

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

or

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

For the transition period from _____ to _____

Commission File Number: 001-34846

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

Delaware 75-2788861
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
2201 Lakeside Boulevard 75082-4305
Richardson, 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

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

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

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

RealPage, Inc.

Condensed Consolidated Balance Sheets

(in thousands, except share data)

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

Total liabilities and stockholders' equity
See accompanying notes.

\$1,221,447 \$788,098

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

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

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RealPage, Inc.

Condensed Consolidated Statements of Comprehensive Income

(in thousands)

(unaudited)

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

See accompanying notes.

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

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

See accompanying notes.

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RealPage, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

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

See accompanying notes.

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

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

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RealPage, Inc.

Notes to the Condensed Consolidated Financial Statements
(unaudited)

1. The Company

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

Segment and Geographic Information

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

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

Concentrations of Credit Risk

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

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

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

Accounting Policies and Use of Estimates

The preparation of financial statements in conformity with GAAP requires our management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include the allowance for doubtful accounts; the useful lives of intangible assets and the recoverability or impairment of tangible and intangible asset values; fair value measurements; contingent commissions related to the sale of insurance products; purchase accounting allocations and contingent consideration; revenue and deferred revenue and related

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reserves; stock-based expense; and our effective income tax rate and the recoverability of deferred tax assets, which are based upon our expectations of future taxable income and allowable deductions. Actual results could differ from these estimates. For greater detail regarding these accounting policies and estimates, refer to our Form 10-K.

Business Combinations

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

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

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

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

Derivative Financial Instruments

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

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

amounts previously recorded in AOCI are recognized in earnings immediately.

Revenue Recognition

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

- there is persuasive evidence of an arrangement;
- the solution and/or service has been provided to the client;
- the collection of the fees is probable; and

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

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

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

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

On Demand Revenue

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

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

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

On Premise Revenue

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

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

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

Professional and Other Revenue

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

Fair Value Measurements

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

Legal Contingencies

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

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

Recently Adopted Accounting Standards

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

Recently Issued Accounting Standards

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

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

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

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a

broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in fiscal years beginning after December 15, 2018. The amendments in this ASU are to be applied through a cumulative-effect adjustment to retained earnings as of the first reporting period in which the ASU is effective. We have not yet selected a transition date and are currently evaluating the impact of adopting ASU 2016-13 on our consolidated financial statements.

On February 25, 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Current GAAP requires lessees to classify their leases as either capital leases, for which the lessee recognizes a lease liability and a related leased asset, or operating leases, which are not reflected in the lessee's balance sheet. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with a term of more than twelve months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease will depend primarily on its classification as a

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finance or an operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, ASU 2016-02 will require both operating and finance leases to be recognized on the balance sheet. Additionally, the ASU will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements.

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

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

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

3. Acquisitions

Current Acquisition Activity

American Utility Management

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

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

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

are deductible for tax purposes.

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

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Lease Rent Options

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

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

Axiometrics LLC

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

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

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

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

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Purchase Price Allocation

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

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

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

2016 Acquisitions

eSupply Systems, LLC

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

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

AssetEye, Inc.

In May 2016, we acquired all of the issued and outstanding stock of AssetEye, Inc. (“AssetEye”). AssetEye is a data aggregation, reporting, and collaboration platform for institutions holding multiple real estate asset classes. This solution provides asset and portfolio managers with a solution to evaluate performance, trends, and operations across a portfolio with transparency into property-level data. The acquisition of AssetEye expanded our on demand solutions

to serve all asset classes, including: commercial, hospitality, multifamily, single family, senior living, and student housing.

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

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

NWP Services Corporation

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

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

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

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

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

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

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Purchase Price Allocation

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

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

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

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

Acquisition Activity Prior to 2016

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

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

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Pro Forma Results of Acquisitions

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

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

4. Property, Equipment, and Software

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

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

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

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

5. Goodwill and Identified Intangible Assets

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

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

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

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

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

6. Debt

Credit Facility

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

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

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

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

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

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

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

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

Credit Facility.

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

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

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Convertible Notes

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

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

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

during any calendar quarter commencing after the calendar quarter ending on June 30, 2017 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

- during the five business day period after any five consecutive trading day period (the "Measurement Period") in which the trading price per \$1,000 principal amount of the Convertible Notes for each trading day of the Measurement Period was less than 98% of the product of the last reported sales price of our common stock and the conversion rate on each such trading day; or

- upon the occurrence of specified corporate events, as defined in the Indenture.

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

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

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

due and payable. Upon such a declaration of acceleration, any principal and accrued and unpaid interest will be due and payable immediately.

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

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

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

Liability component:

Principal amount	\$345,000
Unamortized discount	(61,497)
Unamortized debt issuance costs	(7,830)
	\$275,673

Equity component, net of issuance costs: \$61,401

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

Contractual interest expense	\$561
Amortization of debt discount	1,052
Amortization of debt issuance costs	134
	\$1,747

Effective interest rate of the liability component 5.87 %

Convertible Note Hedges and Warrants

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

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

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

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

7. Stock-based Expense

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

Three Months Ended June 30, 2017	Six Months Ended June 30, 2017	Vesting
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67,437	1,120,339	Shares vest ratably over a period of twelve quarters beginning on the first day of the second calendar quarter immediately following the grant date.
40,103	49,563	Shares vest ratably over a period of four quarters beginning on the first day of the calendar quarter immediately following the grant date.

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

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

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

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

8. Commitments and Contingencies

Lease Commitments

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

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

Guarantor Arrangements

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

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

right to resolve any such claims by designing a non-infringing alternative, by obtaining a license on reasonable terms, or by terminating our relationship with the client and refunding the client's fees.

The potential amount of future payments to defend lawsuits or settle indemnified claims under these indemnification provisions is unlimited in certain agreements; however, we believe the estimated fair value of these indemnification provisions is minimal, and, accordingly, we had no liabilities recorded for these agreements as of June 30, 2017 or December 31, 2016.

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Litigation

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

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

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

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

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

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

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

9. Net Income per Share

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

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

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average shares outstanding until the price of the Company's common stock exceeds the strike price of \$57.58, as described in Note 6. When the price of the Company's common stock exceeds the strike price of the Warrants, the effect of the additional shares that may be issued upon exercise of the Warrants will be included in total dilutive weighted average shares outstanding using the treasury stock method. The Note Hedges purchased in connection with the issuance of the Convertible Notes are considered to be anti-dilutive and therefore do not impact the Company's calculation of diluted net income per share. Refer to Note 6 for further discussion regarding the Convertible Notes. As required by ASU 2016-09, the weighted average effect of dilutive securities for the three and six month periods ended June 30, 2017, was calculated without including consideration of windfall tax benefits, resulting in the repurchase of fewer hypothetical shares and a greater dilutive effect. This change was applied on a prospective basis, and dilutive securities for the same period in 2016 have not been adjusted.

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

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

10. Income Taxes

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

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

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

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

11. Fair Value Measurements

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

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The prescribed fair value hierarchy is as follows:

Level 1 - Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs are quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable; and market-corroborated inputs which are derived principally from or corroborated by observable market data.

Level 3 - Inputs are derived from valuation techniques in which one or more of the significant inputs or value drivers are unobservable.

The categorization of an asset or liability within the fair value hierarchy is based on the inputs described above and does not necessarily correspond to the Company's perceived risk of that asset or liability. Moreover, the methods used by the Company may produce a fair value calculation that is not indicative of the net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments and non-financial assets and liabilities could result in a different fair value measurement at the reporting date.

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

Interest rate swap agreements: The fair value of the Company's interest rate swap agreements are determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the swap agreements. This analysis reflects the contractual terms of the swap agreements, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements.

Although the Company has determined that the majority of the inputs used to value its swap agreements fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its swap agreements utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by the Company and its counterparties. The Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its swap agreements' positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its swap agreements. As a result, the Company determined that its valuation of the swap agreements in its entirety is classified in Level 2 of the fair value hierarchy.

Contingent consideration obligations: Contingent consideration obligations consist of potential obligations related to our acquisition activity. The amount to be paid under these obligations is contingent upon the achievement of stipulated operational or financial targets by the business subsequent to acquisition. The fair value of contingent consideration obligations is estimated using a probability weighted discount model which considers the achievement of the conditions upon which the respective contingent obligation is dependent. The probability of achieving the specified conditions is assessed by applying a Monte Carlo weighted-average model. Inputs into the valuation model include a discount rate specific to the acquired entity, a measure of the estimated volatility, and the risk free rate of return.

In addition to the inputs described above, the fair value estimates consider the projected future operating or financial results for the factor upon which the respective contingent obligation is dependent. The fair value estimates are generally sensitive to changes in these projections. We develop the projected future operating results based on an analysis of historical results, market conditions, and the expected impact of anticipated changes in our overall business and/or product strategies.

Significant unobservable inputs used in the contingent consideration fair value measurements included the following at June 30, 2017 and December 31, 2016:

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

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

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

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

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

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

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

Financial Instruments

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

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

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

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

Fair Value	Carrying Value
(in thousands)	

Convertible Notes	\$375,612	\$275,673
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12. Stockholders' Equity

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

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

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

13. Derivative Financial Instruments

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

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

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

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

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

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

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Derivatives Designated as Cash Flow Hedges	Effective Portion		Ineffective Portion		Gain (Loss) Recognized in Income
	Gain (Loss) Recognized in OCI	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income	Location of Gain (Loss) Recognized in Income	
Three months ended June 30, 2017:					
Swap agreements, net of tax	\$ (21)	Interest expense and other	\$ (3)	Interest expense and other	\$ 10
Three months ended June 30, 2016:					
Swap agreements, net of tax	\$ (550)	Interest expense and other	\$ (86)	Interest expense and other	\$ —
Derivatives Designated as Cash Flow Hedges	Effective Portion		Ineffective Portion		Gain (Loss) Recognized in Income
	Gain (Loss) Recognized in OCI	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income	Location of Gain (Loss) Recognized in Income	
Six months ended June 30, 2017:					
Swap agreements, net of tax	\$ 73	Interest expense and other	\$ 9	Interest expense and other	\$ 28
Six months ended June 30, 2016:					
Swap agreements, net of tax	\$ (629)	Interest expense and other	\$ (86)	Interest expense and other	\$ —

14. Subsequent Events

Acquisition Activity

On-Site

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

Lease Rent Options

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

after the U.S. Department of Justice files a complaint under applicable antitrust laws. In the event the Company elects to extend the Termination Date pursuant to the foregoing right, the Company will pay one-half of Rainmaker's legal and related fees and expenses reasonably incurred (from the date such extension is exercised to the Termination Date) in defending the transaction from any complaint filed pursuant to antitrust laws.

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

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

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (which Sections were adopted as part of the Private Securities Litigation Reform Act of 1995). Statements preceded by, followed by, or that otherwise include the words “anticipates,” “believes,” “could,” “seeks,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “will,” “would,” or similar expressions and the 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 2016 previously filed with the SEC on March 1, 2017 and our Quarterly Report on Form 10-Q for the first quarter of 2017 filed on May 8, 2017. You should not place undue reliance on forward-looking statements herein, which speak only as of the date of this report. Except as required by law, we disclaim any intention, and undertake no obligation, to revise any forward-looking statements, whether as a result of new information, a future event, or otherwise.

Overview

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

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

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

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

Solutions and Services

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

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

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

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

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

Property Management

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

Lease Management

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

Resident Services

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

Asset Optimization

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

Professional services

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

Our consulting and implementation services include project and application management procedures, business process evaluation, business model

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development and data conversion. Our consulting teams work closely with customers to facilitate the smooth transition and operation of our solutions.

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

Recent Developments

Convertible Notes

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

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

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

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

Acquisition Activity

On-Site Manager, Inc.

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

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

American Utility Management

In June 2017, RealPage acquired substantially all of the assets of American Utility Management (“AUM”), a provider of utility and energy management services for the multifamily housing industry. AUM helps maximize cost recovery, reduces energy usage and expense, and provides the tools operators of rental real estate need to manage their utilities

more effectively. Additionally, AUM's platform includes tools that enable operators to benchmark energy cost and consumption against their peers. The acquired assets will be integrated with our existing resident utility management platform and our data analytics tools.

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

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obligation, subject to any adjustments related to working capital and the seller's indemnification obligations, will be paid over a period of four years following the date of acquisition.

Lease Rent Options

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

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

Axiometrics LLC

In January 2017, we acquired substantially all of the assets of Axiometrics LLC ("Axiometrics"), a leading provider of multifamily market data. This acquisition augmented our existing lease transaction data pool, further enhancing the accuracy and value of the analysis and forecasts provided to our clients through our data analytics solutions. We will integrate Axiometrics with our existing market research database, MPF Research, to form Data Analytics.

Purchase consideration was comprised of a cash payment at closing of \$66.1 million, a deferred cash obligation of up to \$7.5 million, and contingent cash payments of up to \$5.0 million. The deferred cash obligation serves as security for our benefit against the sellers' indemnification obligation and, subject to any indemnification claims made, will be released over a period of two years following the acquisition date. Payment of the contingent cash obligation is dependent upon the achievement of certain revenue targets during the twelve-month period ending December 31, 2018.

2016 Acquisitions

eSupply Systems, LLC

In June 2016, we acquired substantially all of the assets of eSupply Systems, LLC ("eSupply") and those of certain entities related to eSupply. eSupply is an e-procurement software and group purchasing service which augments our existing spend management solutions. The addition of this group purchasing organization provides increased purchasing power and highly competitive pricing structures for our clients. The addition of eSupply's assets rounds out our spend management offering by adding a powerful group purchasing service to an already robust e-procurement platform, a large network of vendors, a vendor credentialing service, and purchasing advisory services.

We acquired eSupply for a purchase price of \$7.0 million, consisting of a cash payment of \$5.5 million at closing and deferred cash obligations of up to \$1.6 million, payable over 18 months after the acquisition date. The deferred cash obligation is subject to adjustments specified in the purchase agreement related to the sellers' indemnification obligations.

AssetEye, Inc.

In May 2016, we acquired all of the issued and outstanding stock of AssetEye, Inc. ("AssetEye"). AssetEye is a data aggregation, reporting, and collaboration platform for institutions holding multiple real estate asset classes. This acquisition expanded our on demand offerings to serve all asset classes, including commercial, hospitality, multifamily, single family, senior living, and student housing. The AssetEye software provides asset and portfolio managers with a solution to evaluate performance, trends, and operations across a portfolio with transparency into property-level data. On demand analytics allow stakeholders to quickly combine financial results and operating metrics based upon portfolio attributes that help evaluate asset management strategies.

We acquired AssetEye's issued and outstanding stock for a purchase price of \$4.9 million. The purchase price consisted of a cash payment of \$3.6 million at closing, net of cash acquired of \$0.8 million; deferred cash obligations

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

NWP Services Corporation

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

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

Key Business Metrics

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

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

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

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

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

could result in adjustments to the number of units previously reported.

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

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

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

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

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

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

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

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

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

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

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

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

Non-GAAP Financial Measures

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

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

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

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

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

Depreciation of long-lived assets: Long-lived assets are depreciated over their estimated useful lives in a manner reflecting the pattern in which the economic benefit is consumed. Management is limited in its ability to change or influence these charges after the asset has been acquired and placed in service. We do not believe that depreciation expense accurately

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reflects the performance of the Company's ongoing operations for the period in which the charges are incurred, and are therefore not considered by management in making operating decisions.

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

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

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

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

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

Key Components of Our Results of Operations

Revenue

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

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

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

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

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

Cost of Revenue

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

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Operating Expenses

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

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

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

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

Critical Accounting Policies and Estimates

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

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

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

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

Recently Adopted Accounting Standards

We adopted ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, in the first quarter of 2017. As a result of our adoption of this ASU, we recorded a deferred tax asset of \$43.8 million, net of a \$0.3 million valuation allowance, related to excess stock-based compensation deductions that arose but were not recognized in prior years. Additionally, we elected to account for

forfeitures as they occur using a modified retrospective transition method that required us to record an immaterial cumulative-effect adjustment to accumulated deficit. We elected to account for the change in presentation of excess tax benefits in the statements of cash flows prospectively, and as a result, no prior periods were adjusted. We began to account for all excess tax benefits and deficits arising from current period stock transactions as income tax benefit or expense effective January 1, 2017. The remaining amendments to this standard did not have a material impact on our Condensed Consolidated Financial Statements.

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Results of Operations

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

Condensed Consolidated Statements of Operations

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

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Six Months Ended June 30,
 2017 2017 2016 2016
 (in thousands, except per share and
 ratio amounts)

Revenue:					
On demand	\$300,940	95.8 %	\$260,021	96.0 %	
On premise	1,334	0.4	1,459	0.5	
Professional and other	11,951	3.8	9,622	3.5	
Total revenue	314,225	100.0	271,102	100.0	
Cost of revenue ⁽¹⁾	130,586	41.6	116,826	43.1	
Gross profit	183,639	58.4	154,276	56.9	
Operating expenses:					
Product development ⁽¹⁾	41,677	13.3	36,150	13.3	
Sales and marketing ⁽¹⁾	74,382	23.7	67,328	24.8	
General and administrative ⁽¹⁾	51,621	16.4	40,278	14.9	
Total operating expenses	167,680	53.4			