

REALPAGE INC  
Form 10-Q  
November 05, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-34846

RealPage, Inc.

(Exact name of registrant as specified in its charter)

Delaware	75-2788861
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4000 International Parkway	75007-1951
Carrollton, Texas	
(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  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  No

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

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

Class

October 23, 2015

Common Stock, \$0.001 par value

78,388,329

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## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements.

## REALPAGE, INC.

## Condensed Consolidated Balance Sheets

(In thousands, except share data)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$18,566	\$26,936
Restricted cash	94,086	85,543
Accounts receivable, less allowance for doubtful accounts of \$1,926 and \$2,363 at September 30, 2015 and December 31, 2014, respectively	68,460	64,845
Prepaid expenses	9,610	7,647
Deferred tax asset, net	17,635	10,996
Other current assets	2,571	1,848
Total current assets	210,928	197,815
Property, equipment and software, net	71,944	72,616
Goodwill	220,104	193,378
Identified intangible assets, net	87,287	100,085
Deferred tax asset, net	—	2,537
Other assets	5,201	5,059
Total assets	\$595,464	\$571,490
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$15,670	\$14,830
Accrued expenses and other current liabilities	33,582	22,905
Current portion of deferred revenue	77,217	73,485
Customer deposits held in restricted accounts	93,956	85,489
Total current liabilities	220,425	196,709
Deferred revenue	7,107	6,903
Deferred tax liability, net	1,439	5,196
Revolving credit facility	44,000	20,000
Other long-term liabilities	10,574	13,902
Total liabilities	283,545	242,710
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, \$0.001 par value: 10,000,000 shares authorized and zero shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	—	—
Common stock, \$0.001 par value: 125,000,000 shares authorized, 82,370,113 and 83,211,650 shares issued and 78,479,774 and 79,037,351 shares outstanding at September 30, 2015 and December 31, 2014, respectively	82	83
Additional paid-in capital	456,707	437,664
Treasury stock, at cost: 3,890,339 and 4,174,299 shares at September 30, 2015 and December 31, 2014, respectively	(23,496)	(33,398)
Accumulated deficit	(120,898)	(75,360)
Accumulated other comprehensive loss	(476)	(209)

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Total stockholders' equity	311,919	328,780
Total liabilities and stockholders' equity	\$595,464	\$571,490

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
On demand	\$116,772	\$100,747	\$333,872	\$289,361
On premise	834	755	2,301	2,446
Professional and other	3,982	3,034	10,647	8,280
Total revenue	121,588	104,536	346,820	300,087
Cost of revenue	52,879	46,311	150,160	128,353
Gross profit	68,709	58,225	196,660	171,734
Operating expense:				
Product development	16,858	17,528	52,919	48,310
Sales and marketing	31,559	29,949	90,333	83,970
General and administrative	13,424	15,443	51,797	53,191
Impairment of identified intangible assets	20,274	—	20,801	—
Total operating expense	82,115	62,920	215,850	185,471
Operating loss	(13,406)	) (4,695)	) (19,190)	) (13,737)
Interest expense and other, net	(391)	) (345)	) (1,048)	) (771)
Loss before income taxes	(13,797)	) (5,040)	) (20,238)	) (14,508)
Income tax benefit	(5,605)	) (1,783)	) (7,120)	) (4,124)
Net loss	\$(8,192)	) \$(3,257)	) \$(13,118)	) \$(10,384)
Net loss per share				
Basic	\$(0.11)	) \$(0.04)	) \$(0.17)	) \$(0.13)
Diluted	\$(0.11)	) \$(0.04)	) \$(0.17)	) \$(0.13)
Weighted average shares used in computing net loss per share				
Basic	76,564	77,280	76,772	77,075
Diluted	76,564	77,280	76,772	77,075
See accompanying notes.				

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REALPAGE, INC.

Condensed Consolidated Statements of Comprehensive Loss

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net loss	\$(8,192	) \$(3,257	) \$(13,118	) \$(10,384
Other comprehensive loss—foreign currency translation adjustment	(31	) (9	) (267	) (18
Comprehensive loss	\$(8,223	) \$(3,266	) \$(13,385	) \$(10,402
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 Loss	Accumulated Deficit	Treasury Shares		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance as of January 1, 2015	83,212	\$83	\$437,664	\$ (209 )	\$ (75,360 )	(4,174 )	\$(33,398 )	\$ 328,780
Exercise of stock options	218	1	2,898	—	—	—	—	2,899
Issuance of restricted stock	1,447	1	—	—	—	(681 )	(5,619 )	(5,618 )
Issuance of common stock	39	—	—	—	—	(2 )	—	—
Retirement of treasury shares	(2,546 )	(3 )	(13,553 )	—	(32,420 )	2,546	45,976	—
Treasury stock purchase, at cost	—	—	—	—	—	(1,579 )	(30,455 )	(30,455 )
Stock-based compensation	—	—	30,666	—	—	—	—	30,666
Excess tax shortfall from stock options	—	—	(968 )	—	—	—	—	(968 )
Foreign currency translation	—	—	—	(267 )	—	—	—	(267 )
Net loss	—	—	—	—	(13,118 )	—	—	(13,118 )
Balance as of September 30, 2015	82,370	\$82	\$456,707	\$ (476 )	\$ (120,898 )	(3,890 )	\$(23,496 )	\$ 311,919

See accompanying notes.



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## REALPAGE, INC.

## Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September	
	30,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$(13,118	) \$(10,384
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	33,787	30,533
Deferred tax benefit	(8,827	) (6,011
Stock-based compensation	30,666	28,794
Excess tax shortfall from stock options	968	—
Impairment of identified intangible assets	20,801	—
Loss on disposal and impairment of other long-lived assets	2,968	36
Acquisition-related consideration	(3,018	) 564
Changes in assets and liabilities, net of assets acquired and liabilities assumed in business combinations:		
Accounts receivable	(2,969	) 3,043
Customer deposits	(76	) (3
Prepaid expenses and other current assets	(2,451	) (2,445
Other assets	(117	) (700
Accounts payable	(726	) 3,099
Accrued compensation, taxes and benefits	5,672	(257
Deferred revenue	3,936	3,140
Other current and long-term liabilities	1,018	645
Net cash provided by operating activities	68,514	50,054
Cash flows from investing activities:		
Purchases of property, equipment and software	(18,553	) (29,125
Proceeds from disposal of assets	305	—
Acquisition of businesses, net of cash acquired	(45,450	) (41,942
Intangible asset additions	(231	) —
Net cash used in investing activities	(63,929	) (71,067
Cash flows from financing activities:		
Proceeds from revolving credit facility	51,500	68,572
Payments on revolving credit facility	(27,500	) (30,000
Deferred financing costs	(8	) (992
Payments on capital lease obligations	(429	) (420
Payments of acquisition-related consideration	(2,109	) (4,007
Issuance of common stock	2,900	5,168
Excess tax shortfall from stock options	(968	) —
Purchase and retirement of treasury stock	(36,074	) (21,122
Net cash (used in) provided by financing activities	(12,688	) 17,199
Net decrease in cash and cash equivalents	(8,103	) (3,814
Effect of exchange rate on cash	(267	) (18
Cash and cash equivalents:		
Beginning of period	26,936	34,502

End of period	\$18,566	\$30,670
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See accompanying notes.

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REALPAGE, INC.

Condensed Consolidated Statements of Cash Flows, continued

(In thousands)

(Unaudited)

	Nine Months Ended September	
	30,	
	2015	2014
Supplemental cash flow information:		
Cash paid for interest	\$673	\$678
Cash paid for income taxes, net of refunds	\$609	\$358
Non-cash investing activities:		
Accrued fixed assets	\$1,566	\$1,943

See accompanying notes.

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

#### 2. Summary of Significant Accounting Policies

##### Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and footnotes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The 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, 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 2, 2015 (“Form 10-K”).

##### Segment and Geographic Information

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

Principally, all of our revenue for the three and nine months ended September 30, 2015 and 2014 was earned in the United States. Net property, equipment and software held consisted of \$67.0 million and \$66.5 million located in the United States, and \$4.9 million and \$6.1 million in our international subsidiaries at September 30, 2015 and December 31, 2014, respectively.

##### Accounting Policies and Use of Estimates

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

##### Revenue Recognition

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

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

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

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

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

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

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

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

### On Demand Revenue

Our on demand revenue consists of license and subscription fees, transaction fees related to certain of our software-enabled value-added services and commissions derived from us selling certain risk mitigation services. License and subscription fees are 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 customer is expected to benefit, which we consider to be three years. Recognition starts once the product has been activated. Revenue from monthly and annual subscription fees is recognized on a straight-line basis over the access period.

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

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

### On Premise Revenue

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

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

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### Professional and Other Revenue

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

### Fair Value Measurements

We measure certain financial assets and liabilities at fair value pursuant to a fair value hierarchy based on inputs to valuation techniques that are used to measure fair value which are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon its own market assumptions. See additional discussion of our fair value measurements in Note 11.

### Concentrations of Credit Risk

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

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

No single customer accounted for 10% or more of our revenue or accounts receivable for the three or nine months ended September 30, 2015 or 2014.

### Recently Issued Accounting Standards

In April 2015 the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This ASU requires that debt issuance costs related to a recognized liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. This ASU is effective for interim and annual reporting periods beginning after December 15, 2015, and early adoption of this ASU permitted.

In August 2015, the FASB issued ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line of Credit Arrangements which excludes line of credit arrangements from the scope of ASU 2015-03. Under this ASU, debt issuance costs related to line of credit arrangements can be deferred and presented as an asset that is subsequently amortized over the term of the line of credit arrangement, regardless of whether there are any outstanding borrowings on the line of credit arrangement. ASU 2015-15 should be adopted concurrent with the adoption of ASU 2015-03. The Company does not expect that the adoption of ASU 2015-03 and ASU 2015-15 will have a material effect on its financial statements.

The FASB issued ASU 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement in April 2015. This update provides guidance to customers in determining whether a cloud computing arrangement includes a software license. The update is effective for interim and annual reporting periods beginning after December 15, 2015, early adoption is permitted. The update allows for the use of either a prospective or retrospective adoption approach. The Company has not yet determined the timing or method of adoption, and is currently evaluating the potential impact of this guidance on its financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This ASU provides guidance on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities such as limited partnerships, limited liability corporations and securitization structures. ASU 2015-02 is effective for periods beginning after December 15, 2015. Early adoption of this ASU is permitted, including in an interim period. The Company has not yet determined the timing of adoption and does not expect that the adoption of this guidance will have a material effect on its financial statements.



In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This new standard will replace all current GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 was originally effective for annual and interim reporting periods beginning after December 15, 2016, early application was prohibited. This ASU permits companies to apply the amendments either retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application.

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In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606) - Deferral of Effective Date. ASU 2015-14 permits public business entities to defer the adoption of ASU 2014-09 until interim and annual reporting periods beginning after December 15, 2017. Earlier application is permitted, but not before interim and annual and reporting periods beginning after December 15, 2016. The Company has not yet selected a transition method or date and is currently evaluating the impact of the pending adoption of this ASU on its ongoing financial reporting.

## 3. Acquisitions

## 2015 Acquisitions

## Indatus

In June 2015, we acquired certain assets from ICIM Corporation, including the Answer Automation, Call Tracker and Zip Digital products marketed under the name Indatus. The Indatus offerings are software-as-a-service products that provide automated answering services, marketing spend analysis tools and other features which enhance the ability of managers of multifamily properties to communicate with their residents. We plan to integrate the Indatus assets with our existing contact center and maintenance products, increasing the features of these existing products. This transaction was determined to constitute a business combination and was accounted for under FASB Accounting Standards Codification Topic 805, Business Combinations ("ASC 805").

We acquired the Indatus assets for a purchase price of \$49.4 million, consisting of a cash payment of \$43.8 million at closing, deferred cash payments of up to \$5.0 million payable over nineteen months after the acquisition date and contingent cash payments of up to \$2.0 million, in the aggregate, if certain revenue targets are met for the twelve month periods ended June 30, 2016 and 2017. The fair value of the deferred and contingent cash payments was \$4.7 million and \$0.9 million, respectively, as of the acquisition date. The fair value of the deferred cash payments was estimated based on the present value, as of the date of acquisition, of anticipated future payments. The deferred cash payments are subject to adjustments specified in the acquisition agreement related to the seller's indemnification obligations. The fair value of the contingent cash payments was based on management's estimate of the cash payments using a probability weighted discount model based on the achievement of the specified revenue targets and will be evaluated quarterly. Direct acquisition costs were \$0.3 million and expensed as incurred. This acquisition was financed using proceeds from our revolving credit facility.

Acquired intangibles were recorded at their estimated fair value based on the income approach using market-based estimates. The acquired developed product technologies have a useful life of three years and will be amortized on a straight-line basis. The trade name acquired will be amortized over a useful life of one year, based on our anticipated use of the asset, and will be recognized on a straight-line basis. Customer relationships acquired have a useful life of ten years, which are amortized proportionately to the expected discounted cash flows derived from the asset. Goodwill and identified intangible assets associated with the acquisition are deductible for tax purposes. Goodwill arising from the acquisition consists largely of anticipated synergies resulting from the integration of Indatus with our pre-existing products and from leveraging our existing customer base and sales staff. We included the results of operations of this acquisition in our condensed consolidated financial statements from the effective date of the acquisition.

## VRX

In June 2015, we acquired certain assets from RJ Vacations, LLC and Switch Development Corporation, including the VRX product ("VRX"). VRX is a software-as-a-service application which allows vacation rental management companies to manage the cleaning and turning of units, accounting and document management. VRX will augment our existing line of solutions offered to the vacation rental industry and we plan to integrate it with our Kigo solution. This transaction was determined to constitute a business combination and was accounted for under ASC 805.

We acquired the VRX assets for a purchase price of \$2.0 million, consisting of a cash payment of \$1.5 million at closing and a contingent cash payment of up to \$0.5 million. Payment of the contingent cash obligation is dependent upon the achievement of certain subscription or booking activity targets and is subject to adjustments specified in the acquisition agreement related to the sellers' indemnification obligations. The contingent cash obligation had a fair value of \$0.5 million, as of the acquisition date, and is due fifteen months after the date of acquisition. The fair value of the deferred cash payment was estimated using a probability weighted discount model based on the achievement of

the specified subscription and booking targets.

The purchase agreement also provides for the sellers to receive additional contingent cash payments of up to \$3.0 million. Payment of the additional contingent cash payments is dependent upon the achievement of certain revenue targets during the twelve month periods ended December 31, 2016, 2017 and 2018, and the sellers providing certain services during a specified period following the acquisition date. Due to this post-acquisition service requirement, the Company concluded that the additional contingent cash payments represent post-acquisition compensation; therefore, these amounts were excluded from the acquisition consideration. This acquisition was financed using cash flows from operations.

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Acquired intangibles were recorded at their estimated fair value based on the income approach using market-based estimates. The acquired developed product technologies have an estimated useful life of three years and will be amortized on a straight-line basis. The estimated fair value of the customer relationships acquired was immaterial and these intangible assets were expensed as of the acquisition date. Goodwill arising from the acquisition consists largely of anticipated synergies resulting from the integration of VRX with Kigo. Goodwill and identified intangible assets associated with the acquisition are deductible for tax purposes. We included the results of operations of this acquisition in our condensed consolidated financial statements from the effective date of the acquisition. Direct acquisition costs were immaterial and expensed as incurred.

**Purchase Price Allocation**

The estimated fair values of assets acquired and liabilities assumed related to the above acquisitions are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed. We believe that this information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but we are waiting for additional information necessary to finalize those fair values. Therefore, the provisional measurements of fair value reflected are subject to change and such changes could be significant. We expect to finalize the valuation and complete the purchase price allocation as soon as practicable, but no later than one year from the acquisition date.

We preliminarily allocated the purchase price of Indatus and VRX as follows:

	Indatus (in thousands)	VRX
Accounts receivable	\$646	\$—
Intangible assets:		
Developed product technologies	13,400	794
Customer relationships	9,770	11
Trade names	83	—
Goodwill	25,575	1,186
Net other liabilities	(57	) —
Total purchase price	\$49,417	\$1,991

At September 30, 2015, total deferred cash obligations and contingent cash obligations included in acquisition consideration of purchases completed in 2015 were \$5.1 million and \$1.1 million, respectively. The deferred cash obligations were carried net of a discount of \$0.3 million in the accompanying Condensed Consolidated Balance Sheets. During the three and nine months ended September 30, 2015, we recognized a net gain in the amount of \$0.3 million due to changes in the fair value of the contingent cash obligations related to acquisitions completed in 2015. No payments of deferred or contingent cash obligations related to acquisitions completed in 2015 were made during the three and nine months ended September 30, 2015 and 2014.

**2014 Acquisitions****InstaManager**

In January 2014, we acquired certain assets from Bookt LLC, including the InstaManager product (“InstaManager”). InstaManager was a software-as-a-service vacation rental booking engine used by professional managers of vacation rental properties which offered marketing websites, online pricing and availability, online booking, automated reservations, payment processing and insurance sales. The acquisition of InstaManager expanded our product offerings to include property management software for the vacation rental market. This transaction was determined to constitute a business combination and was accounted for under ASC 805.

We acquired InstaManager for a purchase price of \$9.2 million, consisting of a cash payment of \$6.0 million at closing, a deferred cash payment of up to \$1.0 million payable over two years after the acquisition date and contingent cash payments totaling up to \$7.0 million if certain revenue targets are met for the twelve month periods ended March 31, 2015 and March 31, 2016. The initial fair value of the deferred cash payment and the contingent cash payments was \$0.8 million and \$2.4 million, respectively. The fair value of the deferred cash payments was estimated based on the present value, as of the date of acquisition, of anticipated future payments. The fair value of the

contingent cash payments was estimated using a probability weighted discount model based on the achievement of the specified revenue targets and is evaluated quarterly. Direct acquisition costs were less than \$0.1 million and expensed as incurred. This acquisition was financed from cash flows from operations.

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Acquired intangibles were recorded at their estimated fair value based on the income approach using market-based estimates. The acquired developed product technologies have a useful life of three years and are amortized on a straight-line basis. Goodwill and identified intangible assets associated with this acquisition are deductible for tax purposes. Goodwill arising from the acquisition consists largely of the economies of scale expected from integrating InstaManager into our existing operating structure. We included the results of operations of this acquisition in our condensed consolidated financial statements from the effective date of the acquisition.

We assigned an indefinite useful life to the trade name acquired, as we did not anticipate ceasing use of the trade name in the marketplace. In March 2015, we completed the integration of InstaManager with another vacation rental software product and ceased actively marketing the product and use of the trade name at that time. As a result of this event, we assessed the InstaManager trade name for impairment. See further discussion of this analysis and conclusion in Note 5.

### Virtual Maintenance Manager

In March 2014, we acquired certain assets from Virtual Maintenance Manager LLC, including the Virtual Maintenance Manager product ("VMM"). VMM is a software-as-a-service application that facilitates the management of the end-to-end maintenance life cycle for single family and multifamily rental properties and provides property managers with enhanced visibility into their maintenance costs, manages resources and provides enhanced business control for property managers. We integrated VMM into our existing Propertyware products. This transaction was determined to constitute a business combination and was accounted for under ASC 805.

We acquired the VMM assets for a purchase price of \$1.2 million, consisting of a cash payment of \$1.0 million at closing, a deferred cash payment of up to \$0.2 million payable over two years after the acquisition date and contingent cash payments of up to \$2.0 million if certain revenue targets are met for the twelve months ended June 30, 2015 and June 30, 2016. The initial fair value of the deferred cash payment and the contingent cash payments was \$0.2 million and less than \$0.1 million, respectively. The fair value of the deferred cash payments was estimated based on the present value, as of the date of acquisition, of anticipated future payments. The fair value of the contingent cash payments was estimated using a probability weighted discount model based on the achievement of the specified revenue targets and is evaluated quarterly. Direct acquisition costs were less than \$0.1 million and expensed as incurred. This acquisition was financed from cash flows from operations.

Acquired intangibles were recorded at their estimated fair value based on the income approach using market-based estimates. The acquired developed product technologies have a useful life of three years and are amortized on a straight-line basis. Acquired customer relationships have a useful life of ten years, which are amortized proportionately to the expected discounted cash flows derived from the asset. Goodwill and identified intangible assets associated with this acquisition are deductible for tax purposes. Goodwill arising from the acquisition consists largely of the economies of scale expected from integrating VMM into our existing operating structure and from anticipated synergies with our existing products. We included the results of operations of this acquisition in our condensed consolidated financial statements from the effective date of the acquisition.

### Notivus

In May 2014, we acquired certain assets from Notivus Multi-Family LLC, including the Notivus product ("Notivus"). Notivus is a software-as-a-service application that provides an outsourced vendor credentialing solution to assist multifamily owners and managers in the credentialing and ongoing monitoring of their current and prospective vendors, suppliers and independent contractors. We subsequently integrated Notivus into our existing Compliance Depot products. This transaction was determined to constitute a business combination and was accounted for under ASC 805.

We acquired the Notivus assets for a purchase price of \$4.4 million, consisting of a cash payment of \$3.6 million at closing and a deferred cash payment of up to \$0.8 million payable over two years after the acquisition date. The initial fair value of the deferred cash payment was approximately \$0.8 million and was estimated based on the present value, as of the date of acquisition, of the anticipated future payments. Direct acquisition costs were less than \$0.1 million and expensed as incurred. This acquisition was financed from cash flows from operations.

Acquired intangible assets were recorded at their estimated fair value based on the income approach using market-based estimates. The acquired developed product technologies have a useful life of three years and are amortized on a straight-line basis. Goodwill and identified intangible assets associated with this acquisition are deductible for tax purposes and consist largely of the economies of scale expected from integrating Notivus into our existing operating structure and from anticipated synergies with our existing products. We included the results of operations of this acquisition in our condensed consolidated financial statements from the effective date of the acquisition.

**Kigo**

In June 2014, we acquired all of the issued and outstanding stock of Kigo, Inc. ("Kigo"). Kigo is a software-as-a-service vacation rental booking system based in the United States with operations in Spain. Kigo offers services for vacation rental

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property managers that include vacation rental calendars, scheduling, reservations, accounting, channel management, website design, payment processing and other tasks to aid the management of leads, revenue, resources and lodging calendars. We integrated our existing vacation rental products with Kigo and launched an enhanced version of the software in March 2015. This transaction was determined to constitute a business combination and was accounted for under ASC 805.

We acquired Kigo for a purchase price of \$36.2 million, consisting of a cash payment of \$30.7 million and a deferred cash payment of up to \$5.5 million, payable over two and a half years after the acquisition date. Interest is accrued on the deferred cash payments at a rate equal to the one-month London Interbank Offered Rate ("LIBOR"), plus a premium of 1.00%, and is payable on the date the underlying principal is due. This acquisition was financed from proceeds from our revolving line of credit and cash flows from operations. Direct acquisition costs were \$0.5 million and were expensed as incurred.

Acquired intangible assets were recorded at their estimated fair value based on the income approach using market-based estimates. The acquired developed product technologies have a useful life of three years and are amortized on a straight-line basis. Acquired customer relationships have a useful life of ten years, which are amortized proportionately to the expected discounted cash flows derived from the asset. The trade name acquired has an indefinite useful life as we do not plan to cease using the trade name in the marketplace. Goodwill and identified intangible assets associated with this acquisition are not deductible for tax purposes. Goodwill arising from the acquisition consists largely of the economies of scale expected from integrating Kigo into our existing operating structure and from anticipated synergies with our existing products. We included the results of operations of this acquisition in our condensed consolidated financial statements from the effective date of this acquisition.

Purchase Price Allocation

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

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

At September 30, 2015 and December 31, 2014, aggregate deferred cash obligations related to acquisitions completed in 2014 totaled \$6.4 million and \$7.4 million, respectively, and were carried net of a discount of less than \$0.1 million in the accompanying Condensed Consolidated Balance Sheets. During the three and nine months ended September 30, 2015, we paid deferred cash obligations totaling \$0.4 million and \$1.0 million, respectively, related to these acquisitions. No payments were made during the same periods in 2014.

Aggregate contingent cash obligations related to acquisitions completed in 2014 totaled less than \$0.1 million and \$2.3 million at September 30, 2015 and December 31, 2014, respectively. During the three and nine months ended September 30, 2015 and 2014, we recognized a net gain (loss) of \$2.8 million and \$(0.6) million, and \$1.8 million and \$(0.7) million due to changes in the fair value of the contingent cash obligations for these acquisitions. During the three and nine months ended September 30, 2015, we paid contingent cash obligations totaling \$0.4 million. No payments were made during the same periods in 2014.

Acquisition Activity Prior to 2014

We completed acquisitions in the years prior to 2014 for which acquisition-related deferred and contingent consideration was included in the purchase price and recorded at fair value. The liability established for the acquisition-related contingent consideration will continue to be re-evaluated on a quarterly basis and measured at the



estimated fair value based on the probabilities, as determined by management, of achieving the respective targets. This evaluation will be performed until all of the targets have been met or terms of the respective agreements expire. At both September 30, 2015 and December 31, 2014, total deferred cash obligations related to acquisitions completed prior to 2014 totaled \$2.4 million and were carried net of a discount of less than \$0.1 million in the accompanying Condensed Consolidated Balance Sheets. During the three and nine months ended September 30, 2014, we paid deferred cash obligations

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related to acquisitions completed prior to 2014 in the amount of \$0.6 million and \$1.7 million, respectively. No payments of deferred cash obligations were made during the same periods in 2015 for these acquisitions. Aggregate contingent cash obligations related to acquisitions completed prior to 2014 totaled \$1.8 million at December 31, 2014. The carrying value of the aggregate contingent cash obligations for these acquisitions was immaterial at September 30, 2015. During the three and nine months ended September 30, 2015 and 2014, we recognized net gains of \$0.5 million and \$0.3 million, and \$1.1 million and \$0.5 million, respectively, due to changes in the fair value of these contingent cash obligations. During the three and nine months ended September 30, 2015, we paid contingent cash obligations related to acquisitions completed prior to 2014 in the amount of zero and \$0.8 million, respectively. During the same periods in 2014, payments of contingent cash obligations totaled \$0.2 million. Additionally, in April 2015, we issued 36,250 unregistered shares of our common stock as part of deferred consideration obligations relating to acquisitions that occurred prior to 2014.

**Pro Forma Results of Acquisitions**

The following table presents pro forma results of operations for the three and nine months ended September 30, 2015 and 2014, as if the aforementioned acquisitions 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 presented period, or of future periods. Pro forma results are presented in thousands, except per share amounts.

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	Pro Forma	Pro Forma	Pro Forma	Pro Forma
Revenue:				
On demand	\$116,772	\$103,632	\$338,992	\$299,174
On premise	834	755	2,301	2,446
Professional and other	3,982	3,034	10,647	8,280
Total revenue	121,588	107,421	351,940	309,900
Net loss	\$(8,192)	\$(3,840)	\$(13,935)	\$(12,734)
Net loss per common share				
Basic	\$(0.11)	\$(0.05)	\$(0.18)	\$(0.17)
Diluted	\$(0.11)	\$(0.05)	\$(0.18)	\$(0.17)

**4. Property, Equipment and Software**

Property, equipment and software consisted of the following as of September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
	(in thousands)	
Leasehold improvements	\$21,796	\$22,943
Data processing and communications equipment	65,921	59,390
Furniture, fixtures and other equipment	17,344	16,254
Software	59,909	51,915
	164,970	150,502
Less: Accumulated depreciation and amortization	(93,026)	(77,886)
Property, equipment and software, net	\$71,944	\$72,616

Depreciation and amortization expense for property, equipment and purchased software was \$5.0 million and \$5.1 million for the three months ended, and \$15.2 million and \$13.9 million for the nine months ended September 30, 2015 and 2014, respectively. This includes amortization related to assets acquired through capital leases.

The carrying amount of capitalized software development costs was \$39.0 million and \$32.5 million and related accumulated amortization totaled \$13.0 million and \$10.7 million at September 30, 2015 and December 31, 2014, respectively. Amortization expense related to capitalized software development costs totaled \$0.9 million and \$0.4 million for the three months ended, and \$2.3 million and \$1.1 million for the nine months ended September 30, 2015 and 2014, respectively.

We review in-progress software development projects on a periodic basis to ensure completion is assured and the development work will be placed into service as a new product or significant product enhancement. During the nine months ended September 30, 2015, we identified certain projects for which software development work had ceased and it was determined the projects would be discontinued. Our analysis of the capitalized costs resulted in the conclusion that they had no value outside of the respective projects for which they were originally incurred. As a result, we recognized an impairment loss of \$0.5 million and \$1.3 million during the three and nine months ended September 30, 2015 related to these costs. The impairment charges are included in "Product development" in the accompanying Condensed Consolidated Statements of Operations. No impairments were recognized during the same periods in 2014.

During the nine months ended September 30, 2015, we modified or terminated certain operating lease agreements for office space prior to the end of the applicable lease term. We recognized an impairment charge of zero and \$1.5 million during the three and nine months ended September 30, 2015, respectively, related to leasehold improvements associated with a modified lease. The impairment charge is included in the line "General and administrative" in the accompanying Condensed Consolidated Statements of Operations. During the three and nine months ended September 30, 2015, we also disposed of fixed assets with a net carrying value of \$0.2 million and \$0.5 million, respectively. We recognized a net loss of \$0.2 million during the three and nine months ended September 30, 2015, related to these disposals. See additional discussion of these changes in Note 8.

#### 5. Goodwill and Identified Intangible Assets

The change in the carrying amount of goodwill for the nine months ended September 30, 2015 was as follows:

	Nine Months Ended September 30, 2015 (in thousands)
Balance at January 1, 2015	\$ 193,378
Goodwill acquired	26,761
Other	(35 )
Balance at September 30, 2015	\$ 220,104

Identified intangible assets consisted of the following at September 30, 2015 and December 31, 2014:

	September 30, 2015			December 31, 2014		
	Weighted Average Amortization Period (in years)	Carrying Amount (in thousands)	Accumulated Amortization Net	Carrying Amount	Accumulated Amortization Net	
Finite-lived intangible assets:						
Developed technologies	3.2	\$ 69,615	\$(47,376 )	\$ 55,212	\$(39,343 )	\$ 15,869
Customer relationships	9.1	96,523	(52,061 )	86,753	(44,264 )	42,489
Vendor relationships	7.0	5,650	(5,650 )	5,650	(5,273 )	377
Trade names	6.9	5,149	(28 )	—	—	—
Total finite-lived intangible assets	6.7	176,937	(105,115 )	147,615	(88,880 )	58,735
Indefinite-lived intangible assets:						
Trade names		15,465	—	41,350	—	41,350
Total identified intangible assets		\$ 192,402	\$(105,115 )	\$ 188,965	\$(88,880 )	\$ 100,085

Amortization expense related to finite-lived intangible assets was \$6.1 million and \$5.4 million for the three months ended, and \$16.3 million and \$15.5 million for the nine months ended September 30, 2015 and 2014, respectively.

In March 2015, the Company completed the integration of the InstaManager and Kigo platforms into a single solution marketed under the Kigo name. Subsequent to this integration, the Company discontinued the use of the InstaManager trade name to market or identify the software. Due to this change in circumstance, the Company evaluated the InstaManager trade name for impairment and concluded an impairment in the amount of \$0.5 million existed at March 31, 2015.

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In connection with the preparation of the third quarter 2015 financial statements, the Company identified indicators, requiring the assessment of certain indefinite-lived trade names for impairment, primarily associated with the Company's 2011 acquisition of MyNewPlace. Identified indicators included declines in actual and anticipated lead-generation revenues and a change in the Company's long-term marketing strategy. As a result, the Company analyzed these intangible assets and recorded a \$20.3 million impairment charge during the third quarter of 2015, representing the amount by which the carrying value of the indefinite-lived trade names exceeded their estimated fair value. Given the change in the Company's long-term marketing strategy and anticipated use of the trade names, the remaining balance was reclassified to finite-lived intangible assets as of September 30, 2015, which will be amortized on a straight-line basis over an estimated useful life of seven years. See Note 11 for discussion of the methodology and inputs utilized by the Company to estimate the fair value of these indefinite-lived trade names.

The above impairment charges are included in "Impairment of identified intangible assets" in the accompanying Condensed Consolidated Statements of Operations.

## 6. Debt

### New Credit Facility Opened September 2014

On September 30, 2014, the Company entered into a new agreement for a secured revolving credit facility to refinance our outstanding revolving loans. The new credit facility provides an aggregate principal amount of up to \$200.0 million, with sublimits of \$10.0 million for the issuance of letters of credit and for \$20.0 million of swingline loans. The credit facility also allows us, subject to certain conditions, to request additional term loans or revolving commitments up to an aggregate principal amount of \$150.0 million, plus an amount that would not cause our consolidated net leverage ratio, which is a ratio of the Company's consolidated funded indebtedness to its consolidated EBIDTA, as defined in the agreement, to exceed 3.25 to 1.00. Advances under the credit facility may be voluntarily prepaid and re-borrowed. At our option, the revolving loans accrue interest 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%. 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. Accumulated interest 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. 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. We are also required to comply with customary affirmative and negative covenants, as well as a consolidated net leverage ratio and an interest coverage ratio. All outstanding principal and accrued and unpaid interest is due upon the credit facility's maturity on September 30, 2019.

As of September 30, 2015 and December 31, 2014, we had outstanding principal of \$44.0 million and \$20.0 million, respectively, under our revolving line of credit. As of September 30, 2015, \$156.0 million was available under our revolving line of credit, of which \$10.0 million was available for the issuance of letters of credit and \$20.0 million for swingline loans. We had unamortized debt issuance costs of \$1.1 million and \$1.3 million at September 30, 2015 and December 31, 2014, respectively. As of September 30, 2015, we were in compliance with the covenants under our credit facility.

### Previous Credit Facility

Our previous secured revolving credit facility had an aggregate principal amount of up to \$150.0 million, subject to a borrowing formula, with a sublimit of \$10.0 million for the issuance of letters of credit on our behalf. At our option, the borrowings accrued interest at a per annum rate equal to either LIBOR or Wells Fargo's prime rate (or, if greater, the Federal Funds Rate plus 0.50% or three month LIBOR plus 1.00%), in each case plus a margin ranging from 2.00% to 2.50%, in the case of LIBOR loans, and 0.00% to 0.25% in the case of prime rate loans, in each case based upon our senior leverage ratio. The interest was due and payable monthly, in arrears, for loans bearing interest at the prime rate and at the end of the applicable one, two or three month interest period in the case of loans bearing interest at the adjusted LIBOR.

In May 2014, we entered into an amendment to the previous credit facility. Under the terms of the amendment, the restrictive covenants were amended to permit us to repurchase up to \$75.0 million of our common stock, subject to certain conditions. Additionally, the fixed charge coverage ratio was replaced with a new minimum interest expense coverage ratio and the capital expenditures limitation was increased.

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

## 7. Stock-based Compensation

In January 2015, the Company adopted the First Amendment to the Company's Amended and Restated 2010 Equity Incentive Plan. The amendment prohibits the repricing of stock options and stock appreciation rights other than in connection with a change in the Company's corporate structure.

In April 2015, the Company adopted the Second Amendment to the Company's Amended and Restated 2010 Equity Incentive Plan. This amendment increased the value of the automatic annual award of restricted stock received by outside directors, adjusted the vesting of such awards to occur ratably over a period of four calendar quarters and modified the timing and pro ration of awards for independent directors initially elected or appointed on a date other than April 1st.

During the three and nine months ended September 30, 2015, the Company made the following grants of restricted stock, which vest based on the passage of time as described below:

Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015	Vesting Period
—	22,335	Granted shares vested upon the grant date
—	162,695	Granted shares vest ratably over a period of two quarters
4,824	64,616	Granted shares vest ratably over a period of four quarters
—	24,665	Granted shares vest ratably over a period of eight quarters
61,795	561,318	Granted shares vest ratably over a period of twelve quarters

During the three and nine months ended September 30, 2015, the Company made the following grants of restricted stock, which require the achievement of certain market-based conditions to become eligible to vest as described below:

Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015	Condition to Become Eligible to Vest
—	30,000	After the grant date and prior to July 1, 2017, the average closing price per share of the Company's common stock equals or exceeds \$25.00 for twenty consecutive trading days
—	30,000	After the grant date and prior to July 1, 2017, the average closing price per share of the Company's common stock equals or exceeds \$30.00 for twenty consecutive trading days
—	235,579	After the grant date and prior to July 1, 2018, the average closing price per share of the Company's common stock equals or exceeds \$30.00 for twenty consecutive trading days
—	265,586	After the grant date and prior to July 1, 2018, the average closing price per share of the Company's common stock equals or exceeds \$35.00 for twenty consecutive trading days
—	30,000	After the grant date and prior to July 1, 2018, the average closing price per share of the Company's common stock equals or exceeds \$40.00 for twenty consecutive trading days

Shares that become eligible to vest, if any, become Eligible Shares. Eligible Shares vest ratably over the four calendar quarters following the date they become Eligible Shares. However, all unvested Eligible Shares will be fully vested on July 1, 2018.

During the third quarter of 2015, the Company granted 20,000 shares of performance-based restricted stock. The shares become eligible to vest if the underlying performance condition has been achieved as of December 31, 2016. If the shares become eligible to vest they will vest ratably over a period of four quarters, beginning January 15, 2017. If the performance condition is not satisfied none of the shares will vest.

During the three and nine months ended September 30, 2015, the Company made the following grants of stock options, which vest based on the passage of time as described below:

Vesting Period



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Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015	
22,700	42,825	Granted options vested upon the grant date
31,790	31,790	Granted options vest ratably over a period of seven quarters
—	40,420	Granted options vest ratably over a period of eight quarters
205,135	2,066,085	Granted options vest ratably over a period of twelve quarters

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

#### 8. Commitments and Contingencies

##### Lease Commitments

In the first quarter of 2013, we entered into a capital lease agreement for software that expires in 2016. Amortization of the leased assets is recognized on a straight-line basis.

The assets under the capital lease were as follows at September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
	(in thousands)	
Software	\$1,977	\$1,977
Less: Accumulated amortization	(1,553	) (1,110
Assets under capital lease, net	\$424	\$867

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of September 30, 2015 were as follows:

	September 30, 2015	
	(in thousands)	
2015	\$147	
2016	294	
Total minimum lease payments	\$441	
Less amount representing average interest at 2.2%	(4	
	) 437	
Less current portion	437	
Long-term portion	\$—	

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.

In May 2015, the Company entered into a lease agreement for office space located in Richardson, Texas. The lease is for a term of twelve years and includes extension options. Similar to our other operating leases, the agreement requires the Company to pay for executory costs such as real estate taxes, insurance and utilities. The lease term commences in 2016. In July 2015, the Company entered into an amendment of the lease which increased the amount of leased space. During the nine months ended September 30, 2015, the Company vacated our leased office space in Westlake Village, California; Chicago, Illinois; and Charlotte, North Carolina. During the same period we entered into a modification agreement related to our leased office space in San Francisco, California whereby we reduced the amount of leased space. These modifications were made to consolidate our operations and reduce operating costs. Related to the above changes we recognized a cease-use liability in the amount of \$0.2 million. The cease-use liability reflects the fair value of the remaining net cash flows related to our continuing obligations under the leases, net of estimated sub-rents. Additionally, we recognized a reduction of our deferred rent liability in the amount of \$0.9 million related to lease incentives for the San Francisco office. These adjustments are reflected in the "General and administrative" line in the accompanying Condensed Consolidated Statements of Operations.

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Minimum annual rental commitments under non-cancellable operating leases and total minimum rentals to be received under non-cancellable subleases were as follows at September 30, 2015:

	Minimum Lease Payments	Minimum Rentals to be Received Under Subleases	Net Lease Payments
	(in thousands)		
2015	\$2,746	\$263	\$2,483
2016	10,638	984	9,654
2017	9,631	140	9,491
2018	9,696	—	9,696
2019	9,141	—	9,141
Thereafter	57,223	—	57,223
	\$99,075	\$1,387	\$97,688

**Guarantor Arrangements**

We have agreements whereby we indemnify our officers and directors for certain events or occurrences while the officer or director is or was serving at our request in such capacity. The term of the indemnification period is for the officer or director's lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have a director and officer insurance policy that limits our exposure and enables us to recover a portion of any future amounts paid. As a result of our insurance policy coverage, we believe the estimated fair value of these indemnification agreements is minimal. Accordingly, we had no liabilities recorded for these agreements as of September 30, 2015 or December 31, 2014.

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

The potential amount of future payments to defend lawsuits or settle indemnified claims under these indemnification provisions is unlimited in certain agreements; however, we believe the estimated fair value of these indemnification provisions is minimal, and, accordingly, we had no liabilities recorded for these agreements as of September 30, 2015 or December 31, 2014.

**Litigation**

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

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

In November 2014, the Company was named in a purported class action lawsuit related to our screening services. At September 30, 2015, we had an accrued liability for estimated settlement costs related to this matter. No liability for estimated settlement costs or other legal matters was accrued at December 31, 2014.

During the nine months ended September 30, 2014, we expensed \$4.7 million, inclusive of the settlements and other associated costs, related to litigation settled during that period. The litigation related to reimbursement claims made against us, each by a primary and an excess layer errors and omissions insurance carrier. The carriers were seeking reimbursement of claims formerly funded by them relating to a litigation matter settled in 2012.

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We are involved in other litigation matters not listed above, but we believe that any reasonably possible adverse outcome of these matters would not be material either individually or in the aggregate at this time. Our view of the matters not listed may change in the future as the litigation and events related to those unfold.

**Purchase Commitments**

In September 2015, the Company entered into a commitment with a vendor for the purchase of computer software. As of September 30, 2015, the remaining amount under the commitment was \$2.0 million. We anticipate completing the committed purchases by the end of the first quarter of 2016.

**9. Net Loss Per Share**

Basic net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by using the weighted average number of common shares outstanding, including potential dilutive shares of common stock assuming the dilutive effect of outstanding stock options and restricted stock using the treasury stock method. Weighted average shares from common share equivalents in the amount of 547,411 and 753,583 for the three months ended, and 912,944 and 1,549,922 for the nine months ended September 30, 2015 and 2014, respectively, were excluded from the dilutive shares outstanding because their effect was anti-dilutive.

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

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	(in thousands, except per share amounts)			
Numerator:				
Net loss	\$ (8,192 )	\$ (3,257 )	\$ (13,118 )	\$ (10,384 )
Denominator:				
Basic:				
Weighted average common shares used in computing basic net loss per share	76,564	77,280	76,772	77,075
Diluted:				
Add weighted average effect of dilutive securities:				
Stock options and restricted stock	—	—	—	—
Weighted average common shares used in computing diluted net loss per share	76,564	77,280	76,772	77,075
Net loss share:				
Basic	\$ (0.11 )	\$ (0.04 )	\$ (0.17 )	\$ (0.13 )
Diluted	\$ (0.11 )	\$ (0.04 )	\$ (0.17 )	\$ (0.13 )

**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, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes.

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

Our effective income tax rate was 35.2% and 28.4% for the nine months ended September 30, 2015 and 2014, respectively.

In July 2015, the Company filed amended 2012 and 2013 income tax returns for selected states to correct certain items that were improperly deducted, as determined by the Company subsequent to the initial filings. The primary effect of the amended returns was an immaterial increase in our current state income tax liability and a reduction of our state net operating loss deferred tax asset, net of federal benefit, of approximately \$0.7 million at December 31, 2014.



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## 11. Fair Value Measurements

The Company records certain 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.

The prescribed fair value hierarchy and related valuation methodologies are 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:

## 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.

Significant unobservable inputs used in the contingent consideration fair value measurements included the following at September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
Discount rates	15.8% - 60.3%	22.5% - 64.0%
Volatility rates	36.0% - 54.0%	45.0% - 48.0%
Risk free rate of return	0.2% - 0.6%	0.1% - 0.2%

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.

The following table discloses the liabilities measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014:

	Fair value at September 30, 2015			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Contingent consideration related to the acquisition of:				
InstaManager	\$66	\$—	\$—	\$66

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Indatus	801	—	—	801
VRX	307	—	—	307
	\$1,174	\$—	\$—	\$1,174

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	Fair value at December 31, 2014			
	Total (in thousands)	Level 1	Level 2	Level 3
Contingent consideration related to the acquisition of:				
Active Building	\$1,566	\$—	\$—	\$1,566
MyBuilding	248	—	—	248
InstaManager	2,335	—	—	2,335
VMM	1	—	—	1
	\$4,150	\$—	\$—	\$4,150

There were no assets measured at fair value on a recurring basis at September 30, 2015 or December 31, 2014. The following table summarizes the changes in the fair value of our Level 3 liabilities for the nine months ended September 30, 2015 and 2014:

	Nine Months Ended September 30,	
	2015	2014
	(in thousands)	
Balance at beginning of period	\$4,150	\$1,827
Initial contingent consideration	1,415	2,939
Settlements through cash payments	(1,179)	(229)
Net (gains) losses on change in fair value	(3,212)	173
Balance at end of period	\$1,174	\$4,710

Gains and losses resulting from changes in the fair value of the above liabilities are included in "General and administrative" expense in the accompanying Condensed Consolidated Statements of Operations. During the nine months ended September 30, 2015 and 2014, the Company recognized net unrealized gains (losses) of \$3.3 million and \$(0.2) million, respectively.

Assets and liabilities measured at fair value on a non-recurring basis:

During the nine months ended September 30, 2015, the Company identified triggering events which required the assessment of impairment for certain trade names related to prior acquisitions. The fair value of the trade names was determined through an income approach utilizing projected discounted cash flows. This method is consistent with the method the Company has employed in prior periods to value other long-lived assets. Impairments of the trade names were determined by comparing the estimated fair value to the related carrying value. The inputs utilized in the discounted cash flow analysis are classified as Level 3 inputs within the fair value hierarchy. Significant unobservable inputs used in deriving the fair value included the royalty rate applied to the projected revenue stream and the discount rate used to determine the present value of the estimated future cash flows. Through the application of this approach, we concluded the aggregate fair value of the trade names was \$5.1 million. The Company believes that the methods and assumptions used to determine the fair value of the trade names were reasonable. See Note 5 for further discussion of these impairments.

Significant unobservable inputs used in fair value measurement of the trade names included the following for the nine months ended September 30, 2015:

	Nine Months Ended September 30, 2015
Discount rate	15.0%
Royalty Rate	5.4%

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12. Stockholders' Equity

On May 6, 2014, the 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. In May 2015, the board of directors approved an extension of the stock repurchase program through May 6, 2016, permitting the repurchase of up to \$50.0 million of our common stock over the extended one-year period. Repurchases during the extension period are incremental to the shares that were repurchased by the Company since May 2014. During the year ended December 31, 2014, we repurchased 966,595 shares at a weighted average cost of \$16.06 per share and a total cost of \$15.5 million. During the three and nine months ended September 30, 2015, we repurchased 807,922 and 1,579,226 shares at a weighted average cost of \$18.95 and \$19.28 per share and a total cost of \$15.3 million and \$30.5 million, respectively.

In May 2015, the board of directors authorized the retirement of all shares acquired under the stock repurchase program through May 8, 2015 and any future shares repurchased under the repurchase program. During the nine months ended September 30, 2015 we retired 2,545,821 shares of our common stock.

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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 negative 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 2014. 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 leading provider of on demand software and software-enabled services for the rental housing and vacation rental industries. Our broad range of property management solutions enable owners and managers of a wide variety of single family, multifamily and vacation rental property types to enhance the visibility, control and profitability of each portion of the renter life cycle and operation of a property. By integrating and streamlining a wide range of complex processes and interactions among the rental housing and vacation rental ecosystem of owners, managers, prospects, renters and service providers, our platform helps optimize the property management process, improve the user experience, increase revenue and reduce costs for professional property managers.

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 to our existing on premise customers. Our on demand software solutions are sold pursuant to subscription license agreements and our on premise software solutions are sold pursuant to term or perpetual license and associated maintenance agreements. We price our solutions based primarily on the number of units the customer 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.

As of September 30, 2015, approximately 11,800 customers used one or more of our on demand software solutions to help manage the operations of approximately 10.4 million multifamily, single family or vacation rental units. Our customers include each of the ten largest multifamily property management companies in the United States, ranked as of January 1, 2015 by the National Multifamily Housing Council, based on the number of units managed. While the use and transition to on demand software solutions in the rental housing 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 customer base. We believe these factors present us with significant opportunities to generate revenue through sales of additional on demand software solutions. Our existing and potential customers base their decisions to invest in our solutions on a number of factors, including general economic conditions.

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 on demand software and software-enabled services to include property management, leasing and marketing, renter management and asset optimization capabilities. In addition to the multifamily markets, we now serve the single family, senior

living, student living, military housing and vacation rental markets. Since July 2002, we have completed 32 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 customer base. In connection with this expansion and these acquisitions, we have committed greater resources to developing and increasing sales of our platform of on demand solutions.

#### Solutions and Services

Our platform consists of four primary categories of solutions: Property Management, Leasing and Marketing, Resident Services, and Asset Optimization. These solutions provide complementary sales and marketing, asset optimization, risk mitigation, billing and utility management and spend management capabilities that collectively enable our customers to manage

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the stages of the renter life cycle. Each of our solutions categories includes multiple product centers that provide distinct capabilities and can be licensed separately or as a bundled package. Each product center is integrated with a central repository of prospect, renter and property data. In addition, our open architecture allows third-party applications to access our solutions using our RealPage Exchange platform.

Our platform is designed to serve as a single system of record for all of the constituents of the rental housing ecosystem, including owners, managers, prospects, renters and service providers, and to support the entire renter life cycle, from prospect to applicant to residency or guest to post-residency or post-stay. Common authentication, work flow and user experience across solution categories enables each of these constituents to access different applications as appropriate for their role.

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

- conventional single family properties (four units or less);
- conventional multifamily properties (five or more units);
- affordable Housing and Urban Development, or HUD, properties;
- affordable tax credit properties;
- rural housing properties;
- privatized military housing;
- commercial;
- student housing;
- senior living; and
- vacation rentals

### Property Management

Our property management solutions are typically 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, and include 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 customers to deploy our solutions using our accounting system or a third-party accounting system. The property management solution category consists of five primary solutions: OneSite, Propertyware, Kigo, Spend Management Solutions and The RealPage Cloud.

### Leasing and Marketing

Leasing and marketing solutions are aimed at optimizing marketing spend and the leasing process. These solutions manage core leasing and marketing processes, including, websites, paid lead generation, organic lead generation, lead management, automated lead closure, lead analytics, real-time unit availability, automated online apartment leasing and applicant screening. The leasing and marketing solutions category consists of seven primary solutions: Online Leasing, Contact Center, LeaseStar Platform, LeaseStar Marketing Management, Multifamily Internet Listing Service, Senior Marketing Management and Resident Screening.

### Resident Services

Resident services solutions provide a platform to optimize the management of current renters. These solutions manage core renter management business processes including, utility billing, renter payment processing, renter service requests, renter lease renewals, renter's insurance, and consulting and advisory services. The resident services solutions category consists of five primary solutions: Utility Management, Payments, Resident Portal, Contact Center Maintenance and Renter's Insurance.

### Asset Optimization

Asset optimization solutions are aimed at optimizing property financial and operational performance. These solutions manage core asset management and business intelligence processes, including real-time yield management, revenue growth forecasting, key variable sensitivity forecasting and operating metric benchmarking. The asset optimization solutions category consists of two primary solutions: Yield Management and Business Intelligence.



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### Recent Acquisitions

#### 2015 Acquisitions

In June 2015, we acquired certain assets from ICIM Corporation, including the Answer Automation, Call Tracker and Zip Digital products marketed under the name Indatus. The Indatus offerings are software-as-a-service products that provide automated answering services, marketing spend analysis tools and other features which enhance the ability of managers of multifamily properties to communicate with their residents. We plan to integrate the Indatus assets with our existing contact center and maintenance products, increasing the features of these existing solutions. We acquired Indatus for a purchase price of \$49.4 million, consisting of a cash payment of \$43.8 million at closing, deferred cash payments of up to \$5.0 million payable over nineteen months after the acquisition date and contingent cash payments of up to \$2.0 million, in the aggregate, if certain revenue targets are met for the twelve month periods ending June 30, 2016 and 2017.

In June 2015, we acquired certain assets from RJ Vacations, LLC and Switch Development Corporation, including the VRX product ("VRX"). VRX is a software-as-a-service application which allows vacation rental management companies to manage the cleaning and turning of units, accounting and document management. VRX will augment our existing line of solutions offered to the vacation rental industry and we plan to integrate it with our Kigo solution. We acquired VRX for a purchase price of \$2.0 million, consisting of a cash payment of \$1.5 million at closing and a contingent cash payment of up to \$0.5 million. Payment of the contingent cash obligation is dependent upon the achievement of certain subscription or booking activity targets and is subject to adjustments specified in the acquisition agreement related to the sellers' indemnification obligations.

The purchase agreement also provides for us to make additional contingent cash payments of up to \$3.0 million. Payment of the additional contingent cash payments is dependent upon the achievement of certain revenue targets during the twelve month periods ended December 31, 2016, 2017 and 2018 and the sellers providing certain services during a specified period following the acquisition date. Due to the post-acquisition compensation nature of the additional contingent cash payments, they were not included in the acquisition consideration.

The purchases of Indatus and VRX were determined to constitute business combinations and were accounted for under ASC 805. The estimated fair value of assets acquired and liabilities assumed in conjunction with these transactions were preliminary in nature at September 30, 2015 and are based on information that was available as of the acquisition date. At September 30, 2015, we were awaiting additional information necessary to finalize these estimates and expect to finalize the valuation and complete the purchase price allocation as soon as practicable, but no later than one year from the acquisition date.

#### 2014 Acquisitions

In January 2014, we acquired certain assets from Bookt LLC, including the InstaManager product ("InstaManager"), for a purchase price of \$9.2 million, consisting of a cash payment of \$6.0 million at closing, a deferred cash payment of up to \$1.0 million payable over two years after the acquisition date and contingent cash payments totaling up to \$7.0 million if certain revenue targets are met for the twelve month periods ending March 31, 2015 and March 31, 2016.

The first deferred cash payment was made in the first quarter of 2015 in the amount of \$0.5 million. The revenue target for the twelve month period ending March 31, 2015 was achieved, and we paid the first contingent cash payment of \$0.5 million in the third quarter of 2015. InstaManager was a software-as-a-service vacation rental booking system used by professional managers of vacation rental properties. InstaManager offered marketing websites, online pricing and availability, online booking, automated reservations, payment processing and insurance sales. In March 2015, we completed the integration of InstaManager with other subsequently acquired software products. Subsequent to this integration, the Company ceased actively marketing the product and use of the trade name.

In March 2014, we acquired certain assets from Virtual Maintenance Manager LLC, including the Virtual Maintenance Manager product ("VMM"), for a purchase price of \$1.2 million, consisting of a cash payment of \$1.0 million at closing, a deferred cash payment of up to \$0.2 million payable over two years after the acquisition date and contingent cash payments of up to \$2.0 million if certain revenue targets are met for the twelve month periods ending June 30, 2015 and June 30, 2016. The first deferred cash payment was made in the second quarter of 2015 in the

amount of \$0.1 million. The contingent cash revenue target for the twelve month period ending June 30, 2015 was not achieved. VMM is a software-as-a-service application that facilitates the management of the end-to-end maintenance life cycle for single family and multifamily rental properties and provides property managers with enhanced visibility into their maintenance costs, manages resources and provides enhanced business control for property managers. In May 2014, we acquired substantially all of the operating assets of Notivus Multi-Family, LLC ("Notivus") for a purchase price of \$4.4 million, consisting of a cash payment of \$3.6 million at closing and a deferred cash payment of up to \$0.8 million payable over two years after the acquisition date. The first deferred cash payment was made in the third quarter of 2015 in the amount of \$0.3 million. The acquisition of Notivus expanded our ability to provide vendor risk management and compliance software solutions for the rental housing industry.



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In June 2014, we acquired all of the issued and outstanding stock of Kigo, Inc. ("Kigo"). Kigo is a software-as-a-service vacation rental booking system based in the United States with operations in Spain. Kigo offers services for vacation rental property managers that include vacation rental calendars, scheduling, reservations, accounting, channel management, website design, payment processing and other tasks to aid the management of leads, revenue, resources and lodging calendars. We acquired Kigo for a purchase price of \$36.2 million, consisting of a cash payment of \$30.7 million and a deferred cash payment of up to \$5.5 million, payable over two and a half years after the acquisition date. We integrated Kigo with our existing vacation rental products and launched an enhanced version of the software in March 2015.

### Key Business Metrics

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

**On demand revenue.** This metric represents the license and subscription fees relating to our on demand software solutions, typically licensed 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 in executing our strategy to increase the penetration of our on demand software solutions and expand our recurring revenue streams attributable to these solutions. We expect our on demand revenue to remain a significant percentage of our total revenue although the actual percentage may vary from period to period due to a number of factors, including the timing of acquisitions, professional and other 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 customers with one or more of our on demand software solutions at the end of the period. We use ending on demand units to measure the success of our strategy of increasing the number of rental housing units managed with our on demand software solutions. Property unit counts are provided to us by our customers as new sales orders are processed. Property unit counts may be adjusted periodically as information related to our customers' properties is updated or supplemented, which could result in adjustments to the number of units previously reported.

**Non-GAAP on demand revenue.** This metric represents on demand revenue plus acquisition-related and other deferred revenue adjustments. We use this metric to evaluate our on demand revenue as we believe its inclusion provides a more accurate depiction of on demand revenue arising from our strategic acquisitions.

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

**Non-GAAP on demand annual customer value ("ACV").** This metric represents management's estimate of the current annual run-rate value of on demand customer relationships. ACV is calculated by multiplying ending on demand units by annualized non-GAAP on demand revenue per average on demand unit.

**Adjusted EBITDA.** We define Adjusted EBITDA as (loss) income plus acquisition-related and other deferred revenue adjustments; depreciation, asset impairment and loss on disposal of assets; amortization of intangible assets; net interest expense; income tax expense (benefit); stock-based compensation expense; any impact related to the litigation with Yardi Systems, Inc. (including related insurance litigation and settlement costs), collectively the "Yardi Litigation"; stock registration costs; and acquisition-related expenses.

Non-GAAP Financial Measures. We believe that the non-GAAP financial measures defined above are useful to investors and other users of our financial statements in evaluating our operating performance because they provide additional tools to compare business performance across companies and periods. We believe that:

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

it is useful to exclude certain non-cash charges, such as depreciation and asset impairment, amortization of intangible assets and stock-based compensation and non-core operational charges, such as acquisition-related expenses and any impact related to the Yardi Litigation, from non-GAAP earnings measures, such as Adjusted EBITDA, because the amount of such expenses in any specific period may not directly correlate to the underlying

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performance of our business operations and these expenses can vary significantly between periods as a result of new acquisitions, full amortization of previously acquired tangible and intangible assets or the timing of new stock-based awards, as the case may be; and

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

We use the non-GAAP financial measures defined above in conjunction with traditional GAAP financial measures as part of our overall assessment of our performance; for planning purposes, including the preparation of our annual operating budget; to evaluate the effectiveness of our business strategies; and to communicate with our board of directors concerning our financial performance.

We do not place undue reliance on non-GAAP financial measures as our only 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.

### 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 composed of 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 on demand software solutions, such as payment processing, spend management and billing services. Typically, we price our on demand software solutions based primarily on the number of units the customer manages with our solutions. For our insurance 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. This agreement provides for a calculation that considers, on the policies sold by us, earned premiums less i) earned agent commissions, ii) a percent of premium retained by our underwriting partner, iii) incurred losses and iv) profit retained by our underwriting partner during the time period. Our estimate of our contingent commission revenue considers historical loss experience on the policies sold by us. We price our transaction-based solutions based on a fixed rate per transaction.

**On premise revenue.** Our on premise software solutions are distributed to our customers and maintained locally on the customer's hardware. Revenue from our on premise software solutions is composed of license fees under term and perpetual license agreements. Typically, we have licensed our on premise software solutions pursuant to term license agreements with an initial term of one year that include maintenance and support. Customers can renew their term license agreement for additional one-year terms at renewal price levels.

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

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



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### Cost of Revenue

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

### Operating Expenses

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

**Product development.** Product development expense consists primarily of personnel costs for our product development employees and executives and fees to contract development vendors. Our product development efforts are focused primarily on increasing the functionality and enhancing the ease of use of our on demand software solutions and expanding our suite of on demand software solutions. We maintain product development and service centers in Hyderabad, India and Manila, Philippines, respectively, to take advantage of strong technical talent at lower personnel costs as compared to the United States.

**Sales and marketing.** Sales and marketing expense consists primarily of personnel costs for our sales, marketing and business development employees and executives; travel and entertainment; and marketing programs. Marketing programs consist of amounts paid for search engine optimization ("SEO") and search engine marketing ("SEM"); renter's insurance; 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 customer, key vendor and supplier relationships and certain trade names obtained in connection with our strategic acquisitions.

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

### 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;

• Deferred revenue;

• Fair value measurements;

• Accounts receivable and related allowance;

• Purchase accounting and contingent consideration;

• Goodwill and other intangible assets with indefinite lives;

• Contingent liabilities;

• Impairment of long-lived assets;

Intangible assets with finite lives;  
Stock-based compensation;  
Income taxes, including deferred tax assets and liabilities; and  
Capitalized product development costs.

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

## Results of Operations

The following tables set forth our unaudited results of operations for the specified periods in thousands, except per share data, and as a percentage of our 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 September 30,				
	2015	2015	2014	2014	
	(in thousands, except per share and ratio amounts)				
Revenue:					
On demand	\$116,772	96.0	% \$100,747	96.4	%
On premise	834	0.7	755	0.7	
Professional and other	3,982	3.3	3,034	2.9	
Total revenue	121,588	100.0	104,536	100.0	
Cost of revenue <sup>(1)</sup>	52,879	43.5	46,311	44.3	
Gross profit	68,709	56.5	58,225	55.7	
Operating expense:					
Product development <sup>(1)</sup>	16,858	13.9	17,528	16.8	
Sales and marketing <sup>(1)</sup>	31,559	25.9	29,949	28.6	
General and administrative <sup>(1)</sup>	13,424	11.0	15,443	14.8	
Impairment of identified intangible assets	20,274	16.7	—	—	
Total operating expense	82,115	67.5	62,920	60.2	
Operating loss	(13,406	) (11.0	) (4,695	) (4.5	)
Interest expense and other, net	(391	) (0.3	) (345	) (0.3	)
Loss before income taxes	(13,797	) (11.3	) (5,040	) (4.8	)
Income tax benefit	(5,605	) (4.6	) (1,783	) (1.7	)
Net loss	\$(8,192	) (6.7	) \$(3,257	) (3.1	)
Net loss per share					
Basic	\$(0.11	)	\$(0.04	)	
Diluted	\$(0.11	)	\$(0.04	)	
Weighted average shares used in computing net loss per share					
Basic	76,564		77,280		
Diluted	76,564		77,280		

<sup>(1)</sup>Includes stock-based compensation expense as follows:

Cost of revenue	\$817	\$1,141
Product development	1,759	2,707
Sales and marketing	3,118	3,774
General and administrative	2,975	1,914

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	Nine Months Ended September 30,				
	2015	2015	2014	2014	
	(in thousands, except per share and ratio amounts)				
Revenue:					
On demand	\$333,872	96.3	% \$289,361	96.4	%
On premise	2,301	0.7	2,446	0.8	
Professional and other	10,647	3.0	8,280	2.8	
Total revenue	346,820	100.0	300,087	100.0	
Cost of revenue <sup>(1)</sup>	150,160	43.3	128,353	42.8	
Gross profit	196,660	56.7	171,734	57.2	
Operating expense:					
Product development <sup>(1)</sup>	52,919	15.3	48,310	16.1	
Sales and marketing <sup>(1)</sup>	90,333	26.0	83,970	28.0	
General and administrative <sup>(1)</sup>	51,797	14.9	53,191	17.7	
Impairment of identified intangible assets	20,801	6.0	—	—	
Total operating expense	215,850	62.2	185,471	61.8	
Operating loss	(19,190	) (5.5	) (13,737	) (4.6	)
Interest expense and other, net	(1,048	) (0.3	) (771	) (0.3	)
Loss before income taxes	(20,238	) (5.8	) (14,508	) (4.9	)
Income tax benefit	(7,120	) (2.1	) (4,124	) (1.4	)
Net loss	\$(13,118	) (3.7	) \$(10,384	) (3.5	)
Net loss per share					
Basic	\$(0.17	)	\$(0.13	)	
Diluted	\$(0.17	)	\$(0.13	)	
Weighted average shares used in computing net loss per share					
Basic	76,772		77,075		
Diluted	76,772		77,075		

<sup>(1)</sup>Includes stock-based compensation expense as follows:

Cost of revenue	\$3,267	\$3,014
Product development	7,050	6,763
Sales and marketing	10,750	10,018
General and administrative	9,599	8,999



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Three and Nine Months Ended September 30, 2015 Compared to the Three and Nine Months Ended September 30, 2014

## Revenue

	Three Months Ended September 30,					Nine Months Ended September 30,				
	2015	2014	Change	% Change		2015	2014	Change	% Change	
	(in thousands, except per unit data)					(in thousands, except per unit data)				
Revenue:										
On demand	\$116,772	\$100,747	\$16,025	15.9	%	\$333,872	\$289,361	\$44,511	15.4	%
On premise	834	755	79	10.5		2,301	2,446	(145)	(5.9)	)
Professional and other	3,982	3,034	948	31.2		10,647	8,280	2,367	28.6	
Total revenue	\$121,588	\$104,536	\$17,052	16.3		\$346,820	\$300,087	\$46,733	15.6	
On demand unit metrics:										
Ending on demand units	10,406	9,496	910	9.6		10,406	9,496	910	9.6	
Average on demand units	10,354	9,434	920	9.8		9,995	9,305	690	7.4	
Non-GAAP revenue metrics:										
Non-GAAP on demand revenue	\$116,158	\$100,355	\$15,803	15.7		\$332,260	\$290,086	\$42,174	14.5	
Annualized non-GAAP on demand revenue per average on demand unit	\$44.87	\$42.55	\$2.32	5.5						
Non-GAAP on demand annual customer value	\$466,917	\$404,055	\$62,862	15.6						

The changes in total revenue for the three and nine months ended September 30, 2015 as compared to the same periods in 2014 were due to the following:

**On demand revenue.** On demand revenue represented 96.0% and 96.3% of our total revenue during the three and nine months ended September 30, 2015, respectively. During the same periods in 2014, on demand revenue represented 96.4% of our total revenue. Our on demand revenue increased \$16.0 million, or 15.9%, and \$44.5 million, or 15.4%, for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. This increase was driven by an increase in the number of rental units managed with one or more of our solutions and greater customer adoption across our platform of solutions. Continued customer adoption across our platforms contributed to an increase in our revenue per average on demand unit from \$42.55 to \$44.87, or 5.5%, during the three months ended September 30, 2015, as compared to the same period in 2014. Overall revenue growth continues to benefit from our investments in on demand data processing infrastructure, product development and sales force.

On demand revenue associated with our property management solutions grew \$4.0 million and \$11.9 million, or 12.7% and 13.3%, during the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. This increase was driven primarily by growth within OneSite, related to our accounting and compliance monitoring solutions; spend management solutions; Propertyware; and Kigo.

Leasing and marketing solutions' on demand revenue grew \$0.5 million and \$1.3 million, or 1.7% and 1.5%, during the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. This growth was driven by our screening, portal and organic lead generation solutions, partially offset by lower revenue associated with our internet listing services.

On demand revenue was most impacted by strong growth within our resident services solutions, which grew \$9.9 million and \$27.5 million, or 34.2% and 35.0%, during the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. This growth was driven by our payment processing solution, which continues to benefit from a market that has not fully realized the advantages of electronic payments, our renter's insurance products, as well as incremental revenue as a result of the Indatus acquisition.

On demand revenue attributed to asset optimization solutions grew \$1.6 million and \$3.8 million, or 15.9% and 12.4%, during the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. Growth

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within this solution set was driven by our new data-based business intelligence solutions combined with expansion of YieldStar, driven by both new customers and greater adoption by existing customers.

On premise revenue. On premise revenue increased \$0.1 million for the three months ended, and decreased \$0.1 million for the nine months ended September 30, 2015 as compared to the same periods in 2014. We no longer actively market our legacy on premise software solutions to new customers and only market and support our acquired on premise software solutions. We expect on premise revenue to continue to decline over time as we transition acquired on premise customers to our on demand property management solutions.

Professional and other revenue. Professional and other revenue increased \$0.9 million and \$2.4 million for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. These increases were primarily due to an increase in revenue from consulting and training services related to the implementation of our solutions.

On demand unit metrics. As of September 30, 2015, one or more of our on demand solutions was utilized in the management of 10.4 million rental property units, representing an increase of 910,000 units, or 9.6%, compared to the number of such rental property units as of September 30, 2014. The increase in the number of rental property units managed by one or more of our on demand solutions was due to new customer sales, marketing efforts to existing customers and our 2015 acquisition of Indatus, which contributed approximately 500,000 units, or 5.0%, to total ending on demand units.

## Cost of Revenue

	Three Months Ended September 30,				Nine Months Ended September 30,				
	2015	2014	Change	% Change	2015	2014	Change	% Change	
	(in thousands)				(in thousands)				
Cost of revenue	\$45,579	\$39,877	\$5,702	14.3	% \$129,482	\$111,305	\$18,177	16.3	%
Stock-based compensation	817	1,141	(324)	(28.4)	3,267	3,014	253	8.4	
Depreciation and amortization	6,483	5,293	1,190	22.5	17,411	14,034	3,377	24.1	
Total cost of revenue	\$52,879	\$46,311	\$6,568	14.2	\$150,160	\$128,353	\$21,807	17.0	

Cost of revenue. Cost of revenue increased \$5.7 million for the three months ended September 30, 2015, as compared to the same period in 2014, primarily as a result of a \$3.4 million increase in direct costs resulting from increased sales of our solutions, including higher transaction volumes from our payments processing solution. Additionally, personnel expense increased \$1.9 million, driven by increased expenditures to support our growth initiatives. Higher technology and facility related expenses of \$0.4 million also contributed to the year over year increase in cost of revenue.

Cost of revenue increased \$18.2 million for the nine months ended September 30, 2015, as compared to the same period in 2014, primarily as a result of a \$9.8 million increase in direct costs resulting from increased sales of our solutions, including higher transaction volumes from our payments processing solution. Additionally, personnel expense increased \$6.6 million related to increased expenditures to support our growth initiatives, staffing increases for anticipated seasonal call center volumes, and, to a lesser degree, increases in headcount as a result of our 2014 acquisitions. Higher technology and facility related expenses of \$2.5 million also contributed to the year over year increase in cost of revenue. These items were partially offset by a decrease in other expenses of \$0.7 million.

## Operating Expenses

	Three Months Ended September 30,				Nine Months Ended September 30,				
	2015	2014	Change	% Change	2015	2014	Change	% Change	
	(in thousands)				(in thousands)				
Product development	\$13,898	\$13,502	\$396	2.9	% \$41,997	\$38,012	\$3,985	10.5	%
Stock-based compensation	1,759	2,707	(948)	(35.0)	7,050	6,763	287	4.2	
Depreciation	1,201	1,319	(118)	(8.9)	3,872	3,535	337	9.5	
	\$16,858	\$17,528	\$(670)	(3.8)	\$52,919	\$48,310	\$4,609	9.5	

Total product  
development expense

Product development. Product development expense increased \$0.4 million for the three months ended September 30, 2015, as compared to the same period in 2014. This change was primarily the result of an impairment charge of \$0.5 million associated with certain discontinued software development projects, partially offset by lower personnel expense of \$0.1 million.

Product development expense increased \$4.0 million for the nine months ended September 30, 2015, as compared to the same period in 2014. This change was primarily attributable to an increase of \$2.7 million in personnel expense related to

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increased headcount combined with higher variable compensation, offset by a higher international labor mix as a part of our global product development strategy; an impairment charge of \$1.3 million associated with certain discontinued software development projects; and an increase in information and technology expense of \$0.4 million. These increases were partially offset by lower travel expense of \$0.3 million and lower consulting and professional fees of \$0.1 million.

	Three Months Ended September 30,				Nine Months Ended September 30,				
	2015 (in thousands)	2014	Change	% Change	2015 (in thousands)	2014	Change	% Change	
Sales and marketing	\$25,028	\$22,745	\$2,283	10.0	\$69,546	\$63,897	\$5,649	8.8	%
Stock-based compensation	3,118	3,774	(656)	(17.4)	10,750	10,018	732	7.3	
Depreciation and amortization	3,413	3,430	(17)	(0.5)	10,037	10,055	(18)	(0.2)	
Total sales and marketing expense	\$31,559	\$29,949	\$1,610	5.4					