REALPAGE INC
Form 10-Q
August 08, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

or

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

For the transition period from to

Commission File Number: 001-34846

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

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

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

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

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

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

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

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

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

Class	Outstanding at July 25, 2014

Common Stock, $0.001 par value	79,209,783

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

	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$39,217	$34,502
Restricted cash	46,927	71,941
Accounts receivable, less allowance for doubtful accounts of $2,137 and $914 at June 30, 2014 and December 31, 2013, respectively	59,979	66,635
Deferred tax asset, net	6,836	3,284
Other current assets	8,308	7,453
Total current assets	161,267	183,815
Property, equipment and software, net	66,515	54,775
Goodwill	197,658	152,422
Identified intangible assets, net	106,382	108,815
Other assets	4,167	3,386
Total assets	$535,989	$503,213
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$21,579	$11,978
Accrued expenses and other current liabilities	27,436	23,122
Current portion of deferred revenue	66,695	66,085
Customer deposits held in restricted accounts	46,895	71,910
Total current liabilities	162,605	173,095
Deferred revenue	6,838	5,671
Deferred tax liability, net	1,081	1,379
Revolving credit facility	25,000	—
Other long-term liabilities	14,647	8,564
Total liabilities	210,171	188,709
Commitments and contingencies (Note 8)	—	—
Stockholders' equity:		
Preferred stock, $0.001 par value, 10,000,000 shares authorized and zero shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	—	—
Common stock, $0.001 par value: 125,000,000 shares authorized, 82,016,928 and 80,511,791 shares issued and 79,082,594 and 78,433,626 shares outstanding at June 30, 2014 and December 31, 2013, respectively	82	81
Additional paid-in capital	415,127	390,854
Treasury stock, at cost: 2,934,334 and 2,078,165 shares at June 30, 2014 and December 31, 2013, respectively	(17,007)	(11,183)
Accumulated deficit	(72,213)	(65,086)
Accumulated other comprehensive loss	(171)	(162)
Total stockholders' equity	325,818	314,504
Total liabilities and stockholders' equity	$535,989	$503,213

See accompanying notes.

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

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Revenue:				
On demand	$91,606	$90,825	$188,614	$176,147
On premise	826	1,011	1,691	1,961
Professional and other	2,556	2,615	5,246	5,324
Total revenue	94,988	94,451	195,551	183,432
Cost of revenue[1]	42,115	37,340	82,042	72,704
Gross profit	52,873	57,111	113,509	110,728
Operating expense:				
Product development[1]	15,941	11,727	30,782	23,765
Sales and marketing[1]	28,030	23,924	54,021	46,826
General and administrative[1]	16,819	12,819	37,748	29,326
Total operating expense	60,790	48,470	122,551	99,917
Operating (loss) income	(7,917)	8,641	(9,042)	10,811
Interest expense and other, net	(204)	(596)	(426)	(685)
(Loss) income before income taxes	(8,121)	8,045	(9,468)	10,126
Income tax expense (benefit)	(1,830)	3,435	(2,341)	4,498
Net (loss) income	$(6,291)	$4,610	$(7,127)	$5,628
Net (loss) income per share				
Basic	$(0.08)	$0.06	$(0.09)	$0.08
Diluted	$(0.08)	$0.06	$(0.09)	$0.07
Weighted average shares used in computing net (loss) income per share				
Basic	77,283	74,541	77,004	74,278
Diluted	77,283	75,781	77,004	75,665
[1] Includes stock-based compensation expense as follows:				
Cost of revenue	$866	$750	$1,873	$2,088
Product development	2,144	1,131	4,056	3,180
Sales and marketing	3,101	3,201	6,244	4,422
General and administrative	3,922	2,163	7,085	4,627

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net (loss) income	$(6,291)	$4,610	$(7,127)	$5,628
Other comprehensive loss—foreign currency translation adjustment	5	(26)	(9)	(48)
Comprehensive (loss) income	$(6,286)	$4,584	$(7,136)	$5,580

See accompanying notes.

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

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	Treasury Shares		Total Stockholders’
	Shares	Amount	Capital	Loss	Deficit	Shares	Amount	Equity
Balance as of December 31, 2013	80,512	$81	$390,854	$ (162)	$(65,086)	(2,078)	$(11,183)	$314,504
Foreign currency translation	—	—	—	(9)	—	—	—	(9)
Net (loss) income	—	—	—	—	(7,127)	—	—	(7,127)
Exercise of stock options	566	—	5,015	—	—	—	—	5,015
Treasury stock purchase, at cost	—	—	—	—	—	(856)	(5,824)	(5,824)
Issuance of restricted stock	905	1	—	—	—	—	—	1
Issuance of common stock	34	—	—	—	—	—	—	—
Stock-based compensation	—	—	19,258	—	—	—	—	19,258
Balance as of June 30, 2014	82,017	$82	$415,127	$ (171)	$(72,213)	(2,934)	$(17,007)	$325,818

See accompanying notes.

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

	Six Months Ended June 30, 2014	2013
Cash flows from operating activities:		
Net (loss) income	$(7,127)	$5,628
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	19,571	15,218
Deferred tax expense (benefit)	(3,850)	3,046
Stock-based compensation	19,258	13,306
Loss on disposal of assets	20	273
Acquisition-related contingent consideration	(66)	1,445
Changes in assets and liabilities, net of assets acquired and liabilities assumed in business combinations:		
Accounts receivable	6,795	(6,506)
Customer deposits	(1)	—
Other current assets	(1,187)	(1,230)
Other assets	(888)	(274)
Accounts payable	7,458	2,992
Accrued compensation, taxes and benefits	(84)	(1,377)
Deferred revenue	1,588	810
Other current and long-term liabilities	1,261	1,252
Net cash provided by operating activities	42,748	34,583
Cash flows from investing activities:		
Purchases of property, equipment and software	(19,135)	(13,393)
Acquisition of businesses, net of cash acquired	(42,053)	(10,196)
Intangible asset additions	—	(600)
Net cash used in investing activities	(61,188)	(24,189)
Cash flows from financing activities:		
Proceeds from (payments on) revolving credit facility, net	25,000	(10,000)
Payments on capital lease obligations	(280)	(273)
Payments of deferred acquisition-related consideration	(748)	(486)
Issuance of common stock	5,016	2,993
Purchase of treasury stock	(5,824)	(2,065)
Net cash provided by (used in) financing activities	23,164	(9,831)
Net increase (decrease) in cash and cash equivalents	4,724	563
Effect of exchange rate on cash	(9)	(48)
Cash and cash equivalents:		
Beginning of period	34,502	33,804
End of period	$39,217	$34,319
Supplemental cash flow information:		
Cash paid for interest	$282	$369
Cash paid for income taxes, net of refunds	$287	$365
Non-cash financing activities:		
Fixed assets acquired under capital lease	$—	$1,976

See accompanying notes.

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Notes to the Consolidated Financial Statements
(Unaudited)

1. The Company

RealPage, Inc., a Delaware corporation, and its subsidiaries, (the “Company” or “we” or “us”) is a provider of property management solutions that enable owners and managers of single-family and a wide variety of multi-family rental property types to manage their marketing, pricing, screening, leasing, accounting, purchasing and other property operations. Our on demand software solutions are delivered through an integrated software platform that provides a single point of access and a shared repository of prospect, resident and property data. By integrating and streamlining a wide range of complex processes and interactions among the rental housing ecosystem of owners, managers, prospects, residents and service providers, our platform optimizes the property management process and improves the experience for all of these constituents. Our solutions enable property owners and managers to optimize revenues and reduce operating costs through higher occupancy, improved pricing methodologies, new sources of revenue from ancillary services, improved collections and more integrated and centralized processes.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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

It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K filed with the SEC on March 3, 2014 (“Form 10-K”).

Segment and Geographic Information

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

Principally, all of our revenue for the three and six months ended June 30, 2014 and 2013 was in North America. Net long-lived tangible assets held were $62.5 million and $51.5 million in North America and $4.0 million and $3.3 million in our international subsidiaries at June 30, 2014 and December 31, 2013, respectively.

Accounting Policies and Use of Estimates

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

Revenue Recognition

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

- there is persuasive evidence of an arrangement;

- the solution and/or service has been provided to the customer;
- the collection of the fees is probable; and

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

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

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

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

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

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

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

On Demand Revenue

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

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

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

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

On Premise Revenue

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

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

Professional and Other Revenue

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

Fair Value Measurements

We measure certain financial assets and liabilities at fair value pursuant to a fair value hierarchy based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon its own market assumptions. The fair value hierarchy consists of the following three levels:

Level 1	—	Inputs are quoted prices in active markets for identical assets or liabilities.
Level 2	—	Inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.
Level 3	—	Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

Concentrations of Credit Risk

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

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

No single customer accounted for 5% or more of our revenue or accounts receivable for the three or six months ended June 30, 2014 or 2013.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for us beginning January 1, 2017 and at that time, can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are evaluating the impact of adopting this new accounting standard on our financial statements.

3. Acquisitions

2014 Acquisitions

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

3 input). The initial fair value of the deferred cash payment and the contingent cash payments was $0.8 million and $2.4 million, respectively. The fair value was based on management's estimate of the fair value of the cash payment using a probability weighted discount model on the achievement of certain revenue targets and will be evaluated quarterly. This acquisition was financed from cash flows from operations. Acquired intangibles were recorded at their estimated fair value based on assumptions made by us. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. The trade name acquired has an indefinite

useful life as we do not plan to cease using the trade name in the marketplace. Direct acquisition costs were $0.1 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill and identified intangibles associated with this acquisition are deductible for tax purposes. The fair value of the contingent cash payments was $2.5 million at June 30, 2014, and for the three months ended June 30, 2014, we recognized a loss of $0.2 million due to the changes in their estimated fair value.

In March 2014, we acquired certain assets from Virtual Maintenance Manager LLC, including the Virtual Maintenance Manager product (“VMM”). VMM is a software-as-a-service application that facilitates the management of the end-to-end maintenance lifecycle for single-family and multi-family rental properties and provides property managers visibility into their maintenance costs, manages resources, and provides business control for property managers. We plan to integrate VMM into our existing Propertyware products. We acquired the VMM assets for a preliminary purchase price of $1.2 million, consisting of a cash payment of $1.0 million at closing, a deferred cash payment of up to $0.2 million payable over two years after the acquisition date, and additional cash payments of up to $2.0 million if certain revenue targets are met for the years ended June 30, 2015 and June 30, 2016 (a Level 3 input). The initial fair value of the deferred cash payment and the contingent cash payments was $0.2 million and less than $0.1 million, respectively. The fair value was based on management’s estimate of the fair value of the cash payment using a probability weighted discount model on the achievement of certain revenue targets and will be evaluated quarterly. This acquisition was financed from cash flows from operations. Acquired intangibles were recorded at their estimated fair value based on assumptions made by us. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. Acquired customer relationships have a useful life of five years which will be amortized proportionately to the expected discounted cash flows derived from the asset. Direct acquisition costs were $0.1 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill and identified intangibles associated with this acquisition are deductible for tax purposes.

In May 2014, we acquired certain assets from Notivus Multi-Family LLC ("Notivus"). Notivus is a software-as-a-service application that provides an outsourced vendor credentialing solution to assist multifamily owners and managers in the credentialing and ongoing monitoring of its current and prospective vendors, suppliers, and independent contractors. We plan to integrate Notivus into our existing Compliance Depot products. We acquired the Notivus assets for a preliminary purchase price of $4.4 million, consisting of a cash payment of $3.6 million at closing and a deferred cash payment of up to $0.8 million payable over two years after the acquisition date. The initial fair value of the deferred cash payment was approximately $0.8 million. The fair value was based on management’s estimate of the fair value of the cash payment using a probability weighted discount model on working capital targets and will be evaluated quarterly. This acquisition was financed from cash flows from operations. Acquired intangibles were recorded at their estimated fair value based on assumptions made by us. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. Direct acquisition costs were $0.1 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill and identified intangibles associated with this acquisition are deductible for tax purposes.

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

	InstaManager	VMM	Notivus
	(in thousands)		
Intangible assets:			
Developed product technologies	$4,490	$671	$1,840
Customer relationships	—	200	—
Tradenames	527	—	—
Goodwill	4,135	358	2,852
Deferred revenue	(33)	—	(156)

Net other assets (liabilities)	55	—	(141)
Total purchase price	$9,174	$1,229	$4,395

In June 2014, we acquired all of the issued and outstanding stock of Kigo, Inc. ("Kigo"). Kigo is a software-as-a-service vacation rental booking system headquartered in the United States with operations in Spain. Kigo offers services for vacation rental property management that include vacation rental calendars, scheduling, reservations, accounting, channel management, website design, payment processing and other tasks to aid the management of leads, revenue, resources and lodging calendars. We plan to integrate Kigo with our existing vacation rental products. We acquired Kigo for a preliminary

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purchase price of $37.5 million, consisting of a cash payment of $32.0 million and a deferred cash payment of up to $5.5 million, to be payable over two and a half years after the acquisition date. This acquisition was financed from proceeds from our revolving line of credit and cash flows from operations. Due to the timing of this acquisition, the purchase price allocation, including the determination of the fair value of the deferred cash payment, was not complete as of the date of this filing. Direct acquisition costs were $0.4 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of this acquisition. Goodwill and identified intangibles associated with this acquisition are not deductible for tax purposes.

2013 Acquisitions

In February 2013, we acquired certain assets of Seniors for Living, Inc. (“SFL”). SFL is a leading performance-based marketing company that provides senior housing communities and home care companies with industry-leading referral and marketing services to help them achieve their occupancy goals. We have integrated SFL with our existing senior living software solutions. We acquired SFL for a purchase price of $2.7 million which consisted of a cash payment of $2.3 million and additional cash payments of $0.2 million each due 6 months and 12 months after the acquisition date. As of June 30, 2014, both payments of $0.2 million had been made. This acquisition was financed from proceeds from cash flows from operations. Acquired intangibles were recorded at fair value based on assumptions made by us. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. Acquired customer relationships have a useful life of five years which will be amortized proportionately to the expected discounted cash flows derived from the asset. Direct acquisition costs were less than $0.1 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill and identified intangibles associated with this acquisition are deductible for tax purposes.

In March 2013, we acquired certain assets from Yield Technologies, Inc., including RentSentinel and RentSocial (together, “RentSentinel”). The RentSentinel software-as-a-service platform is a fully featured apartment marketing management solution for the multi-family industry. RentSocial is an apartment search service that simplifies and incorporates the social marketing platform into the process of finding an apartment. We have integrated RentSentinel with our existing LeaseStar product family. We acquired RentSentinel for a purchase price of $10.5 million which consisted of a cash payment of $7.6 million, an issuance of 72,500 shares of our common stock and two traunches of 36,250 shares of our common stock which are issuable 12 months and 24 months after the acquisition date, respectively. As of June 30, 2014, 33,868 shares had been issued. This acquisition was financed from proceeds from cash flows from operations and our common stock. Acquired intangibles were recorded at fair value based on assumptions made by us. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. Acquired customer relationships have a useful life of nine years which will be amortized proportionately to the expected discounted cash flows derived from the asset. Direct acquisition costs were $0.1 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill and identified intangibles associated with this acquisition are not deductible for tax purposes.

In October 2013, we acquired substantially all of the operating assets of Windsor Compliance Services, Inc. (“Windsor Compliance”) for a purchase price of $2.7 million, which included a cash payment of $1.3 million at closing and additional cash payments of $1.0 million and $0.5 million due 12 months and 24 months after the acquisition date, respectively, which are contingent on Windsor Compliance providing services to a specified number of units on or before those dates. The initial fair value of the cash payments was $1.3 million. The fair value was based on management’s estimate of the fair value of the cash payment using a probability weighted discount model on the achievement of the servicing targets discussed above. Windsor Compliance is a firm specializing in compliance with tax credits and regulations for the affordable housing industry. We have integrated Windsor Compliance with our other affordable HUD products. This acquisition was financed from cash flows from operations. Acquired intangibles were recorded at fair value based on assumptions made by us. Acquired customer relationships have a useful life of ten years which will be amortized proportionately to the expected discounted cash flows derived from the asset. Direct acquisition costs were $0.1 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill and identified intangibles

associated with this acquisition are deductible for tax purposes. The fair value of the additional cash payments was $1.3 million at June 30, 2014, and for the three and six months ended June 30, 2014, we recognized losses of less than $0.1 million due to the changes in their estimated fair value.
In October 2013, we acquired all of the issued and outstanding capital stock of MyBuilding Inc. ("MyBuilding") for a purchase price of $6.9 million, consisting of a cash payment of $4.5 million at closing, a deferred cash payment of up to $1.5 million payable over two years after the acquisition date and additional cash payments totaling up to $1.1 million if certain revenue targets are met for the years ended December 31, 2014 and December 31, 2015. The initial fair value of the deferred cash payment and the contingent cash payments was $1.4 million and $0.3 million, respectively. The fair value was based on management’s estimate of the fair value of the cash payment using a probability weighted discount model on the achievement of certain revenue targets (a Level 3 input). MyBuilding provides software-as-a-service solutions that facilitate the creation of

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online communities that connect residents to multifamily property managers, local vendors, and other residents. We have integrated MyBuilding with our existing LeaseStar software solutions. This acquisition was financed from cash flows from operations. Acquired intangibles were recorded at fair value based on assumptions made by us. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. Acquired customer relationships have a useful life of ten years which will be amortized proportionately to the expected discounted cash flows derived from the asset. The trade name acquired has an indefinite useful life as we do not plan to cease using the trade name in the marketplace. Direct acquisition costs were $0.1 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill and identified intangibles associated with this acquisition are not deductible for tax purposes. The fair value of the contingent cash payments was $0.3 million at June 30, 2014, and for the three and six months ended June 30, 2014, we recognized gains of $0.1 million and less than $0.1 million, respectively, due to the changes in their estimated fair value.
In October 2013, we acquired all of the membership interests of Active Building, LLC ("Active Building") for a purchase price of $14.8 million, consisting of a cash payment of $11.3 million at closing, a deferred cash payment of up to $2.0 million payable over three years after the acquisition date, and additional cash payments totaling up to $6.5 million if certain revenue targets are met for the years ended December 31, 2014 and December 31, 2015. The initial fair value of the deferred cash payment and the contingent cash payments was $1.7 million and $1.3 million, respectively. The fair value was based on management’s estimate of the fair value of the cash payment using a probability weighted discount model on the achievement of certain revenue targets (a Level 3 input). Active Building provides software-as-a-service solutions that facilitate the creation of online communities that connect residents to multifamily property managers, local vendors, and other residents. We have integrated Active Building with our existing LeaseStar software solutions. This acquisition was financed from cash flows from operations. Acquired intangibles were recorded at fair value based on assumptions made by us. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. Acquired customer relationships have a useful life of ten years which will be amortized proportionately to the expected discounted cash flows derived from the asset. The trade name acquired has an indefinite useful life as we do not plan to cease using the trade name in the marketplace. Direct acquisition costs were $0.1 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill and identified intangibles associated with this acquisition are deductible for tax purposes. The fair value of the contingent cash payments was $1.6 million at June 30, 2014, and for the three and six months ended June 30, 2014, we recognized gains of $0.4 million and $0.2 million, respectively, due to the changes in their estimated fair value.

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

	SFL	RentSentinel	Windsor Compliance	MyBuilding	Active Building
	(in thousands)				
Intangible assets:					
Developed product technologies	$1,406	$4,238	$—	$1,450	$3,990
Customer relationships	161	2,390	1,230	1,000	2,660
Tradenames	—	—	—	328	641
Goodwill	1,035	3,633	1,302	5,043	7,404
Deferred revenue	—	(304)	(107)	(258)	—
Net deferred taxes	—	226	—	(813)	—
Net other assets	88	313	226	111	76
Total purchase price, net of cash acquired	$2,690	$10,496	$2,651	$6,861	$14,771

Other Acquisition-Related Fair Value Adjustments

We have acquired companies in previous years for which acquisition-related contingent consideration was included in the purchase price and recorded at fair value. The liability established for the acquisition-related contingent consideration will continue to be re-evaluated and recorded at an estimated fair value based on the probabilities, as determined by management, of achieving the related targets. This evaluation will be performed until all of the targets have been met or terms of the agreement expire. For the three and six months ended June 30, 2014, there were no acquisition-related fair value adjustments for acquisitions made prior to January 1, 2013.

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Pro Forma Results of Acquisitions

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	Pro Forma	Pro Forma	Pro Forma	Pro Forma
	(in thousands, except per share amounts)			
Revenue:				
On demand	$92,148	$92,619	$189,944	$180,421
On premise	826	1,011	1,691	1,961
Professional and other	2,556	2,615	5,246	5,324
Total revenue	95,530	96,245	196,881	187,706
Net income (loss)	$(6,290)	$3,794	$(7,326)	$2,901
Net income (loss) per share:				
Basic	$(0.08)	$0.05	$(0.10)	$0.04
Diluted	$(0.08)	$0.05	$(0.10)	$0.04

4. Property, Equipment and Software

Property, equipment and software consist of the following:

	June 30, 2014	December 31, 2013
	(in thousands)	
Leasehold improvements	$20,700	$18,756
Data processing and communications equipment	53,356	47,719
Furniture, fixtures, and other equipment	15,578	11,266
Software	45,056	36,750
	134,690	114,491
Less: Accumulated depreciation and amortization	(68,175)	(59,716)
Property, equipment and software, net	$66,515	$54,775

Depreciation and amortization expense for property, equipment and software was $4.9 million and $3.3 million for the three months ended, and $9.4 million and $7.3 million for the six months ended June 30, 2014 and 2013, respectively. This includes depreciation for assets purchased through capital leases.

5. Goodwill and Other Intangible Assets

The change in the carrying amount of goodwill for the six months ended June 30, 2014 is as follows:

	(in thousands)
Balance at December 31, 2013	$152,422
Goodwill acquired	44,509
Other	727
Balance at June 30, 2014	$197,658

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

		June 30, 2014			December 31, 2013		
	Amortization Period	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
	(in thousands)						
Finite-lived intangible assets							
Developed technologies	3 years	$52,335	$(34,441)	$17,894	$45,014	$(29,952)	$15,062
Customer relationships	1-10 years	85,633	(38,855)	46,778	85,823	(33,503)	52,320
Vendor relationships	7 years	5,650	(5,001)	649	5,650	(4,709)	941
Total finite-lived intangible assets		143,618	(78,297)	65,321	136,487	(68,164)	68,323
Indefinite-lived intangible assets							
Tradenames		41,061	—	41,061	40,492	—	40,492
Total intangible assets		$184,679	$(78,297)	$106,382	$176,979	$(68,164)	$108,815

Amortization of finite-lived intangible assets was $5.1 million and $4.1 million for the three months ended, and $10.1 million and $7.9 million for the six months ended June 30, 2014 and 2013, respectively.

6. Debt

We have a secured revolving credit facility in 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 accrue interest at a per annum rate equal to either LIBOR or Wells Fargo’s prime rate (or, if greater, the federal funds rate plus 0.50% or three month LIBOR plus 1.00%), in each case plus a margin ranging from 2.00% to 2.50%, in the case of LIBOR loans, and 0.0% to 0.25% in the case of prime rate loans, based upon our senior leverage ratio. The interest is due and payable monthly, in arrears, for loans bearing interest at the prime rate and at the end of the applicable 1-, 2-, or 3-month interest period in the case of loans bearing interest at the adjusted LIBOR rate. The credit facility matures on December 30, 2015. Advances under the credit facility may be voluntarily prepaid, and must be prepaid with the proceeds of certain dispositions, extraordinary receipts and indebtedness and in full upon a change in control.

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

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

As of June 30, 2014 and December 31, 2013, we had $25.0 million and $0.0 million, respectively, outstanding under our revolving line of credit. As of June 30, 2014, $125.0 million was available under our revolving line of credit and $10.0 million was available for the issuance of letters of credit. We had unamortized debt issuance costs of $0.2 million and $0.3 million at June 30, 2014 and December 31, 2013, respectively. As of June 30, 2014, we were in compliance with our debt covenants.

7. Share-based Compensation

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

In April 2014, we granted 39,156 shares of restricted stock at $18.39 which vest quarterly over three years to our Board of Directors.
In May 2014, we granted 159,194 options with an exercise price of $18.71 which vest quarterly over three years. We also granted 84,620 shares of restricted stock at $18.71 which vest quarterly over three years and 100,400 shares of restricted stock at $20.61 which fully vest three business days after the date of the second quarter earnings release.

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

8. Commitments and Contingencies

Lease Commitments

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

The assets under capital lease are as follows:

	June 30, 2014	December 31, 2013
	(in thousands)	
Software	$1,977	$1,977
Less: Accumulated depreciation and amortization	(829)	(549)
Assets under capital lease, net	$1,148	$1,428

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

	(in thousands)
2014	$294
2015	587
2016	294
Total minimum lease payments	$1,175
Less amount representing average interest at 2.2%	(27)
	1,148
Less current portion	568
Long-term portion	$580

Guarantor Arrangements

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

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

The potential amount of future payments to defend lawsuits or settle indemnified claims under these indemnification provisions is unlimited in certain agreements; however, we believe the estimated fair value of these indemnification provisions is minimal, and, accordingly, we had no liabilities recorded for these agreements as of June 30, 2014 or December 31, 2013.

Litigation

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

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

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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.

On January 24, 2011, Yardi Systems, Inc. ("Yardi") filed a lawsuit in the U.S. District Court for the Central District of California against RealPage, Inc. and DC Consulting, Inc. (the “Yardi Lawsuit”). We answered and filed counterclaims against Yardi, and on July 1, 2012, the Company and Yardi entered into a settlement agreement resolving all outstanding litigation between the parties.

In connection with the Yardi Lawsuit, the Company made claims for reimbursement against each of its primary and excess layer general liability and errors and omissions liability insurance carriers. Each of our primary and excess layer errors and omissions liability insurance carriers other than Homeland Insurance of New York (“Homeland”) reimbursed the Company up to each of its policy limits. On July 19, 2012, we became aware of assertions by one of our primary layer errors and omissions insurance carriers, Ace European Group, Ltd. d/b/a Ace European Group, Barbican Syndicate 1995 at Lloyds’s (“Ace”), that Ace no longer considered the previously reimbursed $5.0 million payment covered under such policy, and that Ace demanded reimbursement of the $5.0 million payment that it had previously reimbursed to us. On August 12, 2012, our first excess layer errors and omissions insurance carrier, Axis Surplus Insurance Company (“Axis”), informed us that if Ace’s policy is deemed void, then Axis’ first excess layer policy was void on the same basis which would result in the Company’s obligation to reimburse to Axis $5.0 million in payments that Axis had previously reimbursed to us. The Company disputed these assertions by these carriers. Accordingly, on August 14, 2012, the Company filed a lawsuit in the U.S. District Court for the Eastern District of Texas against Ace and Axis (the “Ace Lawsuit”) seeking a declaration by the court that Ace and Axis have no right to, and no lawful reason to demand reimbursement of, the amounts paid to the Company’s counsel in connection with the Yardi Lawsuit. On February 25, 2014, RealPage and Axis entered into a confidential settlement and mutual release of claims, as a result of which Axis was dismissed from the Ace Lawsuit. On March 11, 2014, Ace filed its answer, affirmative defenses and counterclaims. On April 1, 2014, RealPage and Ace entered into a confidential settlement agreement and mutual release of claims and on April 7, 2014, the court entered an order granting the joint motion to dismiss all claims and demands asserted in the lawsuit. We expensed $4.7 million, inclusive of the settlements and other related costs in the first quarter of 2014.

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

9. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing the net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by using the weighted average number of common shares outstanding, including potential dilutive shares of common stock assuming the dilutive effect of outstanding stock options and restricted stock using the treasury stock method. Weighted average shares from common share equivalents in the amount of 1,336,749 and 273,094 for the three months ended June 30, 2014 and 2013, respectively, and 1,788,923 and 789,363 for the six months ended June 30, 2014 and 2013, respectively, were excluded from the respective dilutive shares outstanding because their effect was anti-dilutive.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
Numerator:				
Net (loss) income	$(6,291)	$4,610	$(7,127)	$5,628
Denominator:				
Basic:				
Weighted average common shares used in computing basic net income (loss) per share	77,283	74,541	77,004	74,278
Diluted:				
Add weighted average effect of dilutive securities:				
Stock options and restricted stock	—	1,240	—	1,387
Weighted average common shares used in computing diluted net income (loss) per share	77,283	75,781	77,004	75,665
Net (loss) income per common share:				
Basic	$(0.08)	$0.06	$(0.09)	$0.08
Diluted	$(0.08)	$0.06	$(0.09)	$0.07

10. Income Taxes

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

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

Our effective income tax rate was 22.5% and 42.7% for the three months ended and 24.7% and 44.4% for the six months ended June 30, 2014 and 2013, respectively. Our effective tax rate fluctuated from the statutory rate predominantly due to the impact of permanent differences, including stock compensation, and the non-deductibility of contingent consideration, in relation to our results of operations before income taxes.

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

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (which Sections were adopted as part of the Private Securities Litigation Reform Act of 1995). Statements preceded by, followed by or that otherwise include the words “anticipates,” “believes,” “could,” “seeks,” “estimates,” “expects “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “will,” “would” or similar expressions and the 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 2013. You should not place undue reliance on forward-looking statements herein, which speak only as of the date of this report. Except as required by law, we disclaim any intention, and undertake no obligation, to revise any forward-looking statements, whether as a result of new information, a future event or otherwise.

RealPage, Inc., a Delaware corporation, and its subsidiaries, (the “Company” or “we” or “us”) is a leading provider of on demand software solutions for the rental housing industry. Our broad range of property management solutions enables owners and managers of single-family and a wide variety of multi-family rental property types to manage their marketing, pricing, screening, leasing, accounting, purchasing and other property operations. Our on demand software solutions are

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delivered through an integrated software platform that provides a single point of access and a shared repository of prospect, resident and property data. By integrating and streamlining a wide range of complex processes and interactions among the rental housing ecosystem of owners, managers, prospects, residents and service providers, our platform helps optimize the property management process and improves the experience for all of these constituents. Our solutions enable property owners and managers to increase revenues and reduce operating costs through higher occupancy, improved pricing methodologies, new sources of revenue from ancillary services, improved collections and more integrated and centralized processes. As of June 30, 2014, over 10,300 customers used one or more of our on demand software solutions to help manage the operations of approximately 9.4 million rental housing units. Our customers include each of the ten largest multi-family property management companies in the United States, ranked as of January 1, 2014 by the National Multi Housing Council, based on number of units managed.

We sell our solutions through our direct sales organization. Our total revenues were approximately $95.0 million and $94.5 million for the three months ended, and $195.6 million and $183.4 million for the six months ended, June 30, 2014 and 2013, respectively. In the same periods, we had operating (loss) income of approximately $(7.9) million, $8.6 million, $(9.0) million, and $10.8 million respectively, and net (loss) income of approximately $(6.3) million, $4.6 million, $(7.1) million, and $5.6 million, respectively.

Our company was formed in 1998 to acquire Rent Roll, Inc., which marketed and sold on premise property management systems for the conventional and affordable multi-family rental housing markets. In June 2001, we released OneSite, our first on demand property management system. Since 2002, we have expanded our on demand software solutions to include a number of software-enabled value-added services that provide complementary sales and marketing, asset optimization, risk mitigation, billing and utility management and spend management capabilities. In connection with this expansion, we have allocated greater resources to the development and infrastructure needs of developing and increasing sales of our suite of on demand software solutions. In addition, since July 2002, we have completed 29 acquisitions of complementary technologies to supplement our internal product development and sales and marketing efforts and expand the scope of our solutions, the types of rental housing properties served by our solutions and our customer base.

Recent Acquisitions

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

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

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

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

In October 2013, we acquired all of the membership interest of Active Building, LLC ("Active Building") for a purchase price of $14.8 million, which consisted of a cash payment of $11.3 million at closing, a deferred cash payment of up to $2.0 million payable over three years after the acquisition date, and additional cash payments totaling $6.5 million if certain revenue targets are met for the years ended December 31, 2014 and December 31, 2015. A provider of software-as-a-service solutions, Active Building products facilitate the creation of online communities that connect residents to multifamily property managers, local vendors, and other residents.

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

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

In May 2014, we acquired substantially all of the operating assets of Notivus Multi-Family, LLC ("Notivus") for a preliminary purchase price of $7.5 million, which consisted of a cash payment of $3.6 million at closing, a deferred cash payment of up to $0.8 million payable over two years after the acquisition date, and additional cash payments totaling $3.1 million if certain revenue targets are met for the years ended December 31, 2015, December 31, 2016, and December 31, 2017. The acquisition of Notivus expands our ability to provide vendor risk management and compliance software solutions for the rental housing industry.

In June 2014, we acquired all of the issued and outstanding stock of Kigo, Inc. ("Kigo"). Kigo is a software-as-a-service vacation rental booking system headquartered in the United States with operations in Spain. Kigo offers services for vacation rental property management that include vacation rental calendars, scheduling, reservations, accounting, channel management, website design, payment processing and other tasks to aid the management of leads, revenue, resources and lodging calendars. We plan to integrate Kigo with our existing vacation rental products and further extend our vacation booking system internationally. We acquired Kigo for a preliminary purchase price of $37.5 million, consisting of a cash payment of $32.0 million and a deferred cash payment of up to $5.5 million, to be payable over two and a half years after the acquisition date.

Critical Accounting Policies and Estimates

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

We believe that the following critical accounting policies involve our more significant judgments, assumptions and estimates, and therefore, could have the greatest potential impact on our condensed consolidated financial statements:

- Revenue recognition;
- Fair value measurements;
- Accounts receivable;
- Business combinations;
- Goodwill and other intangible assets with indefinite lives;
- Impairment of long-lived assets;
- Intangible assets;
- Stock-based compensation;
- Income taxes; and
- Capitalized product development costs.

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

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Key Components of Our Results of Operations

Revenue

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

On demand revenue. Revenue from our on demand software solutions is comprised of license and subscription fees relating to our on demand software solutions, typically licensed for one year terms, commission income from sales of renter's insurance policies, and transaction fees for certain on demand software solutions, such as payment processing, spend management and billing services. Typically, we price our on demand software solutions based primarily on the number of units or beds the customer manages with our solutions. For our insurance based solutions, our agreement provides for a fixed commission on earned premiums related to the policies sold by us. The agreement also provides for a contingent commission to be paid to us in accordance with the agreement. This agreement provides for a calculation that considers, on the policies sold by us, earned premiums less i) earned agent commissions; ii) a percent of premium retained by our underwriting partner; iii) incurred losses; and iv) profit retained by our underwriting partner during the time period. Our estimate of our contingent commission revenue considers historical loss experience on the policies sold by us. For our transaction-based solutions, we price based on a fixed rate per transaction.

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

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

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

Cost of Revenue

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

Operating Expenses

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

Product development. Product development expense consists primarily of personnel costs for our product development employees and executives and fees to contract development vendors. Our product development efforts are focused primarily on increasing the functionality and enhancing the ease of use of our on demand software solutions and expanding our suite of on demand software solutions. In 2008 and 2011, we established a product development and service center in Hyderabad, India and Manila, Philippines, respectively, to take advantage of strong technical talent at lower personnel costs compared to the United States.

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

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

Key Business Metrics

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

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

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

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

Non-GAAP on demand revenue. This metric represents on demand revenue adjusted to reverse the effect of the write down of deferred revenue associated with purchase accounting for strategic acquisitions. We use this metric to evaluate our on demand revenue as we believe its inclusion provides a more accurate depiction of on demand revenue arising from our strategic acquisitions.

The following provides a reconciliation of non-GAAP on demand revenue to on demand revenue, our most directly comparable GAAP financial measure:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
On demand revenue	$91,606	$90,825	$188,614	$176,147
Acquisition-related and other deferred revenue adjustments	(207)	—	1,117	2
Non-GAAP on demand revenue	$91,399	$90,825	$189,731	$176,149

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

Adjusted EBITDA. We define this metric as net income (loss) plus acquisition-related and other deferred revenue, depreciation, asset impairment, and loss on sale of asset; amortization of intangible assets; interest expense, net; income tax expense (benefit); stock-based compensation expense, acquisition-related expense and certain litigation-related expenses. We believe that the use of Adjusted EBITDA is useful in evaluating our operating performance because it excludes certain non-cash expenses, including depreciation, amortization and stock-based compensation. Adjusted EBITDA is not determined in accordance with accounting principles generally accepted in the United States, or GAAP, and should not be considered as a substitute for or superior to financial measures determined in accordance with GAAP. For a reconciliation of Adjusted EBITDA to net income (loss), refer to the table below. Our Adjusted EBITDA decreased from approximately $21.1 million and $41.8 million for the three and six months ended June 30, 2013, respectively, to approximately $12.5 million