it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We review these provisions quarterly and

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make adjustments where needed as additional information becomes available. If either or both of the criteria are not met, we assess whether there is at least a reasonable possibility that a loss, or additional losses beyond those already accrued, may be incurred. If there is a reasonable possibility that a material loss (or additional material loss in excess of any accrual) may be incurred, we disclose an estimate of the amount of loss or range of losses, either individually or in the aggregate, as appropriate, if such an estimate can be made, or disclose that an estimate of loss cannot be made.

Recently Adopted Accounting Standards

We adopted ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, in the first quarter of 2017. As a result of our adoption of this ASU, we recorded a deferred tax asset of $43.8 million, net of a $0.3 million valuation allowance, related to excess stock-based compensation deductions that arose but were not recognized in prior years. Additionally, we elected to account for forfeitures as they occur using a modified retrospective transition method that required us to record an immaterial cumulative-effect adjustment to accumulated deficit. We elected to account for the change in presentation of excess tax benefits in the statements of cash flows prospectively, and as a result, no prior periods were adjusted. We began to account for all excess tax benefits and deficits arising from current period stock transactions as income tax benefit or expense effective January 1, 2017. The remaining amendments to this standard did not have a material impact on our Condensed Consolidated Financial Statements.

Recently Issued Accounting Standards

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting, which provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This ASU does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the fair value, vesting conditions, or award classification (as equity or liability) and would not be required if the changes are considered non-substantive. ASU 2017-09 requires the changes to be implemented on a prospective basis and is applicable for annual reporting periods beginning after December 15, 2017, including interim periods therein. Early application is permitted. We are currently evaluating the impact of adopting ASU 2017-09 on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business to assist entities with evaluating whether a set of transferred assets and activities ("set") is a business. Under the new guidance, an entity first determines whether substantially all of the fair value of the set is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the set is not a business. If it is not met, the entity evaluates whether the set meets the requirements that a business include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The ASU requires the changes to be implemented on a prospective basis and is applicable for annual reporting periods beginning after December 15, 2017, including interim periods therein. Early application is permitted. We plan to adopt the changes contained in ASU 2017-01 effective January 1, 2018 and, as required by the ASU, will apply the new guidance on a prospective basis. We do not expect this ASU will have a significant impact on our classification of businesses and complementary technologies acquired.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows - Restricted Cash, which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within, and must be applied retrospectively. Early adoption of this ASU is permitted, including adoption in an interim period, but any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. We will adopt ASU 2016-18 in the first quarter of 2018. After adoption, changes in customer deposits held in restricted accounts will result in an increase or reduction in cash flows from operating activities. Such changes do not have an impact on our consolidated financial statements under current rules.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in fiscal years beginning after December 15, 2018. The amendments in this ASU are to be applied through a cumulative-effect adjustment to retained earnings as of the first reporting period in which the ASU is effective. We have not yet selected a transition date and are currently evaluating the impact of adopting ASU 2016-13 on our consolidated financial statements.

On February 25, 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Current GAAP requires lessees to classify their leases as either capital leases, for which the lessee recognizes a lease liability and a related leased asset, or operating leases, which are not reflected in the lessee's balance sheet. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with a term of more than twelve months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease will depend primarily on its classification as a finance or an operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, ASU 2016-02 will require both operating and finance leases to be recognized on the balance sheet. Additionally, the ASU will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements.

ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance to the beginning of the earliest comparative period presented. We have not yet selected a transition date and are currently evaluating the impact of adopting ASU 2016-02 on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09, as amended by certain supplementary ASU's released in 2016, will replace all current GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14, Topic 606 - Deferral of Effective Date. ASU 2015-14 permitted public business entities to defer the adoption of ASU 2014-09 until interim and annual reporting periods beginning after December 15, 2017. We will adopt ASU 2014-09 in the first quarter of 2018 and expect to adopt on a modified retrospective basis. Under this method of adoption, we would recognize the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings in the period of initial adoption. Comparative prior year periods would not be adjusted.

Based on our preliminary analysis, we anticipate that commissions paid to our direct sales force will qualify as incremental costs of obtaining a contract and will be capitalized and subsequently amortized. Additionally, we anticipate limited changes in the timing of our revenue recognition and client accommodation credits. The standard will require a significant amount of new revenue disclosures in our consolidated financial statements, and we are currently evaluating the impact of these new disclosure requirements. We continue to evaluate the new standard against our existing accounting policies and our contracts with clients to determine the effect the guidance will have on our financial statements and what changes to systems and controls may be warranted.

3. Acquisitions

Current Acquisition Activity

American Utility Management

In June 2017, RealPage acquired substantially all of the assets of American Utility Management ("AUM"), a provider of utility and energy management services for the multifamily housing industry. AUM helps maximize cost recovery, reduces energy usage and expense, and provides the tools operators of rental real estate need to manage their utilities more effectively. Additionally, AUM's platform includes tools that enable operators to benchmark energy cost and consumption against their peers. The acquired assets will be integrated with our existing resident utility management platform and our data analytics tools.

We acquired AUM for a purchase price of $69.4 million. The purchase price consisted of a cash payment of $64.8 million at closing, net of cash acquired of $0.1 million, and a deferred cash obligation of up to $5.1 million. The fair value of the deferred cash obligation was $4.6 million at the date of acquisition, and is payable over a period of four years following the date of acquisition. This acquisition was financed using cash on hand.

The acquired identifiable intangible assets consisted of trade names, developed technology, non-compete agreements, and client relationships, which will be amortized over estimated useful lives of two, three, five, and ten years, respectively. Preliminary goodwill recognized of $45.3 million primarily arises from anticipated synergies from integrating the acquired assets with our existing resident utility management system and leveraging the energy cost and consumption benchmarking capabilities and data acquired. Goodwill and the acquired identified intangible assets

are deductible for tax purposes.
The Company’s purchase accounting for AUM was incomplete as of June 30, 2017. We expect to complete the working capital adjustment and valuation of tangible assets, intangible assets, and liabilities assumed as of the acquisition date in the third quarter of 2017. The amounts reflected in the purchase price allocation table below are provisional in nature and may have a material change.

Lease Rent Options

In February 2017, we entered into an agreement to acquire the assets that comprise the multifamily business (Lease Rent Options or “LRO”) of The Rainmaker Group Holdings, Inc. The closing of the proposed acquisition is subject to standard closing conditions, including the completion of the Hart-Scott-Rodino Antitrust Improvements Act review process. The acquisition of LRO will extend our revenue management footprint, augment our repository of real-time lease transaction data, and increase our data science talent and capabilities. We expect the acquisition of LRO to increase the market penetration of our YieldStar Revenue Management solution and drive revenue growth in our other asset optimization solutions.

Pursuant to the purchase agreement, consideration will consist of a cash payment at closing of approximately $298.5 million, subject to reduction for outstanding indebtedness, unpaid transaction expenses, and a working capital adjustment; and a deferred cash obligation of up to $1.5 million. The deferred cash obligation serves as security for our benefit against the sellers' indemnification obligations. Subject to any indemnification claims made, the deferred cash obligation will be released approximately twelve months following the acquisition date. We expect to finance this transaction with cash on hand and funds available under our Credit Facility.

Axiometrics LLC

In January 2017, we acquired substantially all of the assets of Axiometrics LLC (“Axiometrics”). Axiometrics provides its customers with timely market intelligence on apartment markets accumulated from survey and research data. Axiometrics also provides tools to analyze the data at an asset level by multiple variables such as asset class, age, and specific competitive floor plans. The acquisition of Axiometrics expanded our multifamily data analytics platform and was integrated with MPF Research, our market research database, to form Data Analytics.

We acquired Axiometrics for a purchase price of $73.8 million. The purchase price consisted of a cash payment of $66.1 million at closing; deferred cash obligations of up to $7.5 million, payable over a period of two years following the date of acquisition; and contingent cash obligations of up to $5.0 million if certain revenue targets are achieved during the twelve-month period ending December 31, 2018. The fair value of the deferred and contingent cash obligations was $6.9 million and $0.8 million, respectively, at the date of acquisition. This acquisition was financed using cash on hand.

The acquired identified intangible assets consisted of developed technology, client relationships, and trade names. These intangible assets were assigned estimated useful lives of five, ten, and three years, respectively. We recognized goodwill in the amount of $54.2 million related to this acquisition, which is primarily comprised of anticipated synergies with our existing multifamily data analytics platform. Goodwill and the acquired identified intangible assets are deductible for tax purposes.

We have adjusted our initial purchase price allocation based on management’s ongoing review of information available at the acquisition date. These measurement period adjustments resulted in an increase in goodwill, deferred revenue, and other liabilities of $1.3 million, $0.4 million, and $0.9 million, respectively.

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Purchase Price Allocation

The estimated fair values of assets acquired and liabilities assumed presented below are provisional and are based primarily on the information available as of the acquisition dates. We believe that information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the Company is awaiting additional information necessary to finalize those values. Therefore, the provisional measurements of fair value are subject to change, and such changes could be significant. We expect to finalize the valuation of these assets and liabilities as soon as practicable, but no later than one year from the acquisition dates. The preliminary allocation of each purchase price, including the effects of measurement period adjustments recorded as of June 30, 2017, was as follows:

	Axiometrics	AUM
	(in thousands)	
Restricted cash	$—	$7,637
Accounts receivable	1,642	2,183
Property, equipment, and software	416	341
Intangible assets:		
Developed product technologies	15,500	10,800
Client relationships	6,830	7,470
Trade names	3,200	208
Non-compete agreements	—	3,920
Goodwill	54,154	45,292
Other assets	273	1,149
Accounts payable and accrued liabilities	(368)	(1,630)
Client deposits held in restricted accounts	—	(7,637)
Deferred revenue	(7,115)	(321)
Other long-term liabilities	(774)	—
Total purchase price	$73,758	$69,412

At June 30, 2017, deferred cash obligations related to acquisitions completed in 2017 totaled $12.6 million and were carried net of a discount of $1.0 million. The aggregate fair value of contingent cash obligations related to these acquisitions was $0.6 million at June 30, 2017. During the three and six months ended June 30, 2017, we recognized a gain of $0.2 million due to changes in the fair value of contingent cash obligations related to acquisitions completed in 2017.

2016 Acquisitions

eSupply Systems, LLC

In June 2016, we acquired substantially all of the assets of eSupply Systems, LLC ("eSupply") and those of certain entities related to eSupply. eSupply is an e-procurement software and group purchasing service which augmented our Spend Management solutions.

We acquired eSupply for a purchase price of $7.0 million, consisting of a cash payment of $5.5 million at closing and a deferred cash obligation of up to $1.6 million, payable over 18 months after the acquisition date. The fair value of the deferred cash obligation on the date of acquisition was $1.5 million. The first deferred cash payment was made in the fourth quarter of 2016. This acquisition was financed using proceeds from the Term Loan issued in February 2016. The acquired identified intangible assets primarily consisted of developed technology and client relationships. These intangible assets were assigned estimated useful lives of three and ten years, respectively. We recognized goodwill in the amount of $3.2 million related to this acquisition, which is primarily comprised of anticipated synergies with our existing Spend Management solutions. Goodwill and the acquired identified intangible assets are deductible for tax purposes.

AssetEye, Inc.

In May 2016, we acquired all of the issued and outstanding stock of AssetEye, Inc. ("AssetEye"). AssetEye is a data aggregation, reporting, and collaboration platform for institutions holding multiple real estate asset classes. This solution provides asset and portfolio managers with a solution to evaluate performance, trends, and operations across a portfolio with transparency into property-level data. The acquisition of AssetEye expanded our on demand solutions to serve all asset classes, including: commercial, hospitality, multifamily, single family, senior living, and student housing.

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We acquired AssetEye's issued and outstanding stock for a purchase price of $4.9 million. The purchase price consisted of a cash payment of $3.6 million at closing, net of cash acquired of $0.8 million; deferred cash obligations of $1.0 million, payable over a period of two years following the date of acquisition; contingent cash payments of up to $1.0 million if certain revenue targets are achieved during the three-month period ending September 30, 2017; and additional cash payments of $0.2 million due to former shareholders of AssetEye. The fair value of the deferred and contingent cash obligations was $0.9 million and $0.2 million, respectively, at the date of acquisition. This acquisition was financed with proceeds from the Term Loan issued in February 2016.

The acquired identified intangible assets primarily included developed technology and client relationships having useful lives of five and ten years, respectively. We recognized goodwill in the amount of $3.2 million related to this acquisition, which is primarily comprised of anticipated synergies between the AssetEye solution and our existing complementary solutions as well as our sales and marketing infrastructure. Goodwill and identified intangible assets recognized in connection with this transaction are not deductible for tax purposes.

NWP Services Corporation

In March 2016, we acquired all of the issued and outstanding stock of NWP Services Corporation ("NWP"). NWP provides a full range of utility management services, including: resident billing; payment processing; utility expense management; analytics and reporting; sub-metering and maintenance; and regulatory compliance. The primary products offered by NWP include Utility Logic, Utility Smart, Utility Genius, SmartSource, and NWP Sub-meter. We are primarily integrating NWP into our resident services product family. The integrated platform will enable property owners and managers to increase the collection of rent utilities and energy recovery. Goodwill arising from this acquisition consists of anticipated synergies from the integration of NWP into our existing structure.

We acquired NWP's issued and outstanding stock for a purchase price of $68.2 million. The purchase price consisted of a cash payment of $59.0 million at closing, net of cash acquired of $0.1 million; deferred cash obligations of $7.2 million, payable over a period of three years following the date of acquisition; and other amounts totaling $3.2 million, consisting of payments to certain employees and former shareholders of NWP. The acquisition-date fair value of the deferred cash obligation was $6.0 million. This acquisition was financed with proceeds from the Term Loan issued in February 2016. Acquisition costs associated with this transaction totaled $0.3 million and were expensed as incurred.

The acquired identified intangible assets were comprised of developed technologies, trade name, and client relationships having useful lives of five, three, and ten years, respectively. Goodwill and identified intangible assets acquired in this business combination, valued at $35.3 million and $16.3 million in our initial purchase price allocation, had carryover tax bases of $0.7 million and $11.0 million, respectively, which are deductible for tax purposes. Goodwill and identified intangible assets recognized in excess of those carryover tax basis amounts are not deductible for tax purposes. Accounts receivable acquired had a gross contractual value of $11.3 million at acquisition, of which $3.4 million was estimated to be uncollectible.

We assigned approximately $10.2 million of value to deferred tax assets in our initial purchase price allocation, consisting primarily of $9.9 million of federal and state net operating losses ("NOL"). This NOL amount reflects the tax benefit from approximately $27.3 million of NOLs we expect to realize after considering various limitations and restrictions on NWP's pre-acquisition NOLs.

In connection with the acquisition of NWP, we recorded an indemnification asset of $1.2 million, which represents the selling security holders' obligation under the purchase agreement to indemnify the Company for the outcome of certain accrued obligations. The indemnification asset was recognized on the same basis as the corresponding liability, which is based on its estimated fair value as of the date of acquisition.

Subsequent to the acquisition date, management continued to review information relating to events and circumstances that existed at the acquisition date. This review resulted in measurement period adjustments to the provisional amounts recorded at the acquisition date related to deferred cash obligations paid to the sellers and deferred tax assets associated with the transaction. These measurement period adjustments resulted in a change in goodwill, deferred tax assets, and the deferred cash obligation of $(1.8) million, $1.0 million, and $(0.8) million, respectively.

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Purchase Price Allocation

The allocation of each purchase price, including the effects of measurement period adjustments, was as follows:

	NWP	AssetEye	eSupply
	(in thousands)		
Restricted cash	$4,960	$—	$—
Accounts receivable	7,902	90	287
Property, equipment, and software	3,194	—	—
Intangible assets:			
Developed product technologies	2,740	1,638	2,160
Client relationships	12,900	1,041	1,390
Trade names	709	6	35
Goodwill	33,520	3,154	3,194
Deferred tax assets, net	11,173	—	—
Other assets, net of other liabilities	3,065	8	53
Accounts payable and accrued liabilities	(6,962)	—	(44)
Client deposits held in restricted accounts	(5,018)	—	—
Deferred revenue	—	(16)	(29)
Deferred tax liabilities, net	—	(1,010)	—
Total purchase price	$68,183	$4,911	$7,046

At June 30, 2017 and December 31, 2016, deferred cash obligations related to acquisitions completed in 2016 totaled $8.1 million and $8.7 million, and were carried net of a discount and indemnified obligations of $1.5 million and $1.2 million, respectively. The aggregate fair value of contingent cash obligations related to these acquisitions was $0.8 million and $0.5 million at June 30, 2017 and December 31, 2016, respectively. During the three and six months ended June 30, 2017, we recognized a loss of $0.1 million and $0.3 million, respectively, due to changes in the fair value of contingent cash obligations related to these acquisitions.

We made deferred cash payments of $0.6 million during the six months ended June 30, 2017, related to these acquisitions. There were no deferred cash payments during the same period in 2016. During the six months ended June 30, 2017 and 2016, we made payments totaling $0.1 million and $3.2 million, respectively, related to amounts due to certain employees and former shareholders of the acquired businesses described above.

Acquisition Activity Prior to 2016

At June 30, 2017 and December 31, 2016, the aggregate carrying value of deferred cash obligations related to acquisitions completed prior to 2016 totaled $0.1 million and $6.6 million, respectively. We paid deferred cash obligations related to these acquisitions in the amount of $6.4 million and $2.9 million during the six months ended June 30, 2017 and 2016, respectively.

The aggregate carrying value of contingent cash obligations related to acquisitions completed prior to 2016 was estimated to be $0.2 million at June 30, 2017 and zero at December 31, 2016. During the six months ended June 30, 2017, we paid contingent cash obligations in the amount of $0.5 million related to these acquisitions. A gain of $0.2 million and $0.4 million was recognized during the three and six months ended June 30, 2016, respectively, due to changes in the fair value of contingent cash obligations related to acquisitions completed prior to 2016. During the same period in 2017, a loss of $0.7 million was recognized related to these obligations.

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Pro Forma Results of Acquisitions

The following table presents unaudited pro forma results of operations for the three and six months ended June 30, 2017 and 2016, as if the aforementioned acquisitions, excluding the proposed LRO acquisition, had occurred at the beginning of each period presented. The pro forma information includes the business combination accounting effects resulting from these acquisitions, including interest expense, tax benefit, and additional amortization resulting from the valuation of amortizable intangible assets. We prepared the pro forma financial information for the combined entities for comparative purposes only, and it is not indicative of what actual results would have been if the acquisitions had occurred at the beginning of the periods presented, or of future results.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017 Pro Forma	2016 Pro Forma	2017 Pro Forma	2016 Pro Forma
	(in thousands, except per share amounts)			
Total revenue	$167,862	$153,831	$330,106	$293,167
Net income	6,222	351	12,647	1,483
Net income per share:				
Basic	$0.08	$—	$0.16	$0.02
Diluted	$0.08	$—	$0.15	$0.02

4. Property, Equipment, and Software

Property, equipment, and software consisted of the following at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
	(in thousands)	
Leasehold improvements	$54,107	$ 51,242
Data processing and communications equipment	81,916	76,773
Furniture, fixtures, and other equipment	26,652	26,513
Software	97,636	86,983
Property, equipment, and software, gross	260,311	241,511
Less: Accumulated depreciation and amortization	(122,070)	(111,083)
Property, equipment, and software, net	$138,241	$ 130,428

Depreciation and amortization expense for property, equipment, and purchased software was $6.9 million and $6.5 million for the three months ended, and $13.5 million and $11.9 million for the six months ended June 30, 2017 and 2016, respectively.

The carrying amount of capitalized software development costs was $63.9 million and $55.4 million at June 30, 2017 and December 31, 2016, respectively. Total accumulated amortization related to these assets was $23.2 million and $19.8 million at June 30, 2017 and December 31, 2016, respectively. Amortization expense related to capitalized software development costs totaled $1.8 million and $1.4 million for the three months ended, and $3.4 million and $2.6 million for the six months ended June 30, 2017 and 2016, respectively.

5. Goodwill and Identified Intangible Assets

Changes in the carrying amount of goodwill during the six months ended June 30, 2017 were as follows, in thousands:

Balance as of December 31, 2016	$259,938
Goodwill acquired	99,446
Other	36
Balance as of June 30, 2017	$359,420

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Identified intangible assets consisted of the following at June 30, 2017 and December 31, 2016:

	June 30, 2017			December 31, 2016		
	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
	(in thousands)					
Finite-lived intangible assets:						
Developed technologies	$101,974	$(68,078)	$33,896	$75,671	$(62,249)	$13,422
Client relationships	122,768	(69,894)	52,874	108,468	(64,173)	44,295
Vendor relationships	5,650	(5,650)	—	5,650	(5,650)	—
Trade names	9,680	(2,229)	7,451	5,899	(1,225)	4,674
Non-compete agreements	4,173	(209)	3,964	253	(170)	83
Total finite-lived intangible assets	244,245	(146,060)	98,185	195,941	(133,467)	62,474
Indefinite-lived intangible assets:						
Trade names	12,133	—	12,133	12,502	—	12,502
Total identified intangible assets	$256,378	$(146,060)	$110,318	$208,443	$(133,467)	$74,976

Amortization expense related to finite-lived intangible assets was $6.5 million and $6.3 million for the three months ended June 30, 2017 and 2016, respectively. For the six months ended June 30, 2017 and 2016, amortization expense related to finite-lived intangible assets was $12.6 million and $12.3 million, respectively.

6. Debt

Credit Facility

On September 30, 2014, we entered into an agreement for a secured revolving credit facility (as amended by the amendments discussed below, the “Credit Facility”) to refinance our outstanding revolving loans. The Credit Facility provides an aggregate principal amount of up to $200.0 million of revolving loans, with sublimits of $10.0 million for the issuance of letters of credit and $20.0 million for swingline loans (“Revolving Facility”). The Credit Facility also allows us, subject to certain conditions, to request term loans or additional revolving commitments up to an aggregate principal amount of $150.0 million, plus an amount that would not cause our Consolidated Net Leverage Ratio, as defined below, to exceed 3.25 to 1.00. At our option, amounts outstanding under the Credit Facility accrued interest, prior to the amendments described below, at a per annum rate equal to either LIBOR, plus a margin ranging from 1.25% to 1.75%, or the Base Rate, plus a margin ranging from 0.25% to 0.75% (“Applicable Margin”). The base LIBOR rate is, at our discretion, equal to either one, two, three, or six month LIBOR. The Base Rate is defined as the greater of Wells Fargo's prime rate, the Federal Funds Rate plus 0.50%, or one month LIBOR plus 1.00%. In each case, the Applicable Margin is determined based upon our Consolidated Net Leverage Ratio, as defined below.

The Credit Facility is secured by substantially all of our assets, and certain of our existing and future material domestic subsidiaries are required to guarantee our obligations under the Credit Facility. The Credit Facility contains customary covenants, subject in each case to customary exceptions and qualifications. Our covenants include, among other limitations, a requirement that we comply with a maximum Consolidated Net Leverage Ratio and a minimum Consolidated Interest Coverage Ratio. Prior to amendments executed in 2016 and 2017, described below, the Consolidated Net Leverage Ratio, which is defined as the ratio of consolidated funded indebtedness on the last day of each fiscal quarter to the four previous consecutive fiscal quarters’ consolidated EBITDA, could not exceed 3.50 to 1.00, provided that we could elect to increase the ratio to 3.75 to 1.00 for a specified period following certain acquisitions. The Consolidated Interest Coverage Ratio, which is defined as the ratio of our four previous fiscal quarters’ consolidated EBITDA to our interest expense for the same period, must not be less than 3.00 to 1.00 on the last day of each fiscal quarter.

In February 2016, we entered into an amendment to the Credit Facility (“First Amendment”). The First Amendment provided for an incremental term loan in the amount of $125.0 million (“Term Loan”) that was coterminous with the existing Credit Facility, reducing the aggregate amount of term loans we were able to request under the Credit Facility to $25.0 million plus an amount that would not cause our Consolidated Net Leverage Ratio to exceed 3.25 to 1.00. Under the terms of the First Amendment, an additional pricing tier was added to the Applicable Margin which modified the range to 1.25% to 2.00% for LIBOR loans, and 0.25% to 1.00% for Base Rate loans. The First

Amendment also permitted the Company to elect to increase the maximum permitted Consolidated Net Leverage Ratio, on a one-time basis, to 4.00 to 1.00 following the issuance of convertible notes or high yield notes in an initial principal amount of at least $150.0 million. We incurred debt issuance costs in the amount of $0.7 million in conjunction with the execution of the First Amendment.

In February 2017, we entered into the second and third amendments to the Credit Facility ("Second Amendment" and "Third Amendment," respectively). Among other changes, the Second Amendment increased the aggregate amount of additional term loans or revolving commitments we are allowed to request to $150.0 million, plus an amount that would not cause our Consolidated Net Leverage Ratio to exceed 3.25 to 1.00. The Third Amendment provided for an incremental $200.0 million delayed draw term loan that was available to be drawn until May 31, 2017 ("Delayed Draw Term Loan"), extended the maturity of the Credit Facility to February 27, 2022, and amended the amortization schedule for the Term Loan. Under the amended amortization schedule, beginning on June 30, 2017, the Company will make quarterly principal payments of 0.6% of the outstanding principal of the Term Loan immediately prior to June 30, 2017. The quarterly payment percentage increases to 1.3% beginning on June 30, 2018, and to 2.5% beginning on June 30, 2020. These payment due dates and percentages will also apply to any amount drawn under the Delayed Draw Term Loan. Any remaining principal balance on the Term Loan and Delayed Draw Term Loan is due on the maturity date. We incurred debt issuance costs in the amount of $1.3 million in conjunction with the execution of the Second and Third Amendments. The availability period of the Delayed Draw Term Loan was extended through August 31, 2017 under the Fifth Amendment to the Credit Facility, which was executed in May 2017.

On April 3, 2017, we entered into a new amendment to the Credit Facility ("Fourth Amendment"). The Fourth Amendment modified certain terms of the Credit Facility to, among other things, increase the maximum Consolidated Net Leverage Ratio to 4.00 to 1.00, with an automatic increase to 5.00 to 1.00 following an acquisition having aggregate consideration equal to or greater than $150.0 million and occurring within a specified time period following an unsecured debt issuance equal to or greater than $225.0 million. The automatic increase may occur once during the term of the Credit Facility and lasts for two consecutive fiscal quarters, after which the amendment provides for incremental step downs until the ratio returns to 4.00 to 1.00. Additionally, the automatic increase may only occur during periods in which the referenced unsecured debt is outstanding. Related to this increase, the Fourth Amendment provided for an additional pricing tier for interest rates and fees if the Company's Consolidated Net Leverage Ratio equals or exceeds 4.00 to 1.00, resulting in a new Applicable Margin range of 1.25% to 2.25% for LIBOR loans and 0.25% to 1.25% for Base Rate loans. The amendment also added a new financial covenant, requiring the Company to comply with a maximum Consolidated Senior Secured Net Leverage Ratio, defined as the ratio of consolidated secured funded indebtedness on the last day of each fiscal quarter to the four previous consecutive fiscal quarters' consolidated EBITDA, of 3.50 to 1.00. At our option, this ratio may be increased to 3.75 to 1.00 for a period of one year following the completion of an acquisition having aggregate consideration greater than $50.0 million. We are not permitted to exercise this option more than one time during any consecutive eight quarter period. The Consolidated Interest Coverage Ratio was also amended to exclude non-cash interest attributable to the Convertible Notes, as defined below.

Revolving loans under the Credit Facility may be voluntarily prepaid and re-borrowed. Principal payments on the Term Loan and Delayed Draw Term Loan are due in quarterly installments, as described above, and may not be re-borrowed. Accumulated interest on amounts outstanding under the Credit Facility is due and payable quarterly, in arrears, for loans bearing interest at the Base Rate and at the end of the applicable interest period in the case of loans bearing interest at the adjusted LIBOR. All outstanding principal and accrued but unpaid interest is due on the maturity date. The Term Loan and Delayed Draw Term Loan are subject to mandatory repayment requirements in the event of certain asset sales or if certain insurance or condemnation events occur, subject to customary reinvestment provisions. The Company may prepay the Term Loan and Delayed Draw Term Loan in whole or in part at any time, without premium or penalty, with prepayment amounts to be applied to remaining scheduled principal amortization payments as specified by the Company.

We had $121.9 million and $122.6 million of principal outstanding under our Term Loan at June 30, 2017 and December 31, 2016, respectively. There were no outstanding borrowings under the Revolving Credit Facility at June 30, 2017 and December 31, 2016. As of June 30, 2017, we had $400.0 million of available credit under our Credit Facility, consisting of $200.0 million available under our Revolving Facility and $200.0 million available under our Delayed Draw Term Loan. We had unamortized debt issuance costs of $0.7 million and $0.8 million related to the Revolving Facility and $1.9 million and $0.5 million related to the Term and Delayed Draw Term Loans at June 30, 2017 and December 31, 2016, respectively. As of June 30, 2017, we were in compliance with the covenants under our

Credit Facility.

At June 30, 2017, future maturities of principal under the Term Loan were as follows for the years ending December 31, in thousands:

2017	$1,533
2018	5,366
2019	6,133
2020	10,732
2021	12,266
Thereafter	85,859
	$121,889

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Convertible Notes

In May 2017 the Company issued convertible senior notes with aggregate principal of $345.0 million (which included the underwriters' exercise in full of their over-allotment option of $45.0 million) which mature on November 15, 2022 ("Convertible Notes"). The Convertible Notes were issued under an indenture dated May 23, 2017 ("Indenture"), by and between the Company and Wells Fargo Bank, N.A., as Trustee. We received net proceeds from the offering of approximately $304.2 million after adjusting for debt issuance costs, including the underwriting discount, the net cash used to purchase the Note Hedges and the proceeds from the issuance of the Warrants which are discussed below.

The Convertible Notes accrue interest at a rate of 1.50%, payable semi-annually on May 15 and November 15 of each year beginning on November 15, 2017. On or after May 15, 2022, and until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their Convertible Notes at their option. The Convertible Notes are convertible at an initial rate of 23.84 shares per $1,000 of principal (equivalent to an initial conversion price of approximately $41.95 per share of our common stock). The conversion rate is subject to customary adjustments for certain events as described in the Indenture. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. It is the Company's current intent to settle conversions of the Convertible Notes through combination settlement, which involves repayment of the principal portion in cash and any excess of the conversion value over the principal amount in shares of our common stock.

Holders may convert their Convertible Notes, at their option, prior to May 15, 2022 only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on June 30, 2017 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any five consecutive trading day period (the "Measurement Period") in which the trading price per $1,000 principal amount of the Convertible Notes for each trading day of the Measurement Period was less than 98% of the product of the last reported sales price of our common stock and the conversion rate on each such trading day; or
- upon the occurrence of specified corporate events, as defined in the Indenture.

We may not redeem the Convertible Notes prior to their maturity date, and no sinking fund is provided for them. If we undergo a fundamental change, as described in the Indenture, subject to certain conditions, holders may require us to repurchase for cash all or any portion of their Convertible Notes. The fundamental change repurchase price is equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. If holders elect to convert their Convertible Notes in connection with a make-whole fundamental change, as described in the Indenture, the Company will, to the extent provided in the Indenture, increase the conversion rate applicable to the Convertible Notes.

The Convertible Notes are senior unsecured obligations and rank senior in right of payment to any of our indebtedness that is expressly subordinated in right of payment to the Convertible Notes and equal in right of payment to any of our existing and future unsecured indebtedness that is not subordinated. The Convertible Notes are effectively junior in right of payment to any of our secured indebtedness (to the extent of the value of assets securing such indebtedness) and structurally junior to all existing and future indebtedness and other liabilities, including trade payables, of our subsidiaries. The Indenture does not limit the amount of debt that we or our subsidiaries may incur. The Convertible Notes are not guaranteed by any of our subsidiaries.

There are no financial or operating covenants related to the Convertible Notes. The Indenture contains customary events of default with respect to the Convertible Notes and provides that upon certain events of default occurring and continuing, the Trustee may, and the Trustee at the request of holders of at least 25% in principal amount of the Convertible Notes shall, declare all of principal and accrued and unpaid interest, if any, of the Convertible Notes to be due and payable. In case of certain events of bankruptcy, insolvency or reorganization, involving us or a significant subsidiary, all of the principal of and accrued and unpaid interest on the Convertible Notes will automatically become

due and payable. Upon such a declaration of acceleration, any principal and accrued and unpaid interest will be due and payable immediately.
In accounting for the issuance of the Convertible Notes, the Company separated the Convertible Notes into liability and equity components. We allocated $282.5 million of the Convertible Notes to the liability component, and $62.5 million to the equity component. The excess of the principal amount of the liability component over its carrying amount is amortized to interest expense over the term of the Convertible Notes using the effective interest method. The equity component will not be remeasured as long as it continues to meet the conditions for equity classification.

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We incurred issuance costs of $9.7 million related to the Convertible Notes. Issuance costs were allocated to the liability and equity components based on their relative values. Issuance costs attributable to the liability component are being amortized to interest expense over the term of the Convertible Notes, and issuance costs attributable to the equity component are included along with the equity component in stockholders' equity.

The net carrying amount of the Convertible Notes at June 30, 2017, was as follows, in thousands:

Liability component:	
Principal amount	$345,000
Unamortized discount	(61,497)
Unamortized debt issuance costs	(7,830)
	$275,673
Equity component, net of issuance costs:	$61,401

The following table sets forth total interest expense related to the Convertible Notes for the three and six months ended June 30, 2017, in thousands:

Contractual interest expense	$561
Amortization of debt discount	1,052
Amortization of debt issuance costs	134
	$1,747
Effective interest rate of the liability component	5.87 %

Convertible Note Hedges and Warrants

On May 23, 2017, we entered into privately negotiated transactions to purchase hedge instruments (“Note Hedges”), covering approximately 8.2 million shares of our common stock at a cost of $62.5 million. The Note Hedges are subject to anti-dilution provisions substantially similar to those of the Convertible Notes, have a strike price of approximately $41.95 per share, are exercisable by us upon any conversion under the Convertible Notes, and expire on November 15, 2022.

The Note Hedges are generally expected to reduce the potential dilution to our common stock (or, in the event the conversion is settled in cash, to reduce our cash payment obligation) in the event that at the time of conversion our stock price exceeds the conversion price under the Convertible Notes. The cost of the Note Hedges is expected to be tax deductible as an original issue discount over the life of the Convertible Notes, as the Convertible Notes and the Note Hedges represent an integrated debt instrument for tax purposes. The cost of the Note Hedges was recorded as a reduction of our additional paid-in capital in the accompanying Condensed Consolidated Financial Statements.

On May 23, 2017, the Company also sold warrants for the purchase of up to 8.2 million shares of our common stock for aggregate proceeds of $31.5 million (“Warrants”). The Warrants have a strike price of $57.58 per share and are subject to customary anti-dilution provisions. The Warrants will expire in ratable portions on a series of expiration dates commencing on February 15, 2023. The proceeds from the issuance of the Warrants were recorded as an increase to our additional paid-in capital in the accompanying Condensed Consolidated Financial Statements.

The Note Hedges are transactions that are separate from the terms of the Notes and the Warrants, and holders of the Convertible Notes and the Warrants have no rights with respect to the Note Hedges. The Warrants are similarly separate in both terms and rights from the Note Hedges and the Convertible Notes. As of June 30, 2017, no Note Hedges or Warrants had been exercised.

7. Stock-based Expense

During the three and six months ended June 30, 2017, the Company made the following grants of time-based restricted stock:

Three Months Ended June 30, 2017	Six Months Ended June 30, 2017	Vesting

67,437	1,120,339	Shares vest ratably over a period of twelve quarters beginning on the first day of the second calendar quarter immediately following the grant date.
40,103	49,563	Shares vest ratably over a period of four quarters beginning on the first day of the calendar quarter immediately following the grant date.

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During the three and six months ended June 30, 2017, we also granted 9,404 and 535,441 shares of restricted stock, respectively, which require the achievement of certain market-based conditions to become eligible to vest. The shares become eligible to vest based on the achievement of the following conditions:

Three Months Ended June 30, 2017	Six Months Ended June 30, 2017	Condition to Become Eligible to Vest
3,134	178,480	After the grant date and prior to July 1, 2020, the average closing price per share of our common stock equals or exceeds $38.05 for twenty consecutive trading days.
3,134	178,480	After the grant date and prior to July 1, 2020, the average closing price per share of our common stock equals or exceeds $41.09 for twenty consecutive trading days.
3,136	178,481	After the grant date and prior to July 1, 2020, the average closing price per share of our common stock equals or exceeds $45.66 for twenty consecutive trading days.

Shares that become eligible to vest, if any, become Eligible Shares. These awards vest ratably over four calendar quarters beginning on the first day of the next calendar quarter immediately following the date on which they become Eligible Shares. Vesting is conditional upon the recipient remaining a service provider, as defined in the plan document, to the Company through each applicable vesting date.

Grants of restricted stock may be fulfilled through the issuance of previously authorized but unissued common stock shares, or the reissuance of shares held in Treasury. All awards were granted under the Amended and Restated 2010 Equity Incentive Plan, as amended.

8. Commitments and Contingencies

Lease Commitments

The Company leases office facilities and equipment for various terms under long-term, non-cancellable operating lease agreements. The leases expire at various dates through 2028 and provide for renewal options. The agreements generally require the Company to pay for executory costs such as real estate taxes, insurance, and repairs. At June 30, 2017, minimum annual rental commitments under non-cancellable operating leases were as follows for the years ending December 31, in thousands:

2017	$6,355
2018	12,771
2019	11,835
2020	9,651
2021	9,047
Thereafter	54,348
	$104,007

Guarantor Arrangements

We have agreements whereby we indemnify our officers and directors for certain events or occurrences while the officer or director is or was serving at our request in such capacity. The term of the indemnification period is for the officer or director’s lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have a director and officer insurance policy that limits our exposure and enables us to recover a portion of any future amounts paid. As a result of our insurance policy coverage, we believe the estimated fair value of these indemnification agreements is minimal. Accordingly, we had no liabilities recorded for these agreements as of June 30, 2017 or December 31, 2016.

In the ordinary course of our business, we include standard indemnification provisions in our agreements with clients. Pursuant to these provisions, we indemnify our clients for losses suffered or incurred in connection with third-party claims that our products infringed upon any U.S. patent, copyright, trademark, or other intellectual property right. Where applicable, we generally limit such infringement indemnities to those claims directed solely to our products and not in combination with other software or products. With respect to our products, we also generally reserve the

right to resolve any such claims by designing a non-infringing alternative, by obtaining a license on reasonable terms, or by terminating our relationship with the client and refunding the client’s fees.
The potential amount of future payments to defend lawsuits or settle indemnified claims under these indemnification provisions is unlimited in certain agreements; however, we believe the estimated fair value of these indemnification provisions is minimal, and, accordingly, we had no liabilities recorded for these agreements as of June 30, 2017 or December 31, 2016.

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Litigation

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

In March 2015, we were named in a purported class action lawsuit in the United States District Court for the Eastern District of Pennsylvania, styled Stokes v. RealPage, Inc., Case No. 2:15-cv-01520. The claims in this purported class action relate to alleged violations of the Fair Credit Reporting Act (“FCRA”) in connection with background screens of prospective tenants of our clients. On January 25, 2016, the court entered an order placing the case on hold until the United States Supreme Court issued its decision in Spokeo, Inc. v. Robins, which case addressed issues related to standing to bring claims related to the FCRA. On May 16, 2016, the U.S. Supreme Court issued its opinion in the Spokeo litigation, vacating the decision of the United States Court of Appeals for the Ninth Circuit, and remanding the case for further consideration by the U.S. Court of Appeals. Following the Supreme Court’s decision in Spokeo, the judge in the Stokes case lifted the stay. On June 24, 2016, we filed a motion to dismiss certain claims made in the case based upon the Spokeo decision. On October 19, 2016, the U.S. District Court denied the motion to dismiss.

In November 2014, we were named in a purported class action lawsuit in the United States District Court for the Eastern District of Virginia, styled Jenkins v. RealPage, Inc., Case No. 3:14cv758. The claims in this purported class action relate to alleged violations of the FCRA in connection with background screens of prospective tenants of our clients. This case has since been transferred to the United States District Court for the Eastern District of Pennsylvania. On January 25, 2016, the court entered an order placing the case on hold until the United States Supreme Court issued its decision in the Spokeo case. Following the Supreme Court’s decision in Spokeo, the judge in the Jenkins case lifted the stay. On June 24, 2016, we filed a motion to dismiss certain claims made in the case based upon the Spokeo decision. On October 19, 2016, the U.S. District Court denied the motion to dismiss.

On June 19, 2017, the court in both the Stokes case and Jenkins case consolidated the cases for purposes of settlement. On June 30, 2017, the parties signed a Settlement Agreement and Release covering both cases and the plaintiffs in the consolidated cases filed an uncontested motion for preliminary approval of the class action settlement and the notice to class. On August 3, 2017, the court issued a written order preliminarily approving the proposed class settlement. The final approval hearing is set for February 6, 2018.

On February 23, 2015, we received from the Federal Trade Commission (“FTC”) a Civil Investigative Demand consisting of interrogatories and a request to produce documents relating to our compliance with the FCRA. We have responded to the request and requests for additional information by the FTC. At this time, we do not have sufficient information to evaluate the likelihood or merits of any potential enforcement action, or to predict the outcome or costs of responding to, or the costs, if any, of resolving this investigation.

At June 30, 2017 and December 31, 2016, we had accrued amounts for estimated settlement losses related to legal matters. The Company does not believe there is a reasonable possibility that a material loss exceeding amounts already recognized may have been incurred as of the date of the balance sheets presented herein.

We are involved in other litigation matters not described above that are not likely to be material either individually or in the aggregate based on information available at this time. Our view of these matters may change as the litigation and events related thereto unfold.

9. Net Income per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by using the weighted average number of common shares outstanding, including potential dilutive shares of common stock assuming the dilutive effect of outstanding stock options and restricted stock using the treasury stock method. Weighted average shares from common share equivalents in the amount of 27,422 and 165,166 for the three months ended and 362,522 and 606,700 for the six months ended June 30, 2017 and 2016, respectively, were excluded from the dilutive shares outstanding because their effect was anti-dilutive.

For purposes of considering the Convertible Notes in determining diluted net income per share, it is the current intent of the Company to settle conversions of the Convertible Notes through combination settlement, which involves repayment of the principal portion in cash and any excess of the conversion value over the principal amount (the “conversion premium”) in shares of our common stock. Therefore, only the impact of the conversion premium will be included in total dilutive weighted average shares outstanding using the treasury stock method. No conversion premium existed as of June 30, 2017, and as such, there was no dilutive impact from the Convertible Notes for the three and six month periods ended June 30, 2017. The Warrants sold in connection with the issuance of the Convertible Notes will not be considered in calculating the total dilutive weighted

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average shares outstanding until the price of the Company's common stock exceeds the strike price of $57.58, as described in Note 6. When the price of the Company's common stock exceeds the strike price of the Warrants, the effect of the additional shares that may be issued upon exercise of the Warrants will be included in total dilutive weighted average shares outstanding using the treasury stock method. The Note Hedges purchased in connection with the issuance of the Convertible Notes are considered to be anti-dilutive and therefore do not impact the Company's calculation of diluted net income per share. Refer to Note 6 for further discussion regarding the Convertible Notes.

As required by ASU 2016-09, the weighted average effect of dilutive securities for the three and six month periods ended June 30, 2017, was calculated without including consideration of windfall tax benefits, resulting in the repurchase of fewer hypothetical shares and a greater dilutive effect. This change was applied on a prospective basis, and dilutive securities for the same period in 2016 have not been adjusted.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands, except per share amounts)			
Numerator:				
Net income	$6,213	$2,083	$14,408	$5,079
Denominator:				
Basic:				
Weighted average common shares used in computing basic net income per share	79,018	76,363	78,642	76,509
Diluted:				
Add weighted average effect of dilutive securities:				
Stock options and restricted stock	2,907	798	3,002	611
Weighted average common shares used in computing diluted net income per share	81,925	77,161	81,644	77,120
Net income per share:				
Basic	$0.08	$0.03	$0.18	$0.07
Diluted	$0.08	$0.03	$0.18	$0.07

10. Income Taxes

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

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

Our effective income tax rate was (19.2)% and 41.9% for the six months ended June 30, 2017 and 2016, respectively. Our effective rate is lower than the statutory rate for the six months ended June 30, 2017, primarily because of excess tax benefits from stock-based compensation of $2.7 million and $4.5 million recognized as discrete items during, respectively, the first and second quarters of 2017, as required by ASU 2016-09. The effective rate is higher than the statutory rate for the six months ended June 30, 2016, primarily because of state income taxes and non-deductible expenses.

As a result of our adoption of ASU 2016-09, on January 1, 2017 we recorded a deferred tax asset of $43.8 million, net of a $0.3 million valuation allowance, with a corresponding increase to retained earnings. The deferred tax asset consisted of excess stock-based compensation deductions that arose but were not recognized in prior years. See additional discussion of our adoption of ASU 2016-09 in Note 2. During the three months ended June 30, 2017, we recorded a deferred tax asset of $0.6 million as a result of differences in the treatment of convertible debt issuance costs for financial reporting and tax purposes.

11. Fair Value Measurements

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

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The prescribed fair value hierarchy is as follows:
Level 1 - Inputs are quoted prices in active markets for identical assets or liabilities.
Level 2 - Inputs are quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable; and market-corroborated inputs which are derived principally from or corroborated by observable market data.
Level 3 - Inputs are derived from valuation techniques in which one or more of the significant inputs or value drivers are unobservable.
The categorization of an asset or liability within the fair value hierarchy is based on the inputs described above and does not necessarily correspond to the Company's perceived risk of that asset or liability. Moreover, the methods used by the Company may produce a fair value calculation that is not indicative of the net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments and non-financial assets and liabilities could result in a different fair value measurement at the reporting date.
Assets and liabilities measured at fair value on a recurring basis:
Interest rate swap agreements: The fair value of the Company's interest rate swap agreements are determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the swap agreements. This analysis reflects the contractual terms of the swap agreements, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements.
Although the Company has determined that the majority of the inputs used to value its swap agreements fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its swap agreements utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by the Company and its counterparties. The Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its swap agreements' positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its swap agreements. As a result, the Company determined that its valuation of the swap agreements in its entirety is classified in Level 2 of the fair value hierarchy.
Contingent consideration obligations: Contingent consideration obligations consist of potential obligations related to our acquisition activity. The amount to be paid under these obligations is contingent upon the achievement of stipulated operational or financial targets by the business subsequent to acquisition. The fair value of contingent consideration obligations is estimated using a probability weighted discount model which considers the achievement of the conditions upon which the respective contingent obligation is dependent. The probability of achieving the specified conditions is assessed by applying a Monte Carlo weighted-average model. Inputs into the valuation model include a discount rate specific to the acquired entity, a measure of the estimated volatility, and the risk free rate of return.
In addition to the inputs described above, the fair value estimates consider the projected future operating or financial results for the factor upon which the respective contingent obligation is dependent. The fair value estimates are generally sensitive to changes in these projections. We develop the projected future operating results based on an analysis of historical results, market conditions, and the expected impact of anticipated changes in our overall business and/or product strategies.
Significant unobservable inputs used in the contingent consideration fair value measurements included the following at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
Discount rates	16.3 - 28.0%	14.8 - 27.8%
Volatility rates	26.0 %	29.9%
Risk free rate of return	1.2 - 1.3%	0.7%

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The following tables disclose the assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016, by the fair value hierarchy levels as described above:

	Fair value at June 30, 2017			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Assets:				
Interest rate swap agreements	$1,103	$ —	$1,103	$—
Liabilities:				
Contingent consideration related to the acquisition of:				
AssetEye	$771	$ —	$—	$771
Axiometrics	623	—	—	623
Total liabilities measured at fair value	$1,394	$ —	$—	$1,394

	Fair value at December 31, 2016			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Assets:				
Interest rate swap agreements	$1,098	$ —	$1,098	$—
Liabilities:				
Contingent consideration related to the acquisition of:				
Indatus	$2	$ —	$—	$2
AssetEye	539	—	—	539
Total liabilities measured at fair value	$541	$ —	$—	$541

There were no transfers between Level 1 and Level 2, or between Level 2 and Level 3 measurements during the six months ended June 30, 2017.

Changes in the fair value of Level 3 measurements were as follows for the six months ended June 30, 2017 and 2016:

	Six Months Ended June 30,	
	2017	2016
	(in thousands)	
Balance at beginning of period	$541	$841
Initial contingent consideration	812	245
Net loss (gain) on change in fair value	41	(427)
Balance at end of period	$1,394	$659

Financial Instruments

The financial assets and liabilities that are not measured at fair value in our Condensed Consolidated Balance Sheets include cash and cash equivalents, restricted cash, accounts receivable, cost-method investments, accounts payable and accrued expenses, acquisition-related deferred cash obligations, obligations under the Term Loan, and Convertible Notes.

The carrying values of cash and cash equivalents; restricted cash; accounts receivable; and accounts payable and accrued expenses reported in our Condensed Consolidated Balance Sheets approximates fair value due to the short term nature of these instruments. Acquisition-related deferred cash obligations are recorded on the date of acquisition at their estimated fair value, based on the present value of the anticipated future cash flows. The difference between the amount of the deferred cash obligation to be paid and its estimated fair value on the date of acquisition is accreted over the obligation period. As a result, the carrying value of acquisition-related deferred cash obligations approximates their fair value.

The carrying value of the Term Loan approximates fair value since it is subject to a short-term floating interest rate that approximates borrowing rates currently available to the Company for debt of similar terms and maturities.
We estimated the fair value of the Convertible Notes based on quoted market prices as of the last trading day for the six months ended June 30, 2017; however, the Convertible Notes have only a limited trading volume and as such this fair value

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estimate is not necessarily the value at which the Convertible Notes could be retired or transferred. The Company concluded that this fair value measurement should be categorized within Level 2. The carrying value of the Convertible Notes is net of unamortized discount and issuance costs. The fair value and carrying value of the Convertible Notes were as follows at June 30, 2017:

	Fair Value	Carrying Value
	(in thousands)	
Convertible Notes	$375,612	$275,673

12. Stockholders' Equity

In May 2014, our board of directors approved a share repurchase program authorizing the repurchase of up to $50.0 million of our outstanding common stock for a period of up to one year after the approval date. Our board of directors approved a one year extension of this program in both 2015 and 2016. On April 28, 2017, our board of directors again approved a one year extension of the share repurchase program. The terms of this extension permit the repurchase of up to $50.0 million of our common stock during the period commencing on the extension day and ending on May 4, 2018.

Repurchase activity during the three and six months ended June 30, 2017 and 2016 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Number of shares repurchased	—	235,154	—	1,012,823
Weighted-average cost per share	$—	$21.71	$—	$20.98
Total cost of shares repurchased, in thousands	$—	$5,106	$—	$21,244

13. Derivative Financial Instruments

On March 31, 2016, the Company entered into two interest rate swap agreements (collectively the "Swap Agreements"), which are designed to mitigate our exposure to interest rate risk associated with a portion of our variable rate debt. The Swap Agreements cover an aggregate notional amount of $75.0 million from March 2016 to September 2019 by replacing the obligation's variable rate with a blended fixed rate of 0.89%. The Company designated the Swap Agreements as cash flow hedges of interest rate risk.

The effective portion of changes in the fair value of the Swap Agreements is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in the fair value of the Swap Agreements is recognized directly in earnings. Amounts reported in accumulated other comprehensive income related to the Swap Agreements will be reclassified to interest expense as interest payments are made on our variable-rate debt. The Company estimates that an additional $0.4 million will be reclassified as a decrease of interest expense during the twelve-month period ending June 30, 2018.

As of June 30, 2017, the Swap Agreements were still outstanding. The table below presents the notional and fair value of the Swap Agreements as well as their classification on the Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016:

	Balance Sheet Location	Notional	Fair Value
		(in thousands)	
Derivatives designated as cash flow hedging instruments:			
Swap agreements as of June 30, 2017	Other assets	$75,000	$1,103
Swap agreements as of December 31, 2016	Other assets	$75,000	$1,098

As of June 30, 2017, the Company has not posted any collateral related to the Swap Agreements. If the Company had breached any of the Swap Agreement's default provisions at June 30, 2017, it could have been required to settle its obligations under the Swap Agreements at their termination value of $1.1 million.

The table below presents the amount of gains and losses related to the effective and ineffective portions of the Swap Agreements and their location on the Condensed Consolidated Statements of Operations and the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 and 2016, in thousands:

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Derivatives Designated as Cash Flow Hedges	Effective Portion Gain (Loss) Recognized in OCI	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income	Ineffective Portion Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income
Three months ended June 30, 2017:					
Swap agreements, net of tax	$(21)	Interest expense and other	$ (3)	Interest expense and other	$ 10
Three months ended June 30, 2016:					
Swap agreements, net of tax	$(550)	Interest expense and other	$ (86)	Interest expense and other	$ —

Derivatives Designated as Cash Flow Hedges	Effective Portion Gain (Loss) Recognized in OCI	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income	Ineffective Portion Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income
Six months ended June 30, 2017:					
Swap agreements, net of tax	$73	Interest expense and other	$ 9	Interest expense and other	$ 28
Six months ended June 30, 2016:					
Swap agreements, net of tax	$(629)	Interest expense and other	$ (86)	Interest expense and other	$ —

14. Subsequent Events

Acquisition Activity

On-Site

On July 28, 2017, we entered into an agreement to acquire substantially all of the assets of On-Site Manager, Inc. and certain related entities ("On-Site"). On-Site is a leasing platform for property managers and renters that assimilates leads from any source and converts them into signed leases for both the multifamily and single family housing industries. Pursuant to the asset purchase agreement, the Company will pay approximately $250.0 million in cash, subject to reduction for outstanding indebtedness, unpaid transaction expenses, working capital, and other adjustments. A deferred cash obligation of $24.0 million will be withheld from the purchase consideration to serve as security for the benefit of the Company against the Sellers' indemnification obligations. Subject to any indemnification claims made, the majority of this deferred cash obligation will be released approximately twelve months following the acquisition date, with any remaining funds being released approximately 36 months following the acquisition date. The completion of the acquisition remains subject to certain conditions, including the completion of regulatory review.

Lease Rent Options

On August 1, 2017, the Company and the other parties to the agreement for the purchase of LRO, dated as of February 27, 2017, by and among The Rainmaker Group Holdings, Inc., a Georgia corporation ("Rainmaker"), the Company and the other parties thereto (as previously amended, the "Rainmaker Purchase Agreement"), entered into a second amendment to the Rainmaker Purchase Agreement pursuant to which the parties agreed that the Company will have the unilateral right to extend the Termination Date (as defined in the Rainmaker Purchase Agreement) beyond December 31, 2017 in the event that the U.S. Department of Justice files a complaint under applicable antitrust laws with respect to the transaction on or before December 31, 2017, and following consultation with counsel regarding the likelihood of a successful outcome of the litigation. Any such extension by the Company will effectively extend the Termination Date by six months or the earlier of (i) such time as a federal court issues a final non-appealable order or takes any other action permanently restraining, enjoining or otherwise prohibiting the closing, or otherwise rules that the transaction violates applicable antitrust laws, or (ii) such date as the Company notifies Rainmaker that it elects to terminate the extension. The amendment further provides that if the Company does not elect to extend the Termination Date, either party shall have the right to terminate the Rainmaker Purchase Agreement within 20 days after the U.S. Department of Justice files a complaint under applicable antitrust laws. In the event the Company elects to extend the Termination Date pursuant to the foregoing right, the Company will pay one-half of Rainmaker's legal and related fees and expenses reasonably incurred (from the date such extension is exercised to the Termination Date) in defending the transaction from any complaint filed pursuant to antitrust laws.

If the closing has not occurred by the Termination Date, either the Company or Rainmaker may terminate the Rainmaker Purchase Agreement and abandon the transactions contemplated thereby unless the breach or failure to perform by such party of its obligations under the Rainmaker Purchase Agreement, or the failure to act in good faith, is the principal cause of, or resulted in, the failure of the transactions contemplated under the Rainmaker Purchase Agreement to be consummated on or before such Termination Date.

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

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (which Sections were adopted as part of the Private Securities Litigation Reform Act of 1995). Statements preceded by, followed by, or that otherwise include the words “anticipates,” “believes,” “could,” “seeks,” “estimates,” “expects “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “will,” “would,” or similar expressions and the negativ terms are generally forward-looking in nature and not historical facts. These forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause our actual results, performance, or achievements to be materially different from any anticipated results, performance, or achievements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section entitled “Risk Factors” in Part II, Item 1A of this report. You should carefully review the risks described herein and in the other documents we file from time to time with the Securities and Exchange Commission (“SEC”), including our Annual Report on Form 10-K for fiscal year 2016 previously filed with the SEC on March 1, 2017 and our Quarterly Report on Form 10-Q for the first quarter of 2017 filed on May 8, 2017. You should not place undue reliance on forward-looking statements herein, which speak only as of the date of this report. Except as required by law, we disclaim any intention, and undertake no obligation, to revise any forward-looking statements, whether as a result of new information, a future event, or otherwise.

Overview

We are a technology leader to the real estate industry, helping owners, managers, and investors optimize both operational yields and investment returns. By leveraging data as well as integrating and streamlining a wide range of complex processes and interactions among the apartment real estate ecosystem, our platform helps our clients improve financial and operational performance and prudently place and harvest capital.

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

We believe there is increasing demand for solutions that bring efficiency and precision to the rental real estate industry, which has historically lacked the tools available to other investment classes. While the use of, and transition to, data analytics and on demand software solutions in the rental real estate industry is growing rapidly, we believe it remains at a relatively early stage of adoption. Additionally, there is a low level of penetration of our on demand software solutions in our existing client base. These factors present us with significant opportunities to generate revenue through sales of additional data analytics and on demand software solutions.

Our company was formed in 1998 to acquire Rent Roll, Inc., which marketed and sold on premise property management systems for the conventional and affordable multifamily rental housing markets. In June 2001, we released OneSite, our first on demand property management system. Since 2002, we have expanded our platform of solutions to include property management, lease management, resident services, and asset optimization capabilities. In addition to the multifamily markets, we now serve the single family, senior living, student living, military housing, commercial, hospitality, and vacation rental markets. In addition, since July 2002, we have completed 37 acquisitions of complementary technologies to supplement our internal product development and sales and marketing efforts and expand the scope of our solutions, the types of rental housing and vacation rental properties served by our solutions, and our client base. In connection with this expansion and these acquisitions, we have committed greater resources to developing and increasing sales of our platform of data analytics and on demand solutions. As of June 30, 2017, we had approximately 5,000 employees.

Solutions and Services

Our platform is designed to serve as a single system of record for all of the constituents of the rental real estate ecosystem; to support the entire renter life cycle, from prospect to applicant to residency or guest to post-residency or post-stay; and to optimize operational yields and returns on investment. Common authentication, work flow, and user experience across solution categories enables each of these constituents to access different applications as appropriate for their roles.

Our platform consists of four primary categories of solutions: Property Management, Lease Management, Resident Services, and Asset Optimization. These solutions provide complementary asset performance and investment decision support; risk mitigation, billing and utility management; resident engagement, spend management, operations and facilities management; and lead generation and lease management capabilities that collectively enable our clients to manage all the stages of the renter life cycle. Each of our solution categories includes multiple product centers that provide distinct capabilities

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that can be bundled as a package or licensed separately. Each product center integrates with a central repository of lease transaction data, including prospect, renter, and property data. In addition, our open architecture allows third-party applications to access our solutions using our RealPage Exchange platform.

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

- conventional single family properties;
- conventional multifamily properties;
- affordable Housing and Urban Development ("HUD") properties;
- affordable tax credit properties;
- rural housing properties;
- privatized military housing;
- commercial properties;
- student housing;
- senior living; and
- vacation rentals.

Property Management

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

Lease Management

Lease management solutions aim to optimize marketing spend and the leasing process. These solutions manage core leasing and marketing processes including websites and syndication, paid lead generation, organic lead generation, lead management, automated lead closure, lead analytics, real-time unit availability, automated online apartment leasing, and applicant screening. Our lease management solution category consists of six primary solutions: Online Leasing, Contact Center, Websites & Syndication, MyNewPlace, Lead2Lease, and Resident Screening.

Resident Services

Our resident services solutions provide a platform to optimize the transactional and social experience of prospects and renters, and enhance a property's reputation. These solutions facilitate core renter management business processes including utility billing, renter payment processing, service requests, lease renewals, renters insurance, and consulting and advisory services. Our resident services solution category consists of five primary solutions: Resident & Utility Billing, Resident Payments, Resident Portal, Contact Center Maintenance, and Renter's Insurance.

Asset Optimization

Our asset optimization solutions aim to optimize property financial and operational performance, and provide comprehensive analytics-based decision support for optimum investment performance throughout the phases of real estate investment (e.g., acquisition, operation, renovation, and disposition). These solutions facilitate core asset management, business intelligence, performance benchmarking and investment analysis including, real-time yield management, revenue growth forecasting, key variable sensitivity forecasting, internal operating metric benchmarking and external market benchmarking. Our asset optimization solution category consists of four primary solutions: YieldStar Revenue Management, Business Intelligence, Data Analytics, and Asset and Investment Management.

Professional services

We have developed repeatable, cost-effective consulting and implementation services to assist our clients in taking advantage of the capabilities enabled by our asset optimization solutions. Our consulting and implementation methodology leverages the nature of our on demand software architecture, the industry-specific expertise of our professional services employees, and the design of our platform to simplify and expedite the implementation process.

Our consulting and implementation services include project and application management procedures, business process evaluation, business model development and data conversion. Our consulting teams work closely with customers to facilitate the smooth transition and operation of our solutions.

We offer training programs for training administrators and onsite property managers on the use of our solutions. Training options include regularly hosted classroom and online instruction (through our online learning courseware), as well as online webinars. Our clients can integrate their own training content with our content to deliver an integrated and customized training program for their on-site property managers.

Recent Developments

Convertible Notes

In May 2017, we raised approximately $304.2 million in net proceeds (after adjusting for debt issue costs, including the underwriting discount, and the net cash used to purchase the Note Hedges and sell the Warrants, discussed below) upon completion of a private offering of convertible senior notes (“Convertible Notes”).

The Convertible Notes pay semi-annual interest at a rate of 1.50% per annum on the $345.0 million aggregate principal balance and mature in November 2022. On or after May 15, 2022, and until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their Convertible Notes to shares of our common stock at their option. Prior to May 15, 2022, holders may, at their option, convert their Convertible Notes only subsequent to the occurrence of certain specified circumstances. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. It is our stated intention to settle the principal balance of the Convertible Notes in cash and any conversion obligation in excess of the principal portion in shares of our common stock.

We entered into hedging transactions designed to offset dilution to our common stock in the event of a conversion under the Convertible Notes. The note hedge instruments (“Note Hedges”) have a strike price of $41.95 per share, which corresponds to the conversion price under the Convertible Notes, and expire in November 2022. To help offset the cost of the Note Hedges, we also issued warrants (“Warrants”) for shares of our common stock. The Warrants have a strike price of $57.58 per share, and expire in ratable portions on a series of expiration dates commencing on February 15, 2023. The Note Hedges and Warrants each cover approximately 8.2 million shares of our common stock, subject to customary anti-dilutive provisions.

We intend to use the net offering proceeds for general corporate purposes which may include the acquisition of businesses or assets, or working capital needs. Refer to Note 6 of the accompanying Condensed Consolidated Financial Statements for further discussion of these transactions and their accounting implications.

Acquisition Activity

On-Site Manager, Inc.

In July 2017, we entered into an agreement to acquire substantially all of the assets of On-Site Manager, Inc. and certain related entities (“On-Site”). On-Site is a leasing platform for property managers and renters that assimilates leads from any source and converts them into signed leases for both the multifamily and single family housing industries. On-Site's platform offers solutions similar to our screening and document management business, and also includes prospect and resident portals, online and on premise leasing, payment processing, and eSignature lease execution solutions. We intend to continue to support the On-Site platform and integrate it with our screening and online leasing solutions over time.

Pursuant to the asset purchase agreement, the Company will pay approximately $250.0 million in cash, subject to reduction for outstanding indebtedness, unpaid transaction expenses, working capital, and other adjustments. A deferred cash obligation of $24.0 million will be withheld from the purchase consideration to serve as security for the benefit of the Company against the Sellers’ indemnification obligations. Subject to any indemnification claims made, the deferred cash obligation will be paid over a period of 36 months following the acquisition date. The completion of the acquisition remains subject to certain conditions, including the completion of regulatory review. We expect to finance this transaction using cash on hand and amounts available under our Credit Facility.

American Utility Management

In June 2017, RealPage acquired substantially all of the assets of American Utility Management (“AUM”), a provider of utility and energy management services for the multifamily housing industry. AUM helps maximize cost recovery, reduces energy usage and expense, and provides the tools operators of rental real estate need to manage their utilities more effectively. Additionally, AUM’s platform includes tools that enable operators to benchmark energy cost and consumption against their peers. The acquired assets will be integrated with our existing resident utility management platform and our data analytics tools.

We acquired AUM for a purchase price of $69.4 million. The purchase price consisted of a cash payment of $64.8 million at closing, net of cash acquired of $0.1 million, and a deferred cash obligation of up to $5.1 million. The deferred cash

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obligation, subject to any adjustments related to working capital and the seller’s indemnification obligations, will be paid over a period of four years following the date of acquisition.
Lease Rent Options
In February 2017, we entered into an agreement to acquire the assets that comprise the multifamily business (Lease Rent Options or “LRO”) of The Rainmaker Group Holdings, Inc. The closing of the proposed acquisition is subject to standard closing conditions, including the completion of the Hart-Scott-Rodino Antitrust Improvements Act review process. The acquisition of LRO will extend our revenue management footprint, augment our repository of real-time lease transaction data, and increase our data science talent and capabilities. We expect the acquisition of LRO to increase the market penetration of our YieldStar Revenue Management solution and drive revenue growth in our other asset optimization solutions.
Pursuant to the purchase agreement, consideration will consist of a cash payment at closing of approximately $298.5 million, subject to reduction for outstanding indebtedness, unpaid transaction expenses, working capital adjustment, and a deferred cash obligation of up to $1.5 million. The deferred cash obligation serves as security for our benefit against the sellers' indemnification obligations. Subject to any indemnification claims made, the deferred cash obligation will be released approximately twelve months following the acquisition date. We expect to finance this transaction with cash on hand and funds available under our Credit Facility.
Axiometrics LLC
In January 2017, we acquired substantially all of the assets of Axiometrics LLC ("Axiometrics"), a leading provider of multifamily market data. This acquisition augmented our existing lease transaction data pool, further enhancing the accuracy and value of the analysis and forecasts provided to our clients through our data analytics solutions. We will integrate Axiometrics with our existing market research database, MPF Research, to form Data Analytics.
Purchase consideration was comprised of a cash payment at closing of $66.1 million, a deferred cash obligation of up to $7.5 million, and contingent cash payments of up to $5.0 million. The deferred cash obligation serves as security for our benefit against the sellers' indemnification obligation and, subject to any indemnification claims made, will be released over a period of two years following the acquisition date. Payment of the contingent cash obligation is dependent upon the achievement of certain revenue targets during the twelve-month period ending December 31, 2018.
2016 Acquisitions
eSupply Systems, LLC
In June 2016, we acquired substantially all of the assets of eSupply Systems, LLC (“eSupply”) and those of certain entities related to eSupply. eSupply is an e-procurement software and group purchasing service which augments our existing spend management solutions. The addition of this group purchasing organization provides increased purchasing power and highly competitive pricing structures for our clients. The addition of eSupply’s assets rounds out our spend management offering by adding a powerful group purchasing service to an already robust e-procurement platform, a large network of vendors, a vendor credentialing service, and purchasing advisory services.
We acquired eSupply for a purchase price of $7.0 million, consisting of a cash payment of $5.5 million at closing and deferred cash obligations of up to $1.6 million, payable over 18 months after the acquisition date. The deferred cash obligation is subject to adjustments specified in the purchase agreement related to the sellers’ indemnification obligations.
AssetEye, Inc.
In May 2016, we acquired all of the issued and outstanding stock of AssetEye, Inc. (“AssetEye”). AssetEye is a data aggregation, reporting, and collaboration platform for institutions holding multiple real estate asset classes. This acquisition expanded our on demand offerings to serve all asset classes, including commercial, hospitality, multifamily, single family, senior living, and student housing. The AssetEye software provides asset and portfolio managers with a solution to evaluate performance, trends, and operations across a portfolio with transparency into property-level data. On demand analytics allow stakeholders to quickly combine financial results and operating metrics based upon portfolio attributes that help evaluate asset management strategies.
We acquired AssetEye’s issued and outstanding stock for a purchase price of $4.9 million. The purchase price consisted of a cash payment of $3.6 million at closing, net of cash acquired of $0.8 million; deferred cash obligations

of up to $1.0 million, payable over a period of two years following the date of acquisition; contingent cash payments of up to $1.0 million if certain revenue targets are achieved during the three-month period ending September 30, 2017; and additional cash payments of $0.2 million due to former shareholders of AssetEye.

NWP Services Corporation

In March 2016, we acquired all of the issued and outstanding stock of NWP Services Corporation (“NWP”). NWP provides a full range of utility management services, including resident billing; payment processing; utility expense

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management; analytics and reporting; sub-metering and maintenance; and regulatory compliance. The primary products offered by NWP include Utility Logic, Utility Smart, Utility Genius, SmartSource, and NWP Sub-meter. We are integrating NWP into our resident services product family. The integrated platform will enable property owners and managers to increase the collection of rent utilities and energy recovery. We acquired NWP's issued and outstanding stock for a purchase price of $68.2 million. The purchase price consisted of a cash payment of $59.0 million at closing, net of cash acquired of $0.1 million; deferred cash obligations of $7.2 million, payable over a period of three years following the date of acquisition; and other amounts totaling $3.2 million, consisting of payments to certain employees and shareholders of NWP. Through the NWP acquisition, we have obtained a significantly larger share of the utility metering services market. We expect to realize significant synergies by integrating NWP into our existing operating structure and with our Velocity product.

Key Business Metrics

In addition to traditional financial measures, we monitor our operating performance using a number of financially and non-financially derived metrics that are not included in our Condensed Consolidated Financial Statements. We monitor the key performance indicators reflected in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands, except dollar per unit data and percentages)			
Revenue:				
Total revenue	$161,306	$142,719	$314,225	$271,102
On demand revenue	$154,727	$136,610	$300,940	$260,021
On demand revenue as a percentage of total revenue	95.9 %	95.7 %	95.8 %	96.0 %
Non-GAAP total revenue	$162,251	$142,461	$315,875	$270,501
Non-GAAP on demand revenue	$155,672	$136,352	$302,590	$259,420
Adjusted EBITDA	$39,444	$30,662	$76,522	$58,114
Ending on demand units	11,485	11,141		
Average on demand units	11,298	11,070		
On demand annual client value	$649,017	$548,917		
Annualized on demand revenue per average on demand unit	$56.51	$49.27		

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

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

Ending on demand units: This metric represents the number of rental housing units managed by our clients 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 clients as new sales orders are processed. Property unit counts may be adjusted periodically as information related to our clients' properties is updated or supplemented, which could result in adjustments to the number of units previously reported.

Average on demand units: We calculate average on demand units as the average of the beginning and ending on demand units for each quarter in the period presented. This metric is a measure of our success increasing the number of on demand software solutions utilized by our clients to manage their rental housing units, our overall revenue, and profitability.

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Non-GAAP total revenue: This metric is calculated by adding acquisition-related and other deferred revenue adjustments to total revenue. We believe it is useful to include deferred revenue written down for GAAP purposes under purchase accounting rules and revenue deferred due to a lack of historical experience determining the settlement of the contractual obligation in order to appropriately measure the underlying performance of our business operations in the period of activity and associated expense. Further, we believe this measure is useful to investors as a way to evaluate the Company's ongoing performance.

The following provides a reconciliation of GAAP to non-GAAP total revenue:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Total revenue	$161,306	$142,719	$314,225	$271,102
Acquisition-related and other deferred revenue adjustments	945	(258)	1,650	(601)
Non-GAAP total revenue	$162,251	$142,461	$315,875	$270,501

Non-GAAP on demand revenue: This metric reflects total on demand revenue plus acquisition-related and other deferred revenue adjustments, as defined below. We believe inclusion of these items provides a useful measure of the underlying performance of our on demand business operations in the period of activity and associated expense. Further, we believe that investors and financial analysts find this measure to be useful in evaluating the Company's ongoing performance because it provides a more accurate depiction of on demand revenue.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
On demand revenue	$154,727	$136,610	$300,940	$260,021
Acquisition-related and other deferred revenue adjustments	945	(258)	1,650	(601)
Non-GAAP on demand revenue	$155,672	$136,352	$302,590	$259,420

On demand annual client value ("ACV"): ACV represents our estimate of the annual value of our on demand revenue contracts at a point in time. We monitor this metric to measure our success in increasing the number of on demand units, and the amount of software solutions utilized by our clients to manage their rental housing units.

On demand revenue per average on demand unit ("RPU"): We define RPU as ACV divided by average on demand units. We monitor this metric to measure our success in increasing the penetration of on demand software solutions utilized by our clients to manage their rental housing units.

Adjusted EBITDA: We define Adjusted EBITDA as net income, plus (1) acquisition-related and other deferred revenue adjustments, (2) depreciation, asset impairment, and the loss on disposal of assets, (3) amortization of intangible assets, (4) acquisition-related expense (income), (5) costs arising from the Hart-Scott-Rodino review process, (6) interest expense, net, (7) income tax (benefit) expense, (8) headquarters relocation costs, and (9) stock-based expense. We believe that investors and financial analysts find this non-GAAP financial measure to be useful in analyzing the Company's financial and operational performance, comparing this performance to the Company's peers and competitors, and understanding the Company's ability to generate income from ongoing business operations.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Net income	$6,213	$2,083	$14,408	$5,079
Acquisition-related and other deferred revenue adjustments	945	(258)	1,650	(601)
Depreciation, asset impairment, and loss on disposal of assets	6,929	6,563	13,604	12,059
Amortization of intangible assets	8,227	7,737	16,016	14,848
Acquisition-related expense (income)	1,354	(9)	2,564	(66)
Costs arising from Hart-Scott-Rodino review process	2,228	—	2,709	—
Interest expense, net	2,804	1,090	3,924	1,809
Income tax (benefit) expense	(3,132)	1,545	(2,321)	3,659
Headquarters relocation costs	—	1,174	—	2,199
Stock-based expense	13,876	10,737	23,968	19,128
Adjusted EBITDA	$39,444	$30,662	$76,522	$58,114

Non-GAAP Financial Measures

We report our financial results in accordance with GAAP; however, we believe that, in order to properly understand the Company's short-term and long-term financial, operational, and strategic trends, it may be helpful for investors to exclude certain non-cash or non-recurring items when used as a supplement to financial performance measures in accordance with GAAP. These non-cash or non-recurring items result from facts and circumstances that vary in both frequency and impact on continuing operations. We also use results of operations excluding such items to evaluate our operating performance compared against prior periods, make operating decisions, determine executive compensation, and serve as a basis for long-term strategic planning. These non-GAAP financial measures provide us with additional means to understand and evaluate the operating results and trends in our ongoing business by eliminating certain non-cash expenses and other items that we believe might otherwise make comparisons of our ongoing business with prior periods more difficult, obscure trends in ongoing operations, reduce our ability to make useful forecasts, or obscure the ability to evaluate the effectiveness of certain business strategies, and management incentive structures. In addition, we also believe that investors and financial analysts find this information helpful in analyzing our financial and operational performance and comparing this performance to our peers and competitors. These non-GAAP financial measures are used in conjunction with traditional GAAP financial measures as part of our overall assessment of our performance.

We do not place undue reliance on non-GAAP financial measures as measures of operating performance. Non-GAAP financial measures should not be considered substitutes for other measures of financial performance or liquidity reported in accordance with GAAP. There are limitations to using non-GAAP financial measures, including that other companies may calculate these measures differently than we do; that they do not reflect changes in, or cash requirements for, our working capital; and that they do not reflect our capital expenditures or future requirements for capital expenditures. We compensate for the inherent limitations associated with using non-GAAP financial measures through disclosure of these limitations, presentation of our financial statements in accordance with GAAP, and reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures.

We exclude or adjust each of the items identified below from the applicable non-GAAP financial measure referenced above for the reasons set forth with respect to each excluded item:

Acquisition-related and other deferred revenue: These items are included to reflect deferred revenue written down for GAAP purposes under purchase accounting rules and revenue deferred due to a lack of historical experience determining the settlement of the contractual obligation in order to appropriately measure the underlying performance of our business operations in the period of activity and associated expense.

Asset impairment and loss on disposal of assets: These items comprise gains and/or losses on the disposal and impairment of long-lived assets, which are not reflective of our ongoing operations. We believe exclusion of these items facilitates a more accurate comparison of our results of operations between periods.

Depreciation of long-lived assets: Long-lived assets are depreciated over their estimated useful lives in a manner reflecting the pattern in which the economic benefit is consumed. Management is limited in its ability to change or influence these charges after the asset has been acquired and placed in service. We do not believe that depreciation expense accurately reflects the performance of the Company’s ongoing operations for the period in which the charges are incurred, and are therefore not considered by management in making operating decisions.

Amortization of intangible assets: These items are amortized over their estimated useful lives and generally cannot be changed or influenced by management after acquisition. Accordingly, these items are not considered by us in making operating decisions. We do not believe such charges accurately reflect the performance of the Company’s ongoing operations for the period in which such charges are incurred.

Acquisition-related expense (income): These items consist of direct costs incurred in our business acquisition transactions and the impact of changes in the fair value of acquisition-related contingent consideration obligations. We believe exclusion of these items facilitates a more accurate comparison of the results of the Company’s ongoing operations across periods and eliminates volatility related to changes in the fair value of acquisition-related contingent consideration obligations.

Costs arising from Hart-Scott-Rodino review process: This item consists of direct costs incurred related to reviews by the United States Federal Trade Commission and Department of Justice of our anticipated acquisition of LRO under the Hart-Scott-Rodino Antitrust Improvements Act. We believe that these costs are not reflective of the Company’s ongoing operations or our normal acquisition activity. Exclusion of these costs facilitates a more accurate comparison of the Company’s results across periods.

Headquarters relocation costs: These items consist of duplicative rent and other expenses related to the relocation of our corporate headquarters and data center, which was substantially completed in the third quarter of 2016. These costs are not reflective of the Company’s ongoing operations due to their non-recurring nature.

Stock-based expense: This item is excluded because these are non-cash expenditures that we do not consider part of ongoing operating results when assessing the performance of our business, and also because the total amount of the expenditure is partially outside of management’s control because it is based on factors such as stock price, volatility, and interest rates, which may be unrelated to the Company’s performance during the period in which the expenses are incurred.

Key Components of Our Results of Operations

Revenue

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

On demand revenue: Revenue from our on demand software solutions is comprised of license and subscription fees relating to our on demand software solutions, typically licensed for one year terms; commission income from sales of renter’s insurance policies; and transaction fees for certain on demand software solutions, such as payment processing, spend management, and billing services. Typically, we price our on demand software solutions based primarily on the number of units the client manages with our solutions. For our insurance based solutions, our agreement provides for a fixed commission on earned premiums related to the policies sold by us. The agreement also provides for a contingent commission to be paid to us in accordance with the agreement. Our transaction-based solutions are priced based on a fixed rate per transaction.

On premise revenue: Our on premise software solutions are distributed to our clients and maintained locally on the client’s 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. Clients can renew their term license agreement for additional one-year terms at renewal price levels.

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

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

Cost of Revenue

Cost of revenue consists primarily of personnel costs related to our operations; support services; training and implementation services; expenses related to the operation of our data centers; and fees paid to third-party service providers. Personnel costs include salaries, bonuses, stock-based expense, 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.

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Operating Expenses

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

Product development: Product development expense consists primarily of personnel costs for our product development employees and executives and fees to contract development vendors. Our product development efforts are focused primarily on increasing the functionality and enhancing the ease of use of our platform of solutions and expanding our suite of data analytics and on demand software solutions. In addition to our locations in the United States, we maintain product development and service centers in Hyderabad, India; Manila, Philippines; and Cebu City, Philippines.

Sales and marketing: Sales and marketing expense consists primarily of personnel costs for our sales, marketing, and business development employees and executives; information technology; travel and entertainment; and marketing programs. Marketing programs consist of amounts paid for services for search engine optimization (“SEO”) and search engine marketing (“SEM”); renter’s insurance; other advertising; trade shows; user conferences; public relations; industry sponsorships and affiliations; and product marketing. In addition, sales and marketing expense includes amortization of certain purchased intangible assets, including client relationships; key vendor and supplier relationships; and finite-lived trade names, obtained in connection with our acquisitions.

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

Critical Accounting Policies and Estimates

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

We believe that the following critical accounting policies involve our more significant judgments, assumptions and estimates, and therefore, could have the greatest potential impact on our Condensed Consolidated Financial Statements:

- Revenue recognition;
- Fair value measurements;
- Business combinations;
- Goodwill and other intangible assets with indefinite lives;
- Impairment of long-lived assets;
- Stock-based expense;
- Income taxes, including deferred tax assets and liabilities; and
- Capitalized product development costs.

Please refer to our Annual Report on Form 10-K filed with the SEC on March 1, 2017 for a discussion of such policies.

Recently Adopted Accounting Standards

We adopted ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, in the first quarter of 2017. As a result of our adoption of this ASU, we recorded a deferred tax asset of $43.8 million, net of a $0.3 million valuation allowance, related to excess stock-based compensation deductions that arose but were not recognized in prior years. Additionally, we elected to account for forfeitures as they occur using a modified retrospective transition method that required us to record an immaterial cumulative-effect adjustment to accumulated deficit. We elected to account for the change in presentation of excess tax benefits in the statements of cash flows prospectively, and as a result, no prior periods were adjusted. We began to account for all excess tax benefits and deficits arising from current period stock transactions as income tax benefit or expense effective January 1, 2017. The remaining amendments to this standard did not have a material impact on our Condensed Consolidated Financial Statements.

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Results of Operations

The following tables set forth our unaudited results of operations for the specified periods and the components of such results as a percentage of total revenue for the respective periods. The period-to-period comparison of financial results is not necessarily indicative of future results.

Condensed Consolidated Statements of Operations

	Three Months Ended June 30,			
	2017	2017	2016	2016
	(in thousands, except per share and ratio amounts)			
Revenue:				
On demand	$154,727	95.9 %	$136,610	95.7 %
On premise	659	0.4	687	0.5
Professional and other	5,920	3.7	5,422	3.8
Total revenue	161,306	100.0	142,719	100.0
Cost of revenue(1)	67,544	41.9	62,078	43.5
Gross profit	93,762	58.1	80,641	56.5
Operating expenses:				
Product development(1)	21,290	13.2	18,878	13.2
Sales and marketing(1)	39,235	24.3	35,129	24.6
General and administrative(1)	27,370	17.0	21,932	15.4
Total operating expenses	87,895	54.5	75,939	53.2
Operating income	5,867	3.6	4,702	3.3
Interest expense and other, net	(2,786)	(1.7)	(1,074)	(0.8)
Income before income taxes	3,081	1.9	3,628	2.5
Income tax (benefit) expense	(3,132)	(1.9)	1,545	1.1
Net income	$6,213	3.8 %	$2,083	1.4 %
Net income per share attributable to common stockholders:				
Basic	$0.08		$0.03	
Diluted	$0.08		$0.03	
Weighted average shares used in computing net income per share attributable to common stockholders:				
Basic	79,018		76,363	
Diluted	81,925		77,161	
(1) Includes stock-based expense as follows:				
Cost of revenue	$1,050		$826	
Product development	2,454		1,897	
Sales and marketing	4,266		3,799	
General and administrative	6,106		4,215	

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	Six Months Ended June 30,			
	2017	2017	2016	2016
	(in thousands, except per share and ratio amounts)			
Revenue:				
On demand	$300,940	95.8 %	$260,021	96.0 %
On premise	1,334	0.4	1,459	0.5
Professional and other	11,951	3.8	9,622	3.5
Total revenue	314,225	100.0	271,102	100.0
Cost of revenue[(1)]	130,586	41.6	116,826	43.1
Gross profit	183,639	58.4	154,276	56.9
Operating expenses:				
Product development[(1)]	41,677	13.3	36,150	13.3
Sales and marketing[(1)]	74,382	23.7	67,328	24.8
General and administrative[(1)]	51,621	16.4	40,278	14.9
Total operating expenses	167,680	53.4	143,756	53.0
Operating income	15,959	5.0	10,520	3.9
Interest expense and other, net	(3,872)	(1.2)	(1,782)	(0.7)
Income before income taxes	12,087	3.8	8,738	3.2
Income tax (benefit) expense	(2,321)	(0.7)	3,659	1.3
Net income	$14,408	4.5 %	$5,079	1.9 %
Net income per share attributable to common stockholders:				
Basic	$0.18		$0.07	
Diluted	$0.18		$0.07	
Weighted average shares used in computing net income per share attributable to common stockholders:				
Basic	78,642		76,509	
Diluted	81,644		77,120	
[(1)]Includes stock-based expense as follows:				
Cost of revenue	$1,903		$1,577	
Product development	4,333		3,346	
Sales and marketing	7,394		6,773	
General and administrative	10,338		7,432	

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Comparison of the Three and Six Months Ended June 30, 2017 and 2016.

Revenue

	Three Months Ended June 30,			
	2017	2016	Change	% Change
	(in thousands, except per unit data and percentages)			
Revenue:				
On demand	$154,727	$136,610	$18,117	13.3 %
On premise	659	687	(28)	(4.1)
Professional and other	5,920	5,422	498	9.2
Total revenue	$161,306	$142,719	$18,587	13.0
Non-GAAP on demand revenue	$155,672	$136,352	$19,320	14.2
Ending on demand units	11,485	11,141	344	3.1
Average on demand units	11,298	11,070	228	2.1
On demand annual client value	$649,017	$548,917	$100,100	18.2
Annualized on demand revenue per average on demand unit	$56.51	$49.27	$7.24	14.7 %

	Six Months Ended June 30,			
	2017	2016	Change	% Change
	(in thousands, except per unit data and percentages)			
Revenue:				
On demand	$300,940	$260,021	$40,919	15.7 %
On premise	1,334	1,459	(125)	(8.6)
Professional and other	11,951	9,622	2,329	24.2
Total revenue	$314,225	$271,102	$43,123	15.9
Non-GAAP on demand revenue	$302,590	$259,420	$43,170	16.6

The change in total revenue for the three and six months ended June 30, 2017, as compared to the same periods in 2016, was due to the following:

On demand revenue: During the three and six months ended June 30, 2017, on demand revenue increased $18.1 million and $40.9 million, or 13.3% and 15.7%, respectively, as compared to the same periods in 2016. These increases were driven by growth across our platform, especially in our resident services and asset optimization solutions, and incremental revenue from our recent acquisitions. RPU as of June 30, 2017, increased year-over-year by $7.24 driven by revenue from our 2017 acquisition of Axiometrics and the continued consistent growth of our resident services, asset optimization, and property management solutions.

On demand revenue generated by our property management solutions increased year-over-year by $2.7 million, or 7.0%, and $6.5 million, or 8.7%, during the three and six months ended June 30, 2017, respectively. These increases were primarily driven by growth in our spend management and OneSite solutions.

On demand revenue from our lease management solutions for the three and six months ended June 30, 2017, decreased by $0.8 million and $2.3 million, or 2.4% and 3.8%, respectively, as compared to the same periods in 2016. These decreases were mainly due to lower revenues from our contact center and senior leasing solutions, reflecting the effect of continued unfavorable macro-economic conditions, increased competition, and the sale of certain assets associated with our senior living referral services in the fourth quarter of 2016. These decreases were partially offset by growth in our screening, online leasing, and organic lead generation solutions.

On demand revenue from our resident services solutions continued to experience significant growth, increasing by $9.9 million and $25.5 million, or 18.0% and 25.5%, during the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. Resident services benefited from strong growth from our payments and renter's

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insurance solutions and incremental revenue from our acquisition of AUM in the second quarter of 2017. The year-over-year increase for the six-month period also benefited from our 2016 acquisition of NWP.

On demand revenue derived from our asset optimization solutions grew $6.3 million, or 46.1%, during the three months ended, and $11.2 million, or 42.3%, during the six months ended June 30, 2017, as compared to the same periods in 2016. This growth was attributable to incremental revenue from our acquisition of Axiometrics and growth of our data analytics, revenue management, and business intelligence solutions.

On premise revenue: On premise revenue for the three and six months ended June 30, 2017, was $0.7 million and $1.3 million, respectively, which is generally consistent with on premise revenue during the same periods of 2016. We only market and support our acquired on premise solutions and expect on premise revenue as a percentage of our total revenue to continue to decrease as we transition these clients to our on demand solutions.

Professional and other revenue: Professional and other revenue increased year-over-year by $0.5 million and $2.3 million during the three and six months ended June 30, 2017, respectively. These increases were driven by growth from our business intelligence and delivery management solutions and benefited from our acquisition of AUM in the second quarter of 2017. The acquisition of NWP in the first quarter of 2016 was also a driver of year-over-year revenue growth during the six-month period.

On demand unit metrics: As of June 30, 2017, one or more of our on demand solutions was utilized in the management of 11.5 million rental property units, representing a year-over-year net increase of 0.3 million units, or 3.1%. Excluding the impact of the sale of certain assets associated with our senior living referral services in the fourth quarter of 2016, on demand units increased year-over-year by 5.9%. This increase was due to new client sales, marketing efforts to existing clients, and recent acquisitions. On demand units managed by our clients renewed at a rate of 96.6%, based on an average over the eight-quarter period ending June 30, 2017.

Cost of Revenue

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017	2016	Change	% Change	2017	2016	Change	% Change
	(in thousands, except percentages)							
Cost of revenue	$59,740	$54,057	$5,683	10.5 %	$115,357	$101,197	$14,160	14.0 %
Stock-based expense	1,050	826	224	27.1	1,903	1,577	326	20.7
Depreciation and amortization	6,754	7,195	(441)	(6.1)	13,326	14,052	(726)	(5.2)
Total cost of revenue	$67,544	$62,078	$5,466	8.8 %	$130,586	$116,826	$13,760	11.8 %

Cost of revenue: During the three and six months ended June 30, 2017, cost of revenue, excluding stock-based expense, depreciation, and amortization, increased $5.7 million and $14.2 million, respectively, as compared to the same periods in 2016. Personnel expense increased year-over-year during the three and six month periods by $3.2 million and $7.2 million, respectively, primarily attributable to employees gained in our 2016 and 2017 acquisitions and investments to support our ongoing organic growth. Year-over-year increases in direct costs of $2.2 million and $6.2 million during the three and six month periods, respectively, were driven by higher transaction volume from our payment processing solutions and incremental costs from our recent acquisitions. Information technology and facilities expense also increased $0.3 million and $0.6 million during the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016.

During the three and six months ended June 30, 2017, our gross margin increased year-over-year from 56.5% to 58.1%, and from 56.9% to 58.4%, respectively. These increases in margin were attributable to revenue growth from our higher margin solutions, such as resident services and asset optimization, and our acquisition of Axiometrics in the first quarter of 2017. Our focus on operating efficiencies and cost containment strategies in our personnel and information technology expenses also contributed to this increase. Margin growth during the six months ended June 30, 2017, was diluted by our NWP acquisition, which has a higher mix of sub-meter installation revenue and a higher cost workforce relative to similar solutions offered by the Company.

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Operating Expenses

Changes in the stock-based expense and depreciation and amortization expense components of all operating expense categories are separately discussed below.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017	2016	Change	% Change	2017	2016	Change	% Change
	(in thousands, except percentages)							
Product development	$17,275	$15,518	$1,757	11.3 %	$34,253	$30,141	$4,112	13.6 %
Stock-based expense	2,454	1,897	557	29.4	4,333	3,346	987	29.5
Depreciation	1,561	1,463	98	6.7	3,091	2,663	428	16.1
Total product development expense	$21,290	$18,878	$2,412	12.8 %	$41,677	$36,150	$5,527	15.3 %

Product development: Product development expense, excluding stock-based expense and depreciation, increased $1.8 million and $4.1 million for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. Investments to support our product initiatives and incremental headcount from our recent acquisitions contributed to a year-over-year increase in personnel expense of $0.9 million and $2.5 million in the respective periods. Product initiatives also drove a year-over-year increase in professional fees of $0.5 million and $0.9 million during the three and six month periods, respectively. Facilities and information technology expense increased during the three and six month periods by $0.4 million and $0.7 million, respectively, to support our growth.

The ratio of total product development expense to total revenue was consistent with that of the prior year at 13.2% during the three months ended, and 13.3% during the six months ended June 30, 2017 and 2016, respectively.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017	2016	Change	% Change	2017	2016	Change	% Change
	(in thousands, except percentages)							
Sales and marketing	$29,770	$27,120	$2,650	9.8 %	$57,101	$52,793	$4,308	8.2 %
Stock-based expense	4,266	3,799	467	12.3	7,394	6,773	621	9.2
Depreciation and amortization	5,199	4,210	989	23.5	9,887	7,762	2,125	27.4
Total sales and marketing expense	$39,235	$35,129	$4,106	11.7 %	$74,382	$67,328	$7,054	10.5 %

Sales and marketing: Sales and marketing expense, excluding stock-based expense, depreciation, and amortization, increased year-over-year by $2.7 million and $4.3 million during the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. Personnel expense increased $2.1 million and $3.2 million between the respective periods, reflecting investment in our sales force to further increase productivity and additional headcount from our 2017 acquisition of Axiometrics. Marketing program costs increased year-over-year during the three and six month periods by $0.1 million and $0.5 million, respectively, reflecting investments to accelerate client demand across our portfolio of solutions. Investment in our sales function drove a year-over-year increase in information technology expense of $0.1 million and $0.4 million during the three and six months ended June 30, 2017, respectively.

Total sales and marketing expense as a percentage of total revenue for the three months ended June 30, 2017, was generally consistent with that of the prior year at 24.3% in 2017 and 24.6% in 2016. The ratio of sales and marketing expense to total revenue for the six-month period decreased from 24.8% in 2016 to 23.7% in 2017. This reduction was attributable to our focus on operating efficiency and leveraging our historical sales investment to drive higher productivity. This decrease was partially offset by higher amortization expense related to our recent acquisitions.

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	Three Months Ended June 30,				Six Months Ended June 30,			
	2017	2016	Change	% Change	2017	2016	Change	% Change
	(in thousands, except percentages)							
General and administrative	$19,685	$16,370	$3,315	20.3 %	$38,054	$30,501	$7,553	24.8 %
Stock-based expense	6,106	4,215	1,891	44.9	10,338	7,432	2,906	39.1
Depreciation	1,579	1,347	232	17.2	3,229	2,345	884	37.7
Total general and administrative expense	$27,370	$21,932	$5,438	24.8 %	$51,621	$40,278	$11,343	28.2 %

General and administrative: General and administrative expense for the three and six months ended June 30, 2017, excluding stock-based expense and depreciation, increased $3.3 million and $7.6 million, respectively, as compared to the same periods in the prior year. Professional fees for the three and six month periods increased year-over-year by $2.4 million and $5.0 million, respectively. This increase was primarily driven by costs related to the Hart-Scott-Rodino review process for our proposed acquisition of LRO, which represented $2.2 million and $2.7 million of the increase in the three and six month periods ended, respectively. Higher levels of legal and consulting services, primarily related to our acquisitions and implementation of new accounting standards, also contributed to the year-over-year increase during the six-month period. Personnel expense for the three and six month periods increased $0.5 million and $2.0 million year-over-year, respectively, reflecting incremental headcount from our recent acquisitions and investments to support our continued growth. Additionally, changes in the fair value of our acquisition-related obligations resulted in higher expense of $1.0 million and $1.4 million during the three and six months ended June 30, 2017, respectively. These increases were partially offset by a decrease of $0.7 million and $1.0 million during the three and six months ended June 30, 2017, as compared to the same periods in 2016, related to sales tax matters.

Total general and administrative expense as a percentage of total revenue increased from 15.4% to 17.0% for the three months ended, and from 14.9% to 16.4% for the six months ended June 30, 2016 and 2017, respectively, primarily as a result of the higher professional fees, as described above, changes in the fair value of our acquisition-related obligations, and higher stock-based expense. These increases were partially offset by a reduction in facilities expense from the three and six month periods in 2016, which included costs related to the relocation of our corporate headquarters and data center.

Stock-based Expense

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017	2016	Change	% Change	2017	2016	Change	% Change
	(in thousands, except percentages)							
Stock-based expense	$13,876	$10,737	$3,139	29.2 %	$23,968	$19,128	$4,840	25.3 %

Stock-based expense for the three and six months ended June 30, 2017, increased by $3.1 million and $4.8 million, respectively, as compared to the same periods of 2016. This increase is principally attributable to incremental expense from awards granted subsequent to the first quarter of 2016. Stock-based expense as a percent of total revenue was 8.6% and 7.5% for the three months ended, and 7.6% and 7.1% for the six months ended June 30, 2017 and 2016, respectively.

Depreciation and Amortization Expense

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017	2016	Change	% Change	2017	2016	Change	% Change
	(in thousands, except percentages)							
Depreciation expense	$6,866	$6,478	$ 388	6.0 %	$13,517	$11,974	$1,543	12.9 %
Amortization expense	8,227	7,737	490	6.3	16,016	14,848	1,168	7.9
Total depreciation and amortization expense	$15,093	$14,215	$ 878	6.2 %	$29,533	$26,822	$2,711	10.1 %

Depreciation and amortization expense increased $0.9 million and $2.7 million during the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. Depreciation expense increased year-over-year primarily due to elevated capital expenditures in 2016 related to the relocation of our corporate headquarters and data center. Higher amortization expense was driven by the addition of finite-lived intangible assets in connection with our recent acquisitions.

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Interest Expense and Other, Net

Interest expense and other for the three and six months ended June 30, 2017, increased year-over-year by $1.7 million and $2.1 million, respectively. This increase was primarily due to interest and amortization related to our Convertible Notes issued in May 2017.

Provision for Taxes

We compute our provision for income taxes on a quarterly basis by applying an estimated annual effective tax rate to income from recurring operations and other taxable income and by calculating the tax effect of discrete items recognized during the quarter. Our effective income tax rate was (19.2)% and 41.9% for the six months ended June 30, 2017 and 2016, respectively. Our effective rate was lower than the statutory rate for the six months ended June 30, 2017, primarily because of excess tax benefits from stock compensation of $2.7 million and $4.5 million recognized as discrete items during, respectively, the first and second quarters of 2017, as required by ASU 2016-09. The effective rate was higher than the statutory rate for the six months ended June 30, 2016, primarily because of state income taxes and non-deductible expenses.

Liquidity and Capital Resources

Our primary sources of liquidity as of June 30, 2017, consisted of $324.6 million of cash and cash equivalents, $200.0 million available under the Revolving Facility, $200.0 million available under the Delayed Draw Term Loan, and $27.4 million of working capital (excluding $324.6 million of cash and cash equivalents and $101.1 million of deferred revenue).

In May 2017, we completed a private offering of $345.0 million of 1.50% Convertible Notes due November 15, 2022. In connection with the Convertible Notes we also entered into Note Hedges at a purchase cost of $62.5 million, and received proceeds of $31.5 million from the issuance of Warrants. Conversion of the notes may be settled at our option by payment or delivery of cash, shares of our common stock, or a combination of cash and shares of our common stock. It is our stated intention to settle the principal balance of the Convertible Notes in cash and any conversion obligation in excess of the principal portion in shares of our common stock. Issuance of the Convertible Notes resulted in the receipt of net proceeds, after adjusting for debt issue costs, including the underwriting discount, and the net cash used to purchase the Note Hedges and sell the Warrants, of $304.2 million. See additional discussion of the Convertible Notes below and in Note 6 to the Condensed Consolidated Financial Statements.

In July 2017, we entered into an agreement to acquire substantially all of the assets of On-Site Manager, Inc. and certain related entities ("On-Site"). The completion of the acquisition remains subject to certain conditions, including the completion of regulatory review. Pursuant to the asset purchase agreement, the Company will pay approximately $250.0 million in cash, subject to reduction for outstanding indebtedness, unpaid transaction expenses, working capital, and other adjustments. A deferred cash obligation of $24.0 million will be withheld from the purchase consideration to serve as security for the benefit of the Company against the Sellers' indemnification obligations. Subject to any indemnification claims made, the deferred cash obligation will be released over a period of 36 months following the acquisition date. We expect to finance this transaction using cash on hand and amounts available under our Credit Facility.

In February 2017, we entered into an agreement to acquire the assets that comprise the multifamily business (Lease Rent Options or "LRO") of The Rainmaker Group Holdings, Inc. The closing of the proposed acquisition is subject to standard closing conditions, including the completion of the Hart-Scott-Rodino Antitrust Improvements Act review process. Pursuant to the purchase agreement, purchase consideration will consist of a cash payment at closing of approximately $298.5 million, subject to reduction for outstanding indebtedness, unpaid transaction expenses, and a working capital adjustment; and a deferred cash obligation of up to $1.5 million. The deferred cash obligation serves as security for our benefit against the sellers' indemnification obligations and, subject to any indemnification claims made, will be released approximately twelve months following the acquisition date. We expect to finance this transaction with cash on hand and funds available under our Credit Facility.

Our principal uses of liquidity have been to fund our operations, working capital requirements, capital expenditures and acquisitions, to service our debt obligations, and to repurchase shares of our common stock. We expect that working capital requirements, capital expenditures, acquisitions, and debt service will continue to be our principal needs for liquidity over the near term. We made capital expenditures of $27.1 million during the six months ended

June 30, 2017. Due to anticipated expenditures related to our headquarters, our recent acquisitions, investments related to those acquisitions, and data content and analytics investments, we expect capital expenditures to be approximately 8% of total revenue during the year ended December 31, 2017. We expect our capital expenditure rate to decrease to 5% of total revenue over the next few years. In addition, we have made several acquisitions in which a portion of the cash purchase price is payable at various times through 2021. We expect to fund these obligations from cash provided by operating activities.

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

As of December 31, 2016, we had gross federal and state NOL carryforwards of $158.9 million and $60.6 million, respectively. During the six months ended June 30, 2017, we generated an additional $8.5 million in gross federal and state net operating losses, primarily as a result of excess tax benefits from stock-based compensation recognized during the period. NOLs that we generated are not currently subject to the Section 382 limitation; however, approximately $37.6 million of NOLs generated by our subsidiaries prior to our acquisition of them are subject to the Section 382 limitation. Our federal and state NOL carryforwards may be available to offset potential payments of future income tax liabilities. If unused, these NOL carryforwards expire at various dates beginning in 2024 for federal NOLs and in 2017 for state NOLs. Total state NOLs expiring in the next five years total approximately $1.8 million.

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

	Six Months Ended June 30,	
	2017	2016
	(in thousands)	
Net cash provided by operating activities	$80,464	$60,601
Net cash used in investing activities	(158,007)	(109,791)
Net cash provided by financing activities	297,250	64,938

Net Cash Provided by Operating Activities

During the six months ended June 30, 2017, net cash provided by operating activities consisted of net income of $14.4 million, net non-cash adjustments to net income of $52.9 million, and a net inflow of cash from changes in working capital of $13.1 million. Non-cash adjustments primarily consisted of depreciation and amortization expense of $29.5 million and stock-based expense of $24.0 million.

Cash flows from changes in working capital included net cash inflows from accounts receivable of $6.6 million, which was largely driven by the timing of cash collections. Net cash inflows from accounts payable and accrued liabilities of $3.3 million, primarily attributable to the accrual of professional fees related to the Hart-Scott-Rodino review process for our proposed acquisition of LRO, and deferred revenue of $3.6 million also contributed to the net cash inflow during the six months ended June 30, 2017. These items were partially offset by net cash outflows from changes in other current assets of $1.8 million.

Net Cash Used in Investing Activities

During the six months ended June 30, 2017, we used $158.0 million of net cash in investing activities, consisting of $66.1 million to acquire Axiometrics, $64.8 million to acquire American Utility Management, and $27.1 million for capital expenditures. Capital expenditures during the period primarily included capitalized software development costs and expenditures to support our information technology infrastructure.

Net Cash Provided by Financing Activities

During the six months ended June 30, 2017, the net cash provided by our financing activities primarily consisted of proceeds from the issuance of the Convertible Notes of $314.0 million, net of the purchase of the Note Hedges and proceeds from the issuance of the Warrants. These items were partially offset by payments of acquisition-related consideration of $7.2 million and $10.8 million of costs incurred in connection with the issuance of the Convertible Notes and amendments to the Credit Facility. Activity under our stock-based expense plans resulted in net cash inflows of $2.2 million during the six months ended June 30, 2017, primarily driven by the exercise of stock options.

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Contractual Obligations, Commitments, and Contingencies

The following table summarizes, as of June 30, 2017, our minimum payments, including interest when applicable, for long-term debt and other obligations for the next five years and thereafter:

	Payments Due by Period				
	Total	Less Than 1 year	1-3 years	3-5 years	More Than 5 years
	(in thousands)				
Convertible Notes [1]	$373,376	$ 3,148	$ 10,350	$ 10,350	$ 349,528
Credit Facility [2]	136,646	2,981	17,455	29,857	86,353
Operating lease obligations	104,007	6,355	24,606	18,698	54,348
Acquisition-related liabilities [3]	22,455	7,482	13,973	1,000	—
	$636,484	$ 19,966	$ 66,384	$ 59,905	$ 490,229

(1) Represents the aggregate principal amount of $345.0 million and anticipated interest payments related to our Convertible Notes and excludes the unamortized discount and debt issuance costs reflected in our Condensed Consolidated Balance Sheets.

(2) Represents the contractually required principal payments for our Term Loan and excludes unamortized debt issuance costs reflected in our Condensed Consolidated Balance Sheets. These amounts also include the future interest obligations of our Term Loan, which were estimated using a LIBOR forward rate curve and include the related effects of our interest rate swap agreements.

(3) We have made several acquisitions in which a portion of the cash purchase price is payable at various times through 2021.

Credit Facility

On September 30, 2014, we entered into an agreement for a secured revolving credit facility (as amended by the amendments discussed below, the “Credit Facility”) to refinance our outstanding revolving loans. The Credit Facility provides an aggregate principal amount of up to $200.0 million of revolving loans, with sublimits of $10.0 million for the issuance of letters of credit and $20.0 million for swingline loans (“Revolving Facility”). The Credit Facility also allows us, subject to certain conditions, to request term loans or additional revolving commitments up to an aggregate principal amount of $150.0 million, plus an amount that would not cause our Consolidated Net Leverage Ratio, as defined below, to exceed 3.25 to 1.00. At our option, amounts outstanding under the Credit Facility accrued interest, prior to the amendments described below, at a per annum rate equal to either LIBOR, plus a margin ranging from 1.25% to 1.75%, or the Base Rate, plus a margin ranging from 0.25% to 0.75% (“Applicable Margin”). The base LIBOR rate is, at our discretion, equal to either one, two, three, or six month LIBOR. The Base Rate is defined as the greater of Wells Fargo's prime rate, the Federal Funds Rate plus 0.50%, or one month LIBOR plus 1.00%. In each case, the Applicable Margin is determined based upon our Consolidated Net Leverage Ratio, as defined below.

The Credit Facility is secured by substantially all of our assets, and certain of our existing and future material domestic subsidiaries are required to guarantee our obligations under the Credit Facility. The Credit Facility contains customary covenants, subject in each case to customary exceptions and qualifications, which limit our and certain of our subsidiaries’ ability to, among other things, incur additional indebtedness or guarantee indebtedness of others; create liens on our assets; enter into mergers or consolidations; dispose of assets; prepay certain indebtedness or make changes to our governing documents and certain of our agreements; pay dividends and make other distributions on our capital stock and redeem and repurchase our capital stock; make investments, including acquisitions; and enter into transactions with affiliates.

Our covenants also include a requirement that we comply with a maximum Consolidated Net Leverage Ratio and a minimum Consolidated Interest Coverage Ratio. The Consolidated Net Leverage Ratio, which is defined as the ratio of consolidated funded indebtedness on the last day of each fiscal quarter to the four previous consecutive fiscal quarters’ consolidated EBITDA, could not exceed 3.50 to 1.00, provided that we could elect to increase the ratio to 3.75 to 1.00 for a specified period following certain acquisitions. The Consolidated Interest Coverage Ratio, which is defined as the ratio of the four previous fiscal quarters’ consolidated EBITDA to our interest expense for the same period, could not be less than 3.00 to 1.00 on the last day of each fiscal quarter.

In February 2016, we entered into an amendment to the Credit Facility ("First Amendment"). The First Amendment provided for an incremental term loan in the amount of $125.0 million ("Term Loan") that was coterminous with the Credit Facility, reducing the amount of additional term loans and revolving commitments available to $25.0 million plus an amount that would not cause our Consolidated Net Leverage Ratio to exceed 3.25 to 1.00. Under the terms of the First Amendment, an additional pricing tier was added to the Applicable Margin which modified the range to 1.25% to 2.00% for LIBOR loans, and 0.25% to 1.00% for Base Rate loans. The First Amendment also permitted us to elect to increase the maximum permitted

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Consolidated Net Leverage Ratio, on a one-time basis, to 4.00 to 1.00 following the issuance of convertible notes or high yield notes in an initial principal amount of at least $150.0 million.

In February 2017, we entered into the second and third amendments to the Credit Facility ("Second Amendment" and "Third Amendment," respectively). Among other changes, the Second Amendment increased the aggregate amount of additional term loans and revolving commitments we are allowed to request to $150.0 million, plus an amount that would not cause our Consolidated Net Leverage Ratio to exceed 3.25 to 1.00. The Third Amendment provided for an incremental $200.0 million delayed draw term loan ("Delayed Draw Term Loan") that is available to be drawn until May 31, 2017, extended the maturity of the Credit Facility to February 27, 2022, and amended the amortization schedule for the Term Loan. Under the amended amortization schedule, beginning on June 30, 2017, the Company will make quarterly principal payments of 0.6% of the outstanding principal of the Term Loan immediately prior to June 30, 2017. The quarterly payment percentage increases to 1.3% beginning on June 30, 2018, and to 2.5% beginning on June 30, 2020. These payment due dates and percentages will also apply to any amount drawn under the Delayed Draw Term Loan. Any remaining principal balance on the Term Loan and Delayed Draw Term Loan is due on the maturity date, February 27, 2022. The availability period of the Delayed Draw Term Loan was extended through August 31, 2017 under the Fifth Amendment to the Credit Facility, which was executed in May 2017.

In April 2017, we entered into a new amendment to the Credit Facility ("Fourth Amendment"). The Fourth Amendment modified certain terms of the Credit Facility to, among other things, increase the maximum Consolidated Net Leverage Ratio to 4.00 to 1.00, with an automatic increase to 5.00 to 1.00 following an acquisition having aggregate consideration equal to or greater than $150.0 million and occurring within a specified time period following an unsecured debt issuance equal to or greater than $225.0 million. The automatic increase may occur once during the term of the Credit Facility and lasts for two consecutive fiscal quarters, after which the amendment provides for incremental step downs until the ratio returns to 4.00 to 1.00. Additionally, the automatic increase may only occur during periods in which the referenced unsecured debt is outstanding. Related to this increase, the Fourth Amendment provided for an additional pricing tier for interest rates and fees if our Consolidated Net Leverage Ratio equals or exceeds 4.00 to 1.00, resulting in a new Applicable Margin range of 1.25% to 2.25% for LIBOR loans and 0.25% to 1.25% for Base Rate loans. The amendment also added a new financial covenant, requiring us to comply with a maximum consolidated senior secured net leverage ratio of 3.50 to 1.00, determined in accordance with the terms of the Credit Agreement. At our option, this ratio may be increased to 3.75 to 1.00 for a period of one year following the completion of an acquisition having aggregate consideration greater than $50.0 million. We are not permitted to exercise this option more than one time during any consecutive eight quarter period.

The Credit Facility contains customary events of default, subject to customary cure periods for certain defaults, that include, among others, non-payment defaults, covenant defaults, material judgment defaults, bankruptcy and insolvency defaults, cross-defaults to certain other material indebtedness, defaults for non-compliance with the Employee Retirement Income Security Act ("ERISA"), inaccuracy of representations and warranties and a change in control default.

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

As of June 30, 2017, we were in compliance with the covenants under the Credit Facility.

Convertible Notes

As noted above, in May 2017 we completed a private offering of Convertible Notes with an aggregate principal amount of $345.0 million. The net proceeds from this offering were $304.2 million, after adjusting for debt issue costs, including the underwriting discount and the net cash used to purchase the Note Hedges and sell the Warrants. The Convertible Notes accrue interest at an annual rate of 1.50%, which is payable semi-annually on May 15 and November 15 of each year beginning in November 2017. The Convertible Notes mature on November 15, 2022, and may not be redeemed by the Company prior to their maturity. The Convertible Notes were issued under an indenture dated May 23, 2017 ("Indenture"), by and between us and Wells Fargo Bank, N.A., as Trustee.

The holders may convert their notes to shares of our common stock, at their option, on or after May 15, 2022, and through the second scheduled trading day preceding the maturity date. Prior to May 15, 2022, holders may only convert their notes under certain circumstances specified in the Indenture. The Convertible Notes are convertible at an initial rate of 23.84 shares per $1,000 of principal (equivalent to an initial conversion price of approximately $41.95 per share of our common stock), subject to customary adjustments described in the Indenture. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. It is our stated intention

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to settle the principal balance of the Convertible Notes in cash and any conversion obligation in excess of the principal portion in shares of our common stock.

In conjunction with the Convertible Notes offering, we purchased Note Hedges and issued Warrants for approximately 8.2 million shares of our common stock. We paid $62.5 million to purchase the Note Hedges and received proceeds of $31.5 million from the issuance of the Warrants. The Note Hedges have an exercise price of $41.95 per share, consistent with the conversion price of the Convertible Notes, and expire in November 2022. The Note Hedges are generally expected to reduce the potential dilution to our common stock (or, in the event the conversion is settled in cash, to reduce our cash payment obligation) in the event that at the time of conversion our stock price exceeds the conversion price under the Convertible Notes. The Warrants have a strike price of $57.58 per share and expire in ratable portions on a series of expiration dates commencing on February 15, 2023.

Refer to Note 6 of the accompanying Condensed Consolidated Financial Statements for a complete discussion of these transactions and their accounting implications.

Share Repurchase Program

In May 2014, our board of directors approved a share repurchase program authorizing the repurchase of up to $50.0 million of our outstanding common stock for a period of up to one year after the approval date. Our board of directors approved a one year extension of this program in both 2015 and 2016. On April 28, 2017, our board of directors again approved a one year extension of the share repurchase program. The terms of this extension permit the repurchase of up to $50.0 million of our common stock during the period commencing on the extension day and ending on May 4, 2018.

Repurchase activity during the three and six months ended June 30, 2017 and 2016 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Number of shares repurchased	—	235,154	—	1,012,823
Weighted-average cost per share	$ —	$ 21.71	$ —	$ 20.98
Total cost of shares repurchased, in thousands	$ —	$ 5,106	$ —	$ 21,244

Other Contractual Obligations

In addition to the contractual obligations discussed above, certain of our business acquisitions include provisions for the payment of deferred and contingent cash obligations. Deferred cash obligations are generally subject to adjustments specified in the underlying acquisition agreement related to the seller’s indemnification obligations, and payment of contingent cash obligations is dependent upon the acquired business achieving agreed-upon operational or financial targets in the post-acquisition period. We had deferred cash obligations of $18.3 million and $14.1 million and contingent cash obligations of $1.6 million and $0.5 million at June 30, 2017 and December 31, 2016, respectively. Deferred and contingent cash obligations related to our acquisitions have payment dates extending through 2021. There have been no other material changes outside normal operations in our contractual obligations from our disclosures within our Form 10-K for the year ended December 31, 2016.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

We had cash and cash equivalents of $324.6 million and $104.9 million at June 30, 2017 and December 31, 2016, respectively. We hold cash and cash equivalents for working capital purposes. We do not have material exposure to market risk with respect to investments, as our investments consist primarily of highly liquid investments purchased with original maturities of three months or less.

We had $121.9 million outstanding under our Term Loan at June 30, 2017. The Term Loan is reflected net of unamortized debt issuance costs of $1.9 million in the accompanying Condensed Consolidated Balance Sheet. At our option, amounts borrowed under the Credit Facility, as amended through June 30, 2017, accrue interest at a per annum rate equal to either LIBOR, plus a margin ranging from 1.25% to 2.00%, or the Base Rate, plus a margin ranging from 0.25% to 1.00%. The base

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LIBOR rate is, at our discretion, equal to either one, two, three, or six month LIBOR. The Base Rate is defined as the greater of Wells Fargo's prime rate, the Federal Funds Rate plus 0.50%, or one month LIBOR plus 1.00%. If the applicable rates change by 10% of the June 30, 2017 closing market rates, our annual interest expense would change by less than $0.1 million.

On March 31, 2016, we entered into two interest rate swap agreements to eliminate variability in interest payments on a portion of the Term Loan. For that portion, the swap agreements replace the term note's variable rate with a blended fixed rate of 0.89%. We do not use derivative financial instruments for speculative or trading purposes; however, we may adopt additional specific hedging strategies in the future. Any declines in interest rates, however, will reduce future interest income.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) and Rule 15d-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we carried out an evaluation, with the participation of our management, and under the supervision of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2017, in ensuring that information required to be disclosed in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management's assessment of the effectiveness of our disclosure controls and procedures is expressed at the level of reasonable assurance because management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives.

Changes in Internal Controls

There were no changes in the Company's internal control over financial reporting during the three and six months ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Inherent Limitations of Internal Controls

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We are subject to legal proceedings and claims arising in the ordinary course of business. We are involved in litigation and other legal proceedings and claims that have not been fully resolved. At this time, we believe that any reasonably possible adverse outcome of these matters would not be material either individually or in the aggregate. Our view of these matters may change in the future as litigation and events related thereto unfold.

Item 1A. Risk Factors.

Risks Related to Our Business

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

Our quarterly operating results may fluctuate as a result of a variety of factors, many of which are outside of our control. Fluctuations in our quarterly operating results may be due to a number of factors, including the risks and uncertainties discussed elsewhere in this filing. Some of the important factors that could cause our revenues and operating results to fluctuate from quarter to quarter include:

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

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

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

The growth in the size, dispersed geographic locations, complexity and diversity of our business and the expansion of our product lines and client base has placed, and our anticipated growth may continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. We increased our number of employees from approximately 900 as of December 31, 2008 to approximately 5,000 as of June 30, 2017. We increased our number of on demand clients from approximately 2,700 as of December 31, 2008 to approximately 11,500 as of June 30, 2017. In addition, we have grown and expect to continue to grow through acquisitions. Our ability to effectively manage our anticipated future growth will depend on, among other things, the following:

- successfully supporting and maintaining a broad range of current and emerging solutions;

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- identifying suitable acquisition targets and efficiently managing the closing of acquisitions and the integration of targets into our operations;
- maintaining continuity in our senior management and key personnel;
- attracting, retaining, training and motivating our employees, particularly technical, client service and sales personnel;
- enhancing our financial and accounting systems and controls;
- enhancing our information technology infrastructure, processes and controls;
- successfully completing system upgrades and enhancements; and
- managing expanded operations in geographically dispersed locations.

If we do not manage the size, complexity and diverse nature of our business effectively, we could experience product performance issues, delayed software releases and longer response times for assisting our clients with implementation of our solutions and could lack adequate resources to support our clients 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 clients.

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

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

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

With the exception of some of our LeaseStar and Propertyware solutions, which are typically month-to-month, we generally license our solutions pursuant to client agreements with a term of one year or longer. The pricing of the agreements is typically based on a price per unit basis. Our clients 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 clients have the right to cancel their client agreements before they expire, for example, in the event of an uncured breach by us, or in some circumstances, upon the sale or transfer of a client property, by giving 30 days’ notice or paying a cancellation fee. In addition, clients 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 clients purchasing additional solutions or professional services for their on demand units after the initial term of their client agreement. Though we maintain and analyze historical data with respect to rates of client renewals, upgrades and expansions, those rates may not accurately predict future trends in renewal of on demand units. Our clients’ on demand unit renewal rates may decline or fluctuate for a number of reasons, including, but not limited to, their level of satisfaction with our solutions, our pricing, our competitors’ pricing, reductions in our clients’ spending levels or reductions in the number of on demand units managed by our clients. If our clients cancel or amend their agreements with us during their term, do not renew their agreements, renew on less favorable terms or do not purchase additional solutions or professional services in renewal periods, our revenue may grow more slowly than expected or decline and our profitability may be harmed.

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

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

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

We generally recognize revenue from clients ratably over the terms of their client agreements which, with the exception of our month-to-month advertising, lease generation and Propertyware agreements, are typically one year. As a result, much of the revenue we report in each quarter is deferred revenue from client agreements entered into during previous quarters. Consequently, a decline in new or renewed client 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 clients must be recognized over the applicable subscription term.

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

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

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

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

The completion of the LRO and On-Site acquisitions are subject to the receipt of consents and approvals from governmental entities, which may impose conditions that cause us, LRO or On-Site, as applicable, to abandon one or both of the acquisitions.

The Asset Purchase Agreement that we entered into in connection with the LRO acquisition contains various conditions precedent to consummation of that acquisition, including obtaining approval of the United States Federal Trade Commission and Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act. These governmental entities may decline to approve the acquisition or may impose conditions on the completion of, or require changes to the terms of, the acquisition that could cause us or LRO to abandon the acquisition. On August 1, 2017, following our receipt of a second request from the Department of Justice in May 2017, the parties amended the Asset Purchase Agreement to provide that we will have the right to unilaterally extend the termination date of the acquisition in the event that the Department of Justice files a complaint under applicable antitrust laws with respect to the transaction on or before December 31, 2017.

Even if we are able to obtain governmental approval, doing so may continue to take longer, and could continue to cost more, than we expect. In addition, other conditions to the completion of the LRO acquisition may not be satisfied.
In addition, on July 28, 2017, we entered into an Asset Purchase Agreement with On-Site which contains various conditions precedent to consummation of that acquisition, including, among other conditions, obtaining approvals under applicable antitrust laws.

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Any further delay in completing the LRO acquisition, any delay in completing the On-Site acquisition, and any conditions imposed in completing these acquisitions, may materially adversely affect the benefits that we expect to achieve from the acquisitions and the integration of the acquired assets and liabilities to be assumed into our business.

The conditional conversion feature of our Convertible Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the Convertible Notes is triggered, holders of the Convertible Notes will be entitled to convert the Convertible Notes at any time during specified periods at their option. If one or more holders elect to convert their Convertible Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Convertible Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Convertible Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The accounting method for convertible debt securities that may be settled in cash, such as the Convertible Notes, could have a material effect on our reported financial results.

In May 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, which we refer to as ASC 470-20. Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments, such as the Convertible Notes, that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our Condensed Consolidated Balance Sheet, and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the Convertible Notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the Convertible Notes to their face amount over the term of the Convertible Notes. We will report lower net income in our financial results because ASC 470-20 will require interest to include both the current period's amortization of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results, and the trading price of our common stock.

In addition, under certain circumstances, convertible debt instruments, such as the Convertible Notes, that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the Convertible Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Convertible Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Convertible Notes, then our diluted earnings per share would be adversely affected.

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

We have acquired new technology and domain expertise through multiple acquisitions, including our most recent acquisitions of AUM, Axiometrics, eSupply, AssetEye and NWP. We expect to obtain similar benefits from our pending acquisitions of LRO and On-Site, and we expect to continue making acquisitions in the future. 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 involve numerous risks, including the following:

- difficulties in integrating and managing the operations and technologies of the companies we acquire;
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- diversion of our management’s attention from normal daily operations of our business;
- our inability to maintain the clients, the key employees, the key business relationships and the reputations of the businesses we acquire;
- our inability to generate sufficient revenue from acquisitions to offset our increased expenses associated with acquisitions;
- difficulties in predicting or achieving the synergies between acquired businesses and our own businesses;

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- our responsibility for the liabilities of the businesses we acquire, including, without limitation, liabilities arising out of their failure to maintain effective data security, data integrity, disaster recovery and privacy controls prior to the acquisition, or their infringement or alleged infringement of third-party intellectual property, contract or data access rights prior to the acquisition;
- difficulties in complying with new markets or regulatory standards to which we were not previously subject;
- delays in our ability to implement internal standards, controls, procedures and policies in the businesses we acquire; and
- adverse effects of acquisition activity on the key performance indicators we use to monitor our performance as a business.

Our current acquisition strategy includes the acquisition of complementary businesses, products, and solutions. In order to integrate and fully realize the benefits of such acquisitions, we expect to build application interfaces that enable such clients to use a wide range of our solutions while they continue to use their legacy management systems. In addition, over time we expect to migrate each acquired company's clients to our on demand property management solutions to retain them as clients and to be in a position to offer them our solutions on a cost-effective basis. These efforts may be unsuccessful or entail costs that result in losses or reduced profitability.

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

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

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

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

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

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

The ability of our clients to access our service is critical to our business. We host our products and services, support our operations and service our clients primarily from our data centers in the Dallas, Texas area.

We may fail to provide such service as a result of numerous factors, many of which are beyond our control, including, without limitation: mechanical failure, power outage, human error, physical or electronic security breaches, war, terrorism and related conflicts or similar events worldwide, fire, earthquake, hurricane, flood and other natural disasters, sabotage and vandalism. We attempt to mitigate these risks at our Texas-based data centers and other facilities through various business continuity efforts, including: redundant infrastructure, 24 x 7 x 365 system activity monitoring, backup and recovery procedures, use of a secure off-site storage facility for backup media, separate test systems and rotation of management and system security measures, but our precautions may not protect against all potential problems. Disaster recovery procedures are in place to facilitate the recovery of our operations, products and services within the stated service level goals. Our secondary data center is equipped with physical space, power, storage and networking infrastructure and Internet connectivity to support the solutions we provide in the event of the interruption of services at our primary data center. Even with this secondary data center, however, our operations would be interrupted during the transition process should our primary data center experience a failure. Moreover, both our primary and secondary data centers are located in the greater metropolitan Dallas area. As a result, any regional disaster could affect both data centers and result in a material disruption of our services.

Problems at one or more of our data centers, whether or not within our control, could result in service disruptions or delays or loss or corruption of data or documents. This could damage our reputation, cause us to issue credits to clients, subject us to potential liability or costs related to defending against claims, or cause clients to terminate or elect not to renew their agreements, any of which could negatively impact our revenues and harm our operating results.

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

Some of our products and services derived from recent acquisitions are hosted and supported from data centers in other geographic locations within the continental United States and Europe, many of which are operated by third-party providers. Our operations depend, in part, on our third-party data center providers' abilities to protect these facilities against damage or interruption from natural disasters, power or telecommunications failures, criminal acts and similar events. In the event that any of our third-party hosting or facilities arrangements is terminated, or if there is a lapse of service or damage to a facility, we could experience interruptions in the availability of our on demand software as well as delays and additional expenses in arranging new facilities and services.

Despite precautions taken at these third party data centers, the occurrence of spikes in usage volume, a natural disaster, an act of terrorism, adverse changes in United States or foreign laws and regulations, vandalism or sabotage, a decision to close a third-party facility without adequate notice, or other unanticipated problems at a facility could result in lengthy interruptions in the availability of our on demand software. Even with current and planned disaster recovery arrangements, our business could be harmed. Also, in the event of damage or interruption, our insurance policies may not adequately compensate us for any losses that we may incur. These factors in turn could further reduce our revenue, subject us to liability and cause us to issue credits or cause clients to fail to renew their subscriptions, any of which could materially adversely affect our business.

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

Our client agreements provide that we maintain certain service level commitments to our clients relating primarily to product functionality, network uptime, critical infrastructure availability and hardware replacement. For example, our service level agreements generally require that our solutions are available 98% of the time during coverage hours (normally 6:00 a.m. though 10:00 p.m. Central time daily) 365 days per year (other than certain permitted exceptions such as maintenance). If we are unable to meet the stated service level commitments, we may be contractually obligated to provide clients with refunds or credits. Additionally, if we fail to meet our service level commitments a specified number of times within a given time frame or for a specified duration, our clients may terminate their agreements with us or extend the term of their agreements at no additional fee. As a result, a failure to deliver services for a relatively short duration could cause us to issue credits or refunds to a large number of affected clients or result in the loss of clients. In addition, we cannot assure you that our clients 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 client dissatisfaction or loss. Because of the loss of future revenues through the issuance of credits or the loss of clients or other potential liabilities, our revenue could be significantly impacted if we cannot meet our service level commitments to our clients.

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

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

Our competitors vary depending on our product and service. In the market for accounting software we compete with Yardi Systems, Inc. (“Yardi”), MRI Software LLC (“MRI”), Entrata, Inc., formerly Property Solutions International, Inc. (“Entrata”), AMSI Property Management (owned by Infor Global Solutions, Inc.), Intacct Corp, NetSuite Inc., Intuit Inc., Oracle Corporation, PeopleSoft and JD Edwards (each owned by Oracle Corporation), SAP AG, Microsoft Corporation, AppFolio Inc. and various smaller providers of accounting software. High costs are typically associated with switching an organization’s accounting software. In the market for property management software, we face competitive pressure from Yardi and its Voyager products, AMSI Property Management (owned by Infor Global Solutions, Inc.), Bostonpost (owned by MRI), Jenark (owned

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by CoreLogic), Entrata, ResMan and MRI. In the single family market, our accounting and property management systems primarily compete with Yardi, AppFolio Inc., Intuit Inc., DIY Real Estate Solutions (acquired by Yardi), Buildium, LLC, Rent Manager (owned by London Computer Systems, Inc.), and Property Boss Solutions, LLC.

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

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

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

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

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

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

In the utility billing and energy management market, we compete at a national level with Conservice, LLC, Yardi (following its acquisitions of ista North America and Energy Billing Systems, Inc.), Entrata, Ocius LLC (recently acquired by PayLease) and Minol USA, L.P. Many other smaller utility billing companies compete for smaller rental properties or in regional areas.

In the revenue management market, we compete with Entrata, The Rainmaker Group, and Yardi. Certain market research companies such as CoStar Group, Inc. also offer products that present competitive pricing information in a manner that can be used as a tool to manage pricing.

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

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

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

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

In the vacation rental market, we compete with LiveRez, Inc., HomeAway Software, Inc., Airbnb, and many other smaller local and regional companies. We partner with some competitors to syndicate vacation rental listings to their Internet listing sites.

In addition, many of our existing or potential clients 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.

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

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

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

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

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

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

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

The operation and marketing of multi-tenant real estate developments is likely to become more dependent upon the use of and integration with social media platforms as communities attempt to reach their current and target clients through social applications such as Facebook, Twitter, Instagram, LinkedIn, Pinterest, Tumblr, Google+ and other current and emerging social applications. The use of these applications necessarily involves the disclosure of personal information by individuals participating in social media, and the corresponding utilization of such personal information by our products and services via integration programs and data exchanges. The regulatory framework for social media privacy and security issues is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, transmission and security of personal information by companies on social media platforms have recently come under increased public scrutiny as various government agencies and consumer groups have called for new regulation and changes in industry practices. We are

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also subject to each social media platform's terms and conditions for use, application development and integration, which may be modified, restricted or otherwise changed, affecting and possibly curtailing our ability to offer products and services.

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

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

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

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

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

Many of our clients 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 clients are price sensitive, and uncertain global economic conditions, as well as decreased leasing velocity, have contributed to increased price sensitivity in the multifamily housing market and the other markets that we serve. As market dynamics change, or as new and existing competitors introduce more competitive pricing or pricing models, we may be unable to renew our agreements with existing clients or clients of the businesses we acquire or attract new clients 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 clients or increase sales to our existing clients and our business will be harmed.

We continue to be substantially dependent on our sales force to obtain new clients and to sell additional solutions to our existing clients. 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 clients or

increasing sales to our existing client 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

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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 clients, loss of clients and other potential liabilities;
- delays in client payments, increasing our collection reserve and collection cycle;
- diversion of development resources and associated costs;
- harm to our reputation and brand; and
- unanticipated litigation costs.

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

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

Our success depends on our ability to process high volumes of client data, enhance existing solutions and develop new solutions rapidly and cost effectively. We currently maintain offices in Hyderabad, India; Cebu, Philippines and Manila, Philippines where we employ development and data processing personnel or conduct other business functions important to our operations. We believe that performing these activities in Hyderabad, Cebu and Manila increases the efficiency and decreases the costs of our related operations. We also maintain an office in Barcelona, Spain where certain of our vacation rental product development, sales and support operations are based. We believe our access to a multilingual employee base enhances our ability to serve vacation rental property managers in non-English speaking countries. Managing and staffing international operations requires management's attention and financial resources. The level of cost savings achieved by our international operations may not exceed the amount of investment and additional resources required to manage and operate these international operations. Additionally, if we experience difficulties as a result of political, social, economic or environmental instability, change in applicable law, limitations of local infrastructure or problems with our workforce or facilities at our or third parties' international operations, our business could be harmed due to delays in product release schedules or data processing services.

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

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

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

We rely on several large payment processing organizations to enable us to provide payment processing services to our clients, including electronic funds transfers, or EFT, check services, bank card authorization, data capture, settlement and merchant accounting services and access to various reporting tools. These organizations include Bank of America Merchant Services, Bank of America, N.A., Paymentech, LLC, Fiserv, Inc., Financial Transmission Network, Inc., Jack Henry & Associates, Inc., JPMorgan Chase Bank, N.A., Wells Fargo Merchant Services, and Wells Fargo, N.A. We also rely on third-party hardware manufacturers to manufacture the check scanning hardware our clients utilize to process transactions. Some of these organizations and service providers are competitors who also directly or indirectly sell payment processing services to clients 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 clients or meet their expectations, with the attendant potential for liability claims, damage to our reputation, loss of ability to attract or maintain clients and reduction of our revenue or profits.

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

In connection with our electronic payment processing services, we process renter payments and subsequently submit these renter payments to our clients after varying clearing times established by RealPage. These payments are settled through our sponsor banks, and in the case of EFT, our Originating Depository Financial Institutions, or ODFIs. Currently, we rely on Bank of America, N.A., Wells Fargo, N.A. and JPMorgan Chase Bank, N.A. as our sponsor banks. In the future, we expect to enter into similar sponsor bank relationships with one or more other national banking institutions. The renter payments that we process for our clients at our sponsor banks are identified in our consolidated balance sheets as restricted cash and the corresponding liability for these renter payments is identified as client deposits. Our electronic payment processing business and related maintenance of custodial accounts subjects us to a number of risks, including, but not limited to:

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

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

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

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

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

In order to maintain flexibility in the growth and expansion of our payments operations, we have obtained money transmitter licenses (or their equivalents) in several states, the District of Columbia and Puerto Rico and expect to continue the license application process in additional jurisdictions throughout the United States as needed to accommodate new product development. Our efforts to acquire and maintain these licenses could result in significant management time, effort, and cost, and may still not guarantee compliance given the constant state of change in these regulatory frameworks. Accordingly, costs associated with changes in compliance requirements, regulatory audits, enforcement actions, reputational harm, or other regulatory limits on our ability to grow our payment processing business could adversely affect our financial results.

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

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

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

We also rely upon our clients as users of our system to promote security of the system and the data within it, such as administration of client-side access credentialing and control of client-side display of data. On occasion, our clients 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 clients in future periods to perform these activities will not result in claims against us, which could expose us to potential litigation, damage to our reputation and material harm to our business.

There can be no certainty that the measures we have taken to protect our software platform and service infrastructure, our confidential and proprietary information and the privacy and integrity of our clients’, their current or prospective renters' and business partners' data are adequate to prevent or remedy unauthorized access to our system. Because techniques used to obtain unauthorized access to, or to sabotage, systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures. Experienced computer programmers seeking to intrude or cause harm, or hackers, may attempt to penetrate our service infrastructure from time to time. Hackers may consist of sophisticated organizations, competitors, governments or individuals who launch targeted attacks to gain unauthorized access to our systems. A hacker who is able to penetrate our service infrastructure could misappropriate proprietary or confidential information or cause interruptions in our services. We might be required to expend significant capital and resources to protect against, or to remedy, problems caused by hackers, and we may not have a timely remedy against a hacker who is able to penetrate our service infrastructure. In addition to purposeful breaches, inadvertent actions or the transmission of computer viruses could expose us to security risks. If an actual or perceived breach of our security occurs or

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if our clients and potential clients perceive vulnerabilities, the market perception of the effectiveness of our security measures could be harmed, we could lose sales and clients and our business could be materially harmed.

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

As we continue to increase our client base and the number of products used by our clients to manage units, the number of users accessing our on demand software solutions over the Internet will continue to increase. Increased traffic could result in slow access speeds and response times. Since our client agreements typically include service availability commitments, slow speeds or our failure to accommodate increased traffic could result in breaches of our client agreements. In addition, the market for our solutions is characterized by rapid technological advances and changes in client requirements. In order to accommodate increased traffic and respond to technological advances and evolving client 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 client data, decreased access to this data or the failure to comply with the evolving laws and regulations governing privacy of data, cloud computing and cross-border data transfers, or the failure to address privacy concerns applicable to such data, could harm our business.

Certain of our solutions depend on our continued access to our clients' data regarding their prospective and current renters, including data compiled by other third-party service providers who collect and store data on behalf of our clients. Federal, state and foreign governments have adopted and continue to adopt new laws and regulations addressing data privacy and the collection, processing, storage, transmission, use and disclosure of personal information. Such laws and regulations are subject to differing interpretations and may be inconsistent among jurisdictions. These and other requirements could reduce demand for our solutions or restrict our ability to store and process data or, in some cases, impact our ability to offer our services and solutions in certain locations.

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

Any restrictions on the use of or decrease in the availability of data from our clients, or other third parties that collect and store such data on behalf of our clients, and the costs of compliance with, and other burdens imposed by, applicable legislative and regulatory initiatives may limit our ability to collect, aggregate or use this data. Any limitations on our ability to collect, aggregate or use such data could reduce demand for certain of our solutions. Additionally, any inability to adequately address privacy concerns, even if unfounded, or comply with applicable privacy laws, regulations and policies, could result in liability to us or damage to our reputation and could inhibit sales and market acceptance of our solutions and harm our business.

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

The market for on demand SaaS software solutions in the rental housing industry delivered via the Internet through a web browser is rapidly growing but still relatively immature compared to the market for traditional on premise software installed on a client'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 client base has widely accepted this new model, our future success will depend, to a large extent, on the willingness of our potential clients to choose on demand software solutions for business processes that they view as critical. Many of our potential clients 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 clients do not consider on demand software solutions to be beneficial, then the market for these solutions may not further develop, or it may develop more slowly than we expect, either of which would adversely affect our operating results.

If use of the Internet and mobile technology, particularly with respect to online rental housing products and services, does not continue to increase as rapidly as we anticipate, our business could be harmed.

Our future success is substantially dependent on the continued use of the Internet and mobile technology as effective media of business and communication by our clients and consumers. Internet and mobile technology use may not continue to develop at historical rates, and consumers may not continue to use the Internet or mobile technology as media for information exchange or we may not keep up with the latest technology. Further, these media may not be accepted as viable long-term outlets for rental housing information for a number of reasons, including actual or perceived lack of security of information and

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possible disruptions of service or connectivity. If consumers begin to access rental housing information through other media and we fail to innovate, our business may be negatively impacted.

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

Our clients include a range of organizations whose success is intrinsically linked to the rental housing market. Economic trends that negatively or positively affect the rental housing market may adversely affect our business. Instability or downturns affecting the rental housing market may have a material adverse effect on our business, prospects, financial condition and results of operations by:

- decreasing demand for leasing and marketing solutions;
- reducing the number of occupied sites and units on which we earn revenue;
- preventing our clients from expanding their businesses and managing new properties;
- causing our clients to reduce spending on our solutions;
- subjecting us to increased pricing pressure in order to add new clients and retain existing clients;
- causing our clients 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 client insolvency.

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

If clients and other advertisers reduce or end their advertising spending on our LeaseStar products and we are unable to attract new advertisers, our business would be harmed.

Some components of our LeaseStar product family depend on advertising generated through sales to real estate agents and brokerages, property owners and other advertisers relevant to rental housing. Our ability to attract and retain advertisers, and ultimately to generate advertising revenue, depends on a number of factors, including:

- increasing the number of consumers of our LeaseStar products and services;
- demonstrating lead generation value to our LeaseStar clients;
- competing effectively for advertising dollars with other online media companies;
- continuing to develop our advertising products and services;
- keeping pace with changes in technology and with our competitors; and
- offering an attractive return on investment to our advertiser clients for their advertising spending with us.

Reductions in lead generation could have a negative effect on our operating results.

We could face reductions in leads generated for our clients if third-party originators of such leads were to elect to suspend sending leads to us or our sources for such leads were reduced. Reductions in leads generated could reduce the value of our lead generation services, make it difficult for us to add new lead generation services clients, retain existing lead generation services clients and maintain or increase sales levels to our existing lead generation services clients and could adversely affect our operating results.

We may require additional capital to support business growth or acquisitions, and this capital might not be available on terms acceptable to us or at all.

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. We have recently amended our Credit Facility and increased our borrowing capacity and completed a convertible debt offering in which we sold $345 million of Convertible Notes. Debt financing secured by us in the future could involve additional restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when

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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 Credit Facility contains restrictions that impact our business and expose us to risks that could adversely affect our liquidity and financial condition.

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

Our Credit Facility contains customary covenants, subject in each case to customary exceptions and qualifications, which limit our and certain of our subsidiaries' ability to, among other things:

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

Our Credit Facility also contains, subject in each case to customary exceptions and qualifications, customary affirmative covenants. We are also required to comply with a maximum consolidated net leverage ratio, a maximum consolidated secured net leverage ratio, and a minimum consolidated interest coverage ratio. See additional discussion of these requirements in Note 6 of the Notes to the Condensed Consolidated Financial Statements under Item 1 and in "Contractual Obligations, Commitments, and Contingencies" in Management's Discussion and Analysis of Financial Condition and Results of Operations under Item 2 of this Quarterly Report on Form 10-Q. As of June 30, 2017, we were in compliance with all of the covenants under our Credit Facility.

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

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

A significant decline in our cash flow could impair our ability to make payments under our debt obligations.

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 Convertible Notes Indenture, or if we fail to comply with the requirements of our indebtedness, we could default under our Credit Facility or Convertible Notes Indenture. Any default that is not cured or waived could result in the termination of the revolving commitments, the acceleration of the obligations under the Credit Facility or Convertible Notes Indenture, 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 lenders 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.

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

The software and technology industries are characterized by the existence of a large number of patents, copyrights, trademarks and trade secrets and by frequent litigation based on allegations of infringement, misappropriation, misuse and other violations of intellectual property rights. We have received in the past, and may receive in the future, communications from third parties claiming that we have infringed or otherwise misappropriated the intellectual property rights or terms of use

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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 client agreements require us to indemnify our clients for certain third-party claims, such as intellectual property infringement claims, which could increase our costs of defending such claims and may require that we pay damages if there were an adverse ruling or settlement related to any such claims. These types of claims could harm our relationships with our clients, may deter future clients 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 client and a third party, an adverse outcome in any such litigation could make it more difficult for us to defend our intellectual property in any subsequent litigation in which we are a named party.

Litigation could force us to stop selling, incorporating or using our solutions that include the challenged intellectual property or redesign those solutions that use the technology. In addition, we may have to pay damages if we are found to be in violation of a third party's rights. We may have to procure a license for the technology, which may not be available on reasonable terms, if at all, may significantly increase our operating expenses or may require us to restrict our business activities in one or more respects. As a result, we may also be required to develop alternative non-infringing technology, which could require significant effort and expense. There is no assurance that we would be able to develop alternative solutions or, if alternative solutions were developed, that they would perform as required or be accepted in the relevant markets. In some instances, if we are unable to offer non-infringing technology, or obtain a license for such technology, we may be required to refund some or the entire license fee paid for the infringing technology by our clients.

Our exposure to risks associated with the use of intellectual property may be increased as a result of acquisitions, as we have a lower level of visibility into the development process with respect to acquired technology or the care taken to safeguard against infringement risks. Such risks include, without limitation, patent infringement risks, copyright infringement risks, risks arising from the inclusion of open source software that is subject to onerous license provisions that could even require disclosure of our proprietary source code, or violations of terms of use for third party solutions that our acquisition targets use. Third parties may make infringement and similar or related claims after we have acquired technology that had not been asserted prior to our acquisition.

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

Our success depends significantly on our ability to protect our proprietary rights to the technologies we use in our solutions. If we are unable to protect our proprietary rights adequately, our competitors could use the intellectual property we have developed to enhance their own products and services, which could harm our business. We rely on a combination of copyright, service mark, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection. We currently have no issued patents and no significant pending patent applications, and we may be unable to obtain patent protection in the future. In addition, if any patents are issued in the future, they may not provide us with any competitive advantages, may not be issued in a manner that gives us the protection that we seek and may be successfully challenged by third parties. Unauthorized parties may attempt to copy or otherwise obtain and use the technologies underlying our solutions. Monitoring unauthorized use of our technologies is difficult, and we do not know whether the steps we have taken will prevent unauthorized use of our technology. If we are unable to protect our proprietary rights, we may find ourselves at a competitive disadvantage to others who have not incurred the substantial expense, time and effort required to create similar innovative products.

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

We customarily enter into agreements with our employees, contractors and certain parties with whom we do business to limit access to, use of, and disclosure of our confidential and proprietary information. The legal and technical steps we have taken, however, may not prevent unauthorized use or the reverse engineering of our technology. Moreover, we may be required to release the source code of our software to third parties under certain circumstances. For example, some of our client agreements provide that if we cease to maintain or support a certain solution without replacing it with a successor solution, then we may be required to release the source code of the software underlying such solution. In addition, others may independently develop technologies that are competitive to ours or infringe our intellectual property. Moreover, it may be difficult or practically impossible to detect copyright infringement or theft of our software code. Enforcement of our intellectual property rights also depends on our legal actions being successful against these infringers, but these actions may not be successful, even

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when our rights have been infringed. Furthermore, the legal standards relating to the validity, enforceability and scope of protection of intellectual property rights in Internet-related industries are uncertain and still evolving. Additionally, as we sell our solutions internationally, effective patent, trademark, service mark, copyright and trade secret protection may not be available or as robust in every country in which our solutions are available. As a result, we may not be able to effectively prevent competitors outside the United States from infringing or otherwise misappropriating our intellectual property rights, which could reduce our competitive advantage and ability to compete or otherwise harm our business.

We may be unable to halt the operations of websites that aggregate or misappropriate data from our websites.

From time to time, third parties have misappropriated data from our websites through website scraping, software robots or other means and aggregated this data on their websites with data from other companies. In addition, copycat websites have misappropriated data on our network and attempted to imitate our brand or the functionality of our website. When we have become aware of such websites, we have employed technological or legal measures in an attempt to halt their operations. However, we may be unable to detect all such websites in a timely manner and, even if we could, technological and legal measures may be insufficient to halt their operations. In some cases, particularly in the case of websites operating outside of the United States, our available remedies may not be adequate to protect us against the impact of the operation of such websites. Regardless of whether we can successfully enforce our rights against the operators of these websites, any measures that we may take could require us to expend significant financial or other resources, which could harm our business, results of operations or financial condition. In addition, to the extent that such activity creates confusion among consumers or advertisers, our brand and business could be harmed.

Legal proceedings against us could be costly and time consuming to defend.

We are from time to time subject to legal proceedings and claims that arise in the ordinary course of business, including claims brought by our clients or vendors in connection with commercial disputes, claims brought by our clients' current or prospective renters, including class action lawsuits based on asserted statutory or regulatory violations, employment-based claims made by our current or former employees, administrative agencies, government regulators, or insurers.

In March 2015, we were named in a purported class action lawsuit in the United States District Court for the Eastern District of Pennsylvania, styled Stokes v. RealPage, Inc., Case No. 2:15-cv-01520. The claims in this purported class action relate to alleged violations of the Fair Credit Reporting Act ("FCRA") in connection with background screens of prospective tenants of our clients. On January 25, 2016, the court entered an order placing the case on hold until the United States Supreme Court issued its decision in Spokeo, Inc. v. Robins, which case addressed issues related to standing to bring claims related to the FCRA. On May 16, 2016, the U.S. Supreme Court issued its opinion in the Spokeo litigation, vacating the decision of the United States Court of Appeals for the Ninth Circuit, and remanding the case for further consideration by the U.S. Court of Appeals. Following the Supreme Court's decision in Spokeo, the judge in the Stokes case lifted the stay. On June 24, 2016, we filed a motion to dismiss certain claims made in the case based upon the Spokeo decision. On October 19, 2016, the U.S. District Court denied the motion to dismiss.

In November 2014, we were named in a purported class action lawsuit in the United States District Court for the Eastern District of Virginia, styled Jenkins v. RealPage, Inc., Case No. 3:14cv758. The claims in this purported class action relate to alleged violations of the FCRA in connection with background screens of prospective tenants of our clients. This case has since been transferred to the United States District Court for the Eastern District of Pennsylvania. On January 25, 2016, the court entered an order placing the case on hold until the United States Supreme Court issued its decision in the Spokeo case. Following the Supreme Court's decision in Spokeo, the judge in the Jenkins case lifted the stay. On June 24, 2016, we filed a motion to dismiss certain claims made in the case based upon the Spokeo decision. On October 19, 2016, the U.S. District Court denied the motion to dismiss.

On June 19, 2017, the court in both the Stokes case and Jenkins case consolidated the cases for purposes of settlement. On June 30, 2017, the parties signed a Settlement Agreement and Release covering both cases and the plaintiffs in the consolidated cases filed an uncontested motion for preliminary approval of the class action settlement and the notice to class. On August 3, 2017, the court issued a written order preliminarily approving the proposed class settlement. The final approval hearing is set for February 6, 2018.

On February 23, 2015, we received from the Federal Trade Commission ("FTC") a Civil Investigative Demand consisting of interrogatories and a request to produce documents relating to our compliance with the FCRA. We have responded to the request and requests for additional information by the FTC. At this time, we do not have sufficient information to evaluate the likelihood or merits of any potential enforcement action, or to predict the outcome or costs of responding to, or the costs, if any, of resolving this investigation.
Litigation, enforcement actions and other legal proceedings, regardless of their outcome, may result in substantial costs and may divert management's attention and our resources, which may harm our business, overall financial condition and operating results. In addition, legal claims that have not yet been asserted against us may be asserted in the future. Although we

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maintain insurance, there is no guarantee that such insurance will be available or sufficient to cover any such legal proceedings or claims. For example, insurance may not cover such legal proceedings or claims or the insurer may withhold or dispute coverage of such legal proceedings or claims on various grounds, including by alleging such coverage is beyond the scope of such policies, that we are not in compliance with the terms of such insurance policies or that such policies are not in effect, even after proceeds under such insurance policies have been received by us. In addition, insurance may not be sufficient for one or more such legal proceedings or claims and may not continue to be available on terms acceptable to us, or at all. A legal proceeding or claim brought against us that is uninsured or under-insured could result in unanticipated costs, thereby harming our operating results.

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

We provide warranties to clients of certain of our solutions and services relating primarily to product functionality, network uptime, critical infrastructure availability and hardware replacement. General errors, defects, inaccuracies or other performance problems in the software applications underlying our solutions or inaccuracies in or loss of the data we provide to our clients could result in financial or other damages to our clients. Additionally, errors associated with any delivery of our services, including utility billing, could result in financial or other damages to our clients. There can be no assurance that any warranty disclaimers, general disclaimers, waivers or limitations of liability set forth in our contracts would be enforceable or would otherwise protect us from liability for damages. We maintain general liability insurance coverage, including coverage for errors and omissions, in amounts and under terms that we believe are appropriate. There can be no assurance that this coverage will continue to be available on terms acceptable to us, or at all, or in sufficient amounts to cover one or more large product liability claims, or that the insurer will not deny coverage for any future claim or dispute coverage of such legal proceedings or claims even after proceeds under such insurance policies have been received by us. The successful assertion of one or more large product liability claims against us that exceeds available insurance coverage, could have a material adverse effect on our business, prospects, financial condition and results of operations.

If we fail to develop our brands in a cost-effective manner, 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 clients and retaining our existing clients. 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 build and maintain our brands in a cost-effective manner, we may fail to attract new clients or retain our existing clients, and our financial condition and results of operations could be harmed.

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

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with United States generally accepted accounting principles. We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, which requires annual management assessment of the effectiveness of our internal control over financial reporting and a report by our independent auditors. If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, harm our ability to operate our business and reduce the trading price of our stock.

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

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

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09, as amended by certain supplementary ASU’s released in 2016, will replace all current GAAP guidance on this topic and eliminate all industry-specific guidance. Based on our preliminary analysis, we anticipate that commissions paid to our direct sales force will qualify as incremental costs of obtaining a contract and will be capitalized and subsequently amortized. Additionally, we anticipate limited changes in the timing of our revenue recognition and client accommodation credits. The standard will require

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a significant amount of new revenue disclosures in our consolidated financial statements, and we are currently evaluating the impact of these new disclosure requirements. We continue to evaluate the new standard against our existing accounting policies and our contracts with clients to determine the effect the guidance will have on our financial statements and what changes to systems and controls may be warranted.

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

As a public company, we have incurred, and will incur, significant legal, accounting, investor relations and other expenses, including costs associated with public company reporting requirements. We also have incurred and will incur costs associated with current corporate governance requirements, including requirements under Section 404 and other provisions of the Sarbanes-Oxley Act, as well as rules implemented by the Securities Exchange Commission and The NASDAQ Stock Market LLC. We expect these rules and regulations to continue to affect our legal and financial compliance costs and to make some activities more time-consuming and costly. As a public company, it is expensive for us to maintain director and officer liability insurance and it may be difficult for us to attract and retain qualified individuals to serve on our board of directors or as our executive officers.

The rental housing industry, electronic commerce and many of the products and services that we offer, including background screening services, utility billing, affordable housing compliance and audit services, insurance and payments are subject to extensive and evolving governmental regulation. Changes in regulations or our failure to comply with regulations could harm our operating results.

The rental housing industry is subject to extensive and complex federal, state and local laws and regulations. Our services and solutions must work within the extensive and evolving legal and regulatory requirements applicable to our clients and third-party service providers, including, but not limited to, those under the Fair Credit Reporting Act, the Fair Housing Act, the Deceptive Trade Practices Act, the Drivers Privacy Protection Act, the Gramm-Leach-Bliley Act, the Fair and Accurate Credit Transactions Act, the United States Tax Reform Act of 1986 (TRA86), which is an IRS law governing tax credits, the Privacy Rules, Safeguards Rule and Consumer Report Information Disposal Rule promulgated by the Federal Trade Commission, or FTC, the FTC's Telemarketing Sales Rule, the Telephone Consumer Protection Act (TCPA), the CAN-SPAM Act, the Electronic Communications Privacy Act, the regulations of the United States Department of Housing and Urban Development, or HUD, HIPAA/HITECH, rules and regulations of the Consumer Financial Protection Bureau (CFPB) and complex and divergent state and local laws and regulations related to data privacy and security, credit and consumer reporting, deceptive trade practices, discrimination in housing, telemarketing, electronic communications, call recording, utility billing and energy and gas consumption. These regulations are complex, change frequently and may become more stringent over time. Although we attempt to structure and adapt our solutions and service offerings to comply with these complex and evolving laws and regulations, we may be found to be in violation. If we are found to be in violation of any applicable laws or regulations, we could be subject to administrative and other enforcement actions as well as class action lawsuits or demands for client reimbursement. Additionally, many applicable laws and regulations provide for penalties or assessments on a per occurrence basis. Due to the nature of our business, the type of services we provide and the large number of transactions processed by our solutions, our potential liability in an enforcement action or class action lawsuit could be significant. In addition, entities such as HUD, the FTC and the CFPB have the authority to promulgate rules and regulations that may impact our clients and our business. On February 23, 2015, we received from the FTC a Civil Investigative Demand consisting of interrogatories and a request to produce documents relating to our compliance with the Fair Credit Reporting Act. We have responded to the request. At this time, we do not know the scope of the investigation and we do not have sufficient information to evaluate the likelihood or merits of any potential enforcement action, or to predict the outcome or costs of responding to, or the costs, if any, of resolving this investigation.

We believe increased regulation is likely in the area of data privacy, and laws and regulations applying to the solicitation, collection, processing or use of personally identifiable information or consumer information could affect our clients' ability to use and share data, potentially reducing demand for our on demand software solutions. In October 2015, the European Court of Justice invalidated the U.S.-EU Safe Harbor framework, which had been the primary compliance mechanism for establishing data transfers outside of the European Economic Area in accordance with the European Union's Data Protection Directive 95-46 EC. While alternative compliance options exist, the long-term viability of the overall compliance framework remains in question, which could result in increased regulation, cost of compliance and limitations on data transfers for both our clients and us.

Some of our LeaseStar products operate under the real estate brokerage laws of numerous states and require maintaining licenses in many of these states. Brokerage laws in these states could change, affecting our ability to provide some LeaseStar, or if applicable, other products in these states.

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

Our business is subject to the risks of international operations.

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

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

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

- political, social, economic or environmental instability, terrorist attacks and security concerns in general;
- limitations of local infrastructure;
- fluctuations in currency exchange rates;
- higher levels of credit risk and payment fraud;
- reduced protection for intellectual property rights in some countries;
- difficulties in staffing and managing global operations and the increased travel, infrastructure and legal compliance costs associated with multiple international locations;
- compliance with statutory equity requirements and management of tax consequences; and
- outbreaks of highly contagious diseases.

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

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

Through our wholly owned subsidiary, Multifamily Internet Ventures LLC, we hold insurance agent licenses from a number of individual state departments of insurance and are subject to state governmental regulation and supervision in connection with the operation of our LeasingDesk insurance business. In addition, Multifamily Internet Ventures LLC has appointed numerous sub-producing agents to generate insurance business for its eRenterPlan product. These sub-producing agents primarily consist of property owners and managers who market the eRenterPlan to residents. The sub-producing agents are subject to the same state regulation and supervision, and Multifamily Internet Ventures LLC cannot ensure that these sub-producing agents will not violate these regulations, and thus expose the LeasingDesk business to sanctions by these state departments of insurance for any such violations. Furthermore, state insurance departments conduct periodic examinations, audits and investigations of the affairs of insurance agents. This state governmental supervision could reduce our profitability or limit the growth of our LeasingDesk insurance business by increasing the costs of regulatory compliance, limiting or restricting the solutions we provide or the methods by which we provide them or subjecting us to the possibility of regulatory actions or proceedings. Our continued ability to maintain these insurance agent licenses in the jurisdictions in which we are licensed depends on our compliance with the rules and regulations promulgated from time to time by the regulatory authorities in each of these jurisdictions.

In all jurisdictions, the applicable laws and regulations are subject to amendment or interpretation by regulatory authorities. Generally, such authorities are vested with relatively broad discretion to grant, renew and revoke licenses and approvals and to implement regulations, as well as regulate rates that may be charged for premiums on policies. Accordingly, we may be precluded or temporarily suspended from carrying on some or all of the activities of our LeasingDesk insurance business or fined or penalized in a given jurisdiction. No assurances can be given that our

LeasingDesk insurance business can continue to be conducted in any given jurisdiction as it has been conducted in the past.

Multifamily Internet Ventures LLC is required to maintain a 50-state general agency insurance license as well as individual insurance licenses for each sales agent involved in the solicitation of insurance products. Both the agency and individual licenses require compliance with state insurance regulations, payment of licensure fees, and continuing education programs. In the event that regulatory compliance requirements are not met, Multifamily Internet Ventures LLC could be

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subject to license suspension or revocation, state Department of Insurance audits and regulatory fines. As a result, our ability to engage in the business of insurance could be restricted, and our revenue and financial results will be adversely affected.

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

Through our wholly owned subsidiary, Multifamily Internet Ventures LLC, a managing general insurance agency, we generate commission revenue from offering liability and renter’s insurance. Through Multifamily Internet Ventures LLC we also sell additional insurance products, including auto and other personal lines insurance, to renters that buy renter's insurance from us. These policies are ultimately underwritten by various insurance carriers. Some of the property owners and managers that participate in our programs opt to require renters to purchase rental insurance policies and agree to grant to Multifamily Internet Ventures LLC exclusive marketing rights at their properties. If demand for residential rental housing declines, property owners and managers may be forced to reduce their rental rates and to stop requiring the purchase of rental insurance in order to reduce the overall cost of renting. If property owners or managers cease to require renter's insurance, elect to offer policies from competing providers or insurance premiums decline, our revenues from selling insurance policies will be adversely affected.

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

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 clients 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 client contracts provide that our clients must pay all applicable sales and similar taxes. Nevertheless, clients 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 clients 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 clients and may adversely affect our ability to continue to sell those solutions to existing clients or to gain new clients in the areas in which such taxes are imposed.

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

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

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

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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, or our inability to successfully integrate certain new members of our management, 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 client service, investor communications, employee respect and professional development and management decision-making and leadership. As our organization grows and we are required to implement more complex organizational structures, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture which could negatively impact our future success.

Risks Related to Ownership of our Common Stock

The concentration of our capital stock owned by insiders may limit your ability to influence corporate matters.

Our executive officers, directors, and entities affiliated with them together beneficially owned approximately 29.4% of our common stock as of June 30, 2017. Of such amount, Stephen T. Winn, our President, Chief Executive Officer and Chairman of the Board, and entities beneficially owned by Mr. Winn held an aggregate of approximately 27.0% of our common stock as of June 30, 2017. This significant concentration of ownership may adversely affect the trading price of our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. Mr. Winn and entities beneficially owned by Mr. Winn may exert significant influence over our management and affairs and matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership may have the effect of delaying or preventing a change of control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change of control would benefit our other stockholders.

The trading price of our common stock price may be volatile.

The trading price of our common stock could be subject to wide fluctuations in response to various factors, including, but not limited to, those described in this “Risk Factors” section, some of which are beyond our control. Factors affecting the trading price of our common stock include:

- variations in our operating results or in expectations regarding our operating results;
- variations in operating results of similar companies;
- announcements of technological innovations, new solutions or enhancements, strategic alliances or agreements by us or by our competitors;
- announcements by competitors regarding their entry into new markets, and new product, service and pricing strategies;
- marketing, advertising or other initiatives by us or our competitors;
- increases or decreases in our sales of products and services for use in the management of units by clients and increases or decreases in the number of units managed by our clients;
- threatened or actual litigation;
- major changes in our board of directors or management;
- recruitment or departure of key personnel;
- changes in our financial guidance and how our actual results compare to such guidance;
-

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;

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- sales of our shares of common stock by existing stockholders;
- volatility in our stock price, which may lead to higher stock-based expense under applicable accounting standards; and
- adoption or modification of regulations, policies, procedures or programs applicable to our business.

In addition, the stock market in general, and the market for technology and specifically Internet-related companies, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may harm the market price of our common stock regardless of our actual operating performance. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and our resources, whether or not we are successful in such litigation.

Future sales of our common stock in the public market could lower the market price for our common stock.

In the future, we may sell additional shares of our common stock to raise capital. In addition, a substantial number of shares of our common stock is reserved for issuance upon the exercise of stock options and upon conversion of the Convertible Notes. We cannot predict the size of future issuances or the effect, if any, that they may have on the market price for our common stock. The issuance and sale of substantial amounts of common stock, or the perception that such issuances and sales may occur, could adversely affect the market price of our common stock and impair our ability to raise capital through the sale of additional equity.

The Note Hedges and Warrant transactions may affect the value of our common stock.

In connection with the pricing of the Convertible Notes, we entered into Note Hedges transactions with the option counterparties. We also entered into Warrant transactions with the option counterparties. The Note Hedges transactions are expected generally to reduce the potential dilution upon conversion of the Convertible Notes and/or offset any cash payments we are required to make in excess of the principal amount of Convertible Notes once converted, as the case may be. However, the Warrants could separately have a dilutive effect on our common stock to the extent that the market price per share of our common stock exceeds the strike price of the Warrants.

In connection with establishing their initial hedges of the Note Hedges and Warrants, the option counterparties or their respective affiliates expected to enter into various derivative transactions with respect to our common stock concurrently with or shortly after the pricing of the Convertible Notes. The option counterparties or their respective affiliates may modify any such hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Convertible Notes (and are likely to do so during any observation period related to a conversion of the Convertible Notes). This activity could also cause or avoid an increase or a decrease in the market price of our common stock.

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

Our amended and restated certificate of incorporation and our amended and restated bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it more difficult for stockholders to elect directors and take other corporate actions. These provisions include:

- a classified board of directors whose members serve staggered three-year terms;
- not providing for cumulative voting in the election of directors;
- authorizing our board of directors to issue, without stockholder approval, preferred stock with rights senior to those of our common stock;
- prohibiting stockholder action by written consent; and
- requiring advance notification of stockholder nominations and proposals.

These and other provisions of our amended and restated certificate of incorporation and our amended and restated bylaws and under Delaware law could discourage potential takeover attempts, reduce the price that investors might be willing to pay in 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.

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

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

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

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. If we do not pay cash dividends, you would receive a return on your investment in our common stock only if the market price of our common stock has increased when you sell your shares. In addition, the terms of our credit facilities currently restrict our ability to pay dividends. See additional discussion under the Dividend Policy heading of Part II, Item 5 of our Annual Report on Form 10-K filed with the SEC on March 1, 2017.

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

(c) Purchases of Equity Securities

The following table provides information with respect to repurchases of our common stock made during the three months ended June 30, 2017, by RealPage, Inc. or any “affiliated purchaser” of RealPage, Inc. as defined in Rule 10b-18(a)(3) under the Exchange Act:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [1]
April 1, 2017 through April 30, 2017	—	$ —	—	$44,894,113
May 1, 2017 through May 31, 2017	—	—	—	44,894,113
June 1, 2017 through June 30, 2017	—	—	—	44,894,113
	—	$ —	—	$44,894,113

(1) Our board of directors approved an extension of our May 2014 share repurchase program in 2015, 2016, and again in April 2017. Each renewal permitted the repurchase of up to $50.0 million of our common stock during the period commencing on the extension start date and ending one year thereafter. The current extension of the share repurchase program will expire on May 4, 2018.

Item 6. Exhibits.

The exhibits required to be furnished pursuant to Item 6 are listed in the Exhibit Index filed herewith, which Exhibit Index is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.
Date: August 4, 2017

RealPage, Inc.

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

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EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Date	Number	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation of the Registrant	S-1/A	7/26/2010	3.2	
3.2	Amended and Restated Bylaws of the Registrant	S-1/A	7/26/2010	3.4	
4.1	Form of Common Stock certificate of the Registrant	S-1/A	7/26/2010	4.1	
4.2	Shareholders' Agreement among the Registrant and certain stockholders, dated December 1, 1998, as amended July 16, 1999 and November 3, 2000	S-1	4/29/2010	4.2	
4.3	Second Amended and Restated Registration Rights Agreement among the Registrant and certain stockholders, dated February 22, 2008	S-1	4/29/2010	4.3	
4.4	Indenture between the Registrant and Wells Fargo Bank, National Association, dated May 23, 2017				X
4.5	Form of Global Note to represent the 1.50% Convertible Senior Notes due 2022, of the Registrant				X
4.6	Form of Warrant Confirmation in connection with 1.50% Convertible Senior Notes due 2022, of the Registrant				X
4.7	Form of Call Option Confirmation in connection with 1.50% Convertible Senior Notes due 2022, of the Registrant				X
10.1	Fourth Amendment to Credit Agreement among the Registrant, certain subsidiaries of the Registrant party thereto, the lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent, dated April 3, 2017	10-Q	5/8/2017	10.3	
10.2	Fifth Amendment to Credit Agreement among the Registrant, certain subsidiaries of the Registrant party thereto, the lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent, dated May 11, 2017				X
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.INS	Instance				X
101.SCH	Taxonomy Extension Schema				X
101.CAL	Taxonomy Extension Calculation				X
101.LAB	Taxonomy Extension Labels				X
101.PRE	Taxonomy Extension Presentation				X
101.DEF	Taxonomy Extension Definition				X

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