

REALPAGE INC  
Form 10-K  
February 24, 2012

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

**FORM 10-K**

**(Mark One)**

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

**For the fiscal year ended December 31, 2011**

**or**

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

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

**Commission File Number: 001-34846**

**RealPage, Inc.**

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

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

**75-2788861  
(I.R.S. Employer  
Identification No.)**

**4000 International Parkway  
Carrollton, Texas  
(Address of principal executive offices)**

**75007-1951  
(Zip Code)**

**(972) 820-3000**

**(Registrant's telephone number, including area code)  
Securities registered pursuant to Section 12(b) of the Act:**

**Common Stock, \$0.001 par value  
(Title of class)**

**The NASDAQ Stock Market LLC  
(Name of each exchange on which registered)**

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

Indicate by check mark if the Registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or

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information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

(Do not check if a smaller  
reporting company)

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

Based on the closing price of the registrant's common stock on the last business day of the registrant's most recently completed second fiscal quarter, which was June 30, 2011, the aggregate market value of its shares held by non-affiliates held on that date was approximately \$908,924,000. For purposes of this calculation, the registrant assumed that all 5% holders, directors and executive officers of the registrant are affiliates.

On February 10, 2012, 72,740,063 shares of the registrant's Common Stock, \$0.001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its fiscal 2011 Annual Meeting of Stockholders to be filed within 120 days of the Registrant's fiscal year ended December 31, 2011 are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

*We have made forward-looking statements in this Annual Report on Form 10-K that are subject to risks and uncertainties. Forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section and Section 21E of the Securities Exchange Act of 1934, as amended, are subject to the safe harbor created by those sections. The forward-looking statements in this report are based on our management's beliefs and assumptions and on information currently available to our management. In some cases, you can identify forward-looking statements by terms such as anticipates, aspires, believes, can, continue, could, estimates, expects, intends, may, plans, projects, seeks, should, will or would or the negative of these terms and similar expressions intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance, time frames or achievements to be materially different from any future results, performance, time frames or achievements expressed or implied by the forward-looking statements. We discuss many of these risks, uncertainties and other factors in this document in greater detail under the heading Risk Factors. We believe it is important to communicate our expectations to our investors. However, there may be events in the future that we are not able to predict accurately or over which we have no control. The risks described in Risk Factors included in this report, as well as any other cautionary language in this report, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Before you invest in our common stock, you should be aware that the occurrence of the events described in Risk Factors and elsewhere in this report could harm our business.*

*Given these risks, uncertainties and other factors, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this filing. You should read this document completely and with the understanding that our actual future results may be materially different from what we expect. We hereby qualify our forward-looking statements by these cautionary statements. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.*

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**PART I**

**Item 1. Business**

**Company Overview**

RealPage, Inc., a Delaware corporation, and its subsidiaries, (the Company or we or us ) is a leading provider of on demand software solutions for the rental housing industry. Our broad range of property management solutions enables owners and managers of single-family and a wide variety of multi-family rental property types to manage their marketing, pricing, screening, leasing, accounting, purchasing and other property operations. Our on demand software solutions are delivered through an integrated software platform that provides a single point of access and a shared repository of prospect, resident and property data. By integrating and streamlining a wide range of complex processes and interactions among the rental housing ecosystem of owners, managers, prospects, residents and service providers, our platform helps optimize the property management process and improves the experience for all of these constituents.

Our solutions enable property owners and managers to increase revenues and reduce operating costs through higher occupancy, improved pricing methodologies, new sources of revenue from ancillary services, improved collections and more integrated and centralized processes. As of December 31, 2011, approximately 7,800 customers used one or more of our on demand software solutions to help manage the operations of approximately 7.3 million rental housing units. Our customers include each of the ten largest multi-family property management companies in the United States, ranked as of January 1, 2011 by the National Multi Housing Council, based on number of units managed.

We sell our solutions through our direct sales organization. Our total revenues were approximately \$258.0 million, \$188.3 million and \$140.9 million at December 31, 2011, 2010 and 2009, respectively. In the same periods, we had operating income of approximately \$1.8 million, \$6.3 million and \$6.9 million, respectively, and net (loss) income of approximately \$(1.2) million, \$0.1 million and \$28.4 million, respectively. Net income for 2009 included a discrete tax benefit of approximately \$26.0 million as a result of a reduction of our net deferred tax assets valuation allowance.

Our company was formed in 1998 to acquire Rent Roll, Inc., which marketed and sold on premise property management systems for the conventional and affordable multi-family rental housing markets. In June 2001, we released OneSite, our first on demand property management system. Since 2002, we have expanded our on demand software solutions to include a number of software-enabled value-added services that provide complementary sales and marketing, asset optimization, risk mitigation, billing and utility management and spend management capabilities. In connection with this expansion, we have allocated greater resources to the development and infrastructure needs of developing and increasing sales of our suite of on demand software solutions. In addition, since July 2002, we have completed 18 acquisitions of complementary technologies to supplement our internal product development and sales and marketing efforts and expand the scope of our solutions, the types of rental housing properties served by our solutions and our customer base.

On August 11, 2010, our registration statement on Form S-1 (File No 333-166397) relating to our initial public offering was declared effective by the Securities and Exchange Commission (SEC). We sold 6,000,000 shares of common stock in our initial public offering. Our common stock began trading on August 12, 2010 on the NASDAQ Global Select Stock Market under the symbol RP, and the offering closed on August 17, 2010. Upon closing of our initial public offering, all outstanding shares of our convertible preferred stock, including a portion of accrued but unpaid dividends on our outstanding shares of Series A, Series A1 and Series B convertible preferred stock, were converted into 29,567,952 shares of common stock.

On December 6, 2010, our registration statement on Form S-1 (File No 333-170667) relating to a public stock offering was declared effective by the SEC. We sold an additional 4,000,000 shares of common stock in the offering. The offering closed on December 10, 2010.

**Table of Contents****Industry Overview*****The rental housing market is large, growing and complex.***

The rental housing market is large and characterized by challenging and location-specific operating requirements, diverse industry participants, significant mobility among residents and a variety of property types, including single-family and a wide range of multi-family property types, including conventional, affordable, privatized military, student and senior housing. According to the U.S. Census Bureau American Housing Survey for the United States, there were 39.7 million rental housing units in the United States in 2009. The U.S. Census Bureau divides the rental housing market into the following categories:

<b>Property Size</b>	<b>Number of Estimated Units (in millions)</b>
<b><i>Single-family properties</i></b>	
1 unit	14.5
2-4 units	7.8
<b><i>Multi-family properties</i></b>	
5-9 units	5.3
10-49 units	8.4
50 or more units	3.7
<b>Total Rental Units</b>	<b>39.7</b>

Based on U.S. Census Bureau data and our own estimates, we believe that the overall size of the U.S. rental housing market, including rent, utilities and insurance, exceeds \$300 billion annually. We estimate that the total addressable market for our current on demand software solutions is approximately \$9.0 billion per year. This estimate assumes that each of the 39.7 million rental units in the United States has the potential to generate annually a range of approximately \$150 in revenue per unit for single-family units to approximately \$350 in revenue per unit for conventional multi-family units. In addition, we estimate that the student and senior markets have the potential to generate annually approximately \$700 in revenue per unit. We base this potential revenue assumption on our review of the purchasing patterns of our existing customers with respect to our on demand software solutions, the on demand software solutions currently utilized by our existing customers, the number of units our customers manage with these solutions and our current pricing for on demand software solutions. Furthermore, the U.S. rental housing market has recently benefited from a number of significant trends, including decreased home ownership resulting in additional renter households and tougher mortgage lending standards reducing first-time home purchases and contributing to lower rates of renter attrition as renters choose to remain in rental units.

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

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

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

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



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

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

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

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

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

In addition, owners and managers have relied upon print and Internet listing firms to attract leads required to fill available vacancy. The cost per lease generated from these lead sources is highly variable ranging from a few hundred dollars per lease to several thousand dollars per lease. We believe these historical solutions are inadequate because they:

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

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

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

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

- lack material organic lease generation capability and do not track the cost of leads generated by each source;

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

- lack comprehensive analytics for pricing and yield optimization;

- lack workflow level integration;

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

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

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

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

### **The RealPage Solution**

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

***Benefits to Our Customers***

We believe the benefits of our solutions for our customers include the following:

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

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

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

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

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

*Increased visibility into property performance.* Our integrated platform and common data repository enable owners and managers to gain a comprehensive view of the operational and financial performance of each of their properties. Our solutions provide a library of standard reports, dashboards, scorecards and alerts, and we also provide interfaces to several widely used report writers and business intelligence tools. In addition, our on demand delivery model makes it possible to deliver benchmark data aggregated across more than 13,500 properties, factor rental payment history into applicant screening processes and create more accurate supply/demand models and statistically based price elasticity models to improve price optimization.

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

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

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

The competitive strengths of our solutions are as follows:

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

*Large and growing ecosystem of property owners, managers, prospects, residents and service providers.* Through December 31, 2011, we have established a customer base of 7,790 customers who use one or more of our on demand software solutions to help manage the operations of approximately 7.3 million rental housing units. Our customers

include each of the ten largest multi-family property management companies in the United States, ranked as of January 1, 2011 by the National Multi Housing Council, based on number of units managed. Our solutions automate and streamline many of the recurring transactions and interactions among this large and expanding ecosystem of property owners and managers, prospects, residents and service providers, including prospect inquiries, applications, monthly rent payments and service requests. As the number of constituents of our ecosystem increases, the volume of data in our common data repository and its value to the constituents of our ecosystem grows.

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

*Deep rental housing industry expertise.* We have been serving the rental housing industry exclusively for over 10 years and our 25 most senior management team members have an average of approximately 16 years experience in the rental housing industry. We design our solutions based on our extensive rental housing industry expertise, insight into industry trends and developments and property management best practices that help our customers simplify the challenges of owning and managing rental properties.

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

### **Our Strategy**

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

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

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

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

*Pursue acquisitions of complementary businesses, products and technologies.* Since March 2005, we have completed 18 acquisitions that have enabled us to expand our platform, enter into new rental property markets and expand our customer base. We intend to continue to selectively evaluate opportunities to acquire businesses and technologies that

may help us accomplish these and other strategic objectives.

**Products and Services**

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

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Our platform also includes a set of shared cloud services, including reporting, payment, document management and training functionality that are common to all of our product families. Third-party applications can access our property management systems using our RealExchange platform.

Our platform is designed to serve as a single system of record for all of the constituents of the rental housing ecosystem, including owners, managers, prospects, residents and service providers, and to support the entire resident lifecycle, from prospect to applicant to residency to post-residency. Common authentication, work flow and user experience across product families enables each of these constituents to access different applications as appropriate for their role.

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

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



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***Property Management Systems***

Our property management systems are typically referred to as Enterprise Resource Planning, or ERP, systems. These solutions manage core property management business processes, including leasing, accounting, purchasing and facilities management, and include a central database of prospect, applicant, resident and property information that is accessible in real time by our other solutions. Our property management systems also interface with most popular general ledger accounting systems through our RealPageExchange platform. This makes it possible for customers to deploy our solutions using our accounting system or a third-party accounting system.

*OneSite*

OneSite is our flagship on demand property management system for multi-family properties. OneSite includes 12 individual product centers. Six versions of OneSite are tailored to the specific needs of conventional multi-family, affordable HUD, affordable tax credit, rural housing, privatized military housing and student housing.

**Product Center**

**Key Functionality**

*OneSite Leasing & Rents*

Prospects, generates, presents and records price quotations, generates lease documents, schedules move-ins and posts financial transactions to the resident ledger for both new residents and renewal of existing resident leases. Eight versions support the unique needs of our target residential rental markets.

*OneSite Facilities*

Manages asset warranties, service requests and unit turnovers so that when a resident moves out, the resident ledger is automatically updated with any damages to be incorporated into the resident's final account statement.

*OneSite Purchasing*

Manages work orders and procurement activities and calculates operating budget variances.

*OneSite Accounting*

Provides back-office general ledger, accounts payable and cash management functions. We license OneSite Accounting from a third-party accounting software provider and have modified it to meet the needs of the rental housing industry.

*OneSite Budgeting*

Enables owners and managers to budget property performance and transfer budgets into the general ledger.

*OneSite Online Leasing*

Enables owners and managers to utilize transaction widgets on their property web site for checking availability, generating a price quote, applying for residency and leasing an apartment online. Portions of the Online Leasing Platform are powered by LeaseStar.

*OneSite Online Living*

Provides a web site portal that enables residents to view community events, enter or check the status of service requests, review statements, pay rent online and renew leases.

*Propertyware*

Propertyware is our on demand property management system for single-family properties and small, centrally managed multi-family properties. Propertyware consists of four product centers including accounting, maintenance and work order management, marketing spend management and portal services. In addition, we offer our screening, renter's insurance and payment solutions through our Propertyware brand to single-family and small centrally managed multi-family properties.

*Other Property Management Systems*

We also offer six additional on premise property management systems – RentRoll, HUDManager, Tenant Pro, Spectra, i-CAM, and Management Plus. RentRoll serves small conventional apartment communities. HUDManager serves small HUD, Rural Housing Services and tax credit subsidized apartment communities. Tenant Pro serves the needs of small conventional properties. Spectra is a conventional apartment and commercial modular property management system that serves both the U.S. and the Canadian markets. i-CAM and Management Plus property management

software automates and streamlines rental activities for affordable housing.

Most of our RentRoll and HUDManager on premise customers have migrated to our on demand property management systems. Four of our additional on premise property management systems – Tenant Pro, Spectra, i-CAM and Management Plus – were acquired in February 2010. Over time, we expect many customers of these on premise property management systems to migrate to our on demand OneSite or Propertyware systems; however, we will continue to support our on premise property management systems for the foreseeable future and integrate our software-enabled value-added services into them.

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Collectively, our on premise property management systems represented 2.6% of our total revenue in 2011 and we expect that our on premise property management systems, including the revenue attributable to the on premise property management systems that we acquired in February 2010, will represent less than 5% of our total revenue in 2012.

***Software-Enabled Value-Added Services***

In addition to property management systems, we offer software-enabled value-added services consisting of seven product families and 30 product centers that provide complementary sales and marketing, asset optimization, risk mitigation, billing and utility management and spend management capabilities. Our software-enabled value-added services are tightly integrated with our OneSite property management system, and we are actively integrating them with our other property management systems.

***LeaseStar (Multichannel Managed Marketing)***

The LeaseStar product family is usually referred to as a multichannel managed marketing system. It includes product centers that manage marketing and leasing operations and enable owners and managers to originate, capture, track, manage and close more leads.

**Product Center**

**Key Functionality**

*LeaseStar Web Sites*

Expert property web site design with search engine optimized content (including descriptions, photos, video or animated tours, 3D floor plans and interactive site maps), mobile applications and online leasing solutions.

*LeaseStar Contact Center <sup>(1)</sup>*

Provides call and email routing technology and agent staffing on a permanent or overflow basis to answer phone calls and emails from prospects or residents. The LeaseStar Contact Center is powered by Level One.

*LeaseStar Marketing Center <sup>(2)</sup>*

Provides tools and services to optimize multichannel marketing campaigns from lead origination to lease close.

(1) In November 2010, we acquired substantially all of the assets of Level One, a leading on demand apartment leasing center in the United States. We have integrated Level One with our LeaseStar product family and continue to utilize the Level One brand.

(2) Consists of five product centers that provide lead tracking, lead management, syndication services, classified web site posting services and an Internet listing service. Utilizing technology from Lead2Lease, lead tracking enables customers to track all lead sources, whether originated by phone, email or through the Internet. Lead management services maximize lead origination to lease close and integrate with popular property management systems. Syndication solutions ensure content consistency across multiple advertising channels utilizing technology from PropertyLinkOnline. MyNewPlace.com powers solutions that simplify the process of effectively managing Internet listing campaigns across classified web sites and an Internet listing service.

***YieldStar (Asset Optimization Systems)***

Rental housing property rents have traditionally been set by owners and managers based on their knowledge of the market and other intangible or intuitive criteria. YieldStar is a scientific yield management system, similar to those used in the airline and hotel industries, that enables owners and managers to optimize rents to achieve the overall highest yield, or combination of rent and occupancy, at each property.

**Product Center**

**Key Functionality**

*YieldStar Price Optimizer*

Uses current customer and market data and statistically derived supply/demand forecasts and price elasticity models to calculate and present optimal prices for each rental unit.

*YieldStar Pricing Advisory Services*

*MPF Research*

Offers outsourced pricing management advisory services for owners and managers who want to utilize Price Optimizer without incurring the costs to staff and support it in-house.

Provides multi-family housing market research through a well-established and trusted name in multi-family market intelligence. The MPF Research database includes monthly and quarterly information on occupancy and rents for approximately 45,275 rental housing properties in the United States representing 322 defined metropolitan statistical areas as of December 2011.

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*LeasingDesk (Risk Mitigation Systems)*

LeasingDesk risk mitigation systems enable rental housing property owners and managers to reduce delinquency, liability and property damage risk.

**Product Center**

*LeasingDesk Screening*

**Key Functionality**

Evaluates an applicant's credit using a scoring model calibrated to predict resident default and payment behavior by leveraging our proprietary database of resident rental payment history generated from our property management systems.

*Criminal Background Services*

Ascertain if a prospective resident has committed a crime or been evicted from a previous apartment by accessing databases that are aggregated from third-party data providers.

*Credit Optimizer*

Allows owners and managers to optimize credit thresholds based on occupancy levels and adjust deposit and rent amounts based on the default risk of the resident in a yield neutral manner.

*LeasingDesk Insurance Services*

Offers liability and content protection renter's insurance. Liability policies protect owners and managers against financial loss due to resident-caused damage, while content protection provides additional coverage for a resident's personal belongings in the event of loss.

*Velocity (Utility Management Services)*

Velocity offers a complete range of billing and utility management services.

**Product Center**

*Convergent Resident Billing Services*

**Key Functionality**

Provides automated monthly invoicing services enabling owners and managers to increase collections by sending each resident a monthly invoice that combines rent, small balances and utility charges onto a single invoice.

*Utility Invoice Processing Services*

Provides utility invoice processing services to reduce invoice processing costs, track utility costs and consumption trends and reduce late fees.

*Energy Recovery Services*

Provides automated utility billing services to enable owners and managers to detect and collect utility costs that are the residents responsibility.

*Infrastructure Services*

Provides contractor services to install electric, gas and water meters in apartment communities through three individual product centers. Velocity also provides consulting services to assist owners and managers in implementing and managing energy, media, data and telecom services at their communities.

*OpsTechnology (Spend Management Systems)*

OpsTechnology offers spend management systems that enable owners and managers to better control costs.

**Product Center**

*OpsBuyer*

**Key Functionality**

Integrates purchase orders, eProcurement, on site accounts payable, automated workflow approval (including mobile approvals), budget and spend limit control, centralized expense reporting tools and document management through our on demand spend management tool.

*OpsMarket*

Enables owners and managers to create private marketplaces to manage the transactions between their properties and their preferred

	suppliers and service providers through our on demand eProcurement solution.
<i>OpsInvoice</i>	Provides an on demand invoice management solution that centralizes the processing of both electronic and paper invoices across the owner's or manager's portfolio.
<i>OpsAdvantage</i>	Offers negotiated discounts for selected vendors across several major purchasing categories for owners and managers that are too small to negotiate volume discounts.
<i>OpsBid</i>	Provides an on demand eProcurement system, bid management and workflow to manage all documents associated with capital construction and rehab projects.
<i>Compliance Depot</i>	Provides vendor compliance management including liability insurance verification and certificate management, background checks and business licensing through a credentialed vendor network.

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*Shared Cloud Services*

We offer shared cloud services that are tightly integrated with our property management systems and software-enabled valued added services.

**Product Center**

*Portfolio Reporting*

**Key Functionality**

Aggregates the data from our other solutions and third-party applications and gives owners and managers access to business critical reports and actionable analytical information about the performance of their properties.

*Document Management*

Provides storage, retrieval, security and archiving of all documents and forms associated with a property management company's business processes and procedures.

*Payment Processing*

Enables owners and managers to collect rent and other payments electronically from residents through check, money order, automated clearing house, or ACH or credit/debit card.

*Online Learning*

Allows owners and managers to train geographically dispersed employees in a cost-effective and timely fashion, and allows employees to complete their coursework at their convenience.

*RealPage Senior Living*

RealPage Senior Living is a completely integrated Care Management, Community Management and Marketing Management platform that will help owners and managers attract more residents and improve the living and care experience enjoyed by those residents.

**Product Center**

*Care Management <sup>(1)</sup>*

**Key Functionality**

Enables clinical staff to measure the changing acuity of senior residents, as well as a staffing plan to accurately price the delivery of care.

*Community Management*

Powered by OneSite Senior, enables senior living owners and managers to meet the unique needs of the senior living market, with modules for accounting, census and billing, electronic payments, purchasing and facilities.

*Marketing Management*

Provides cost-effective marketing solutions, including lead tracking and contact center services powered by Level One and a placement network of care advisors powered by SeniorLiving.Net, OurParents.com, MyNewPlace.com and affiliated web sites.

(1) Utilizes technology from Vigilant, which was acquired in January 2012. The product center was a result of the launch of RealPage Senior Living in February 2012.

**The RealPage Cloud**

We operate a robust application infrastructure, marketed to our customers as The RealPage Cloud, which supports the delivery of our solutions and also allows owners and managers to outsource portions of their IT operations. The RealPage Cloud operates over redundant 10 GBPS dedicated fiber links connecting data centers containing hundreds of servers and multiple storage area networks. This architecture makes it possible to expand the data center incrementally with little or no disruption as more users or additional applications are added. The RealPage Cloud consists of more than 2,514 virtual servers, 461 physical servers and approximately 760 terabytes of data. The RealPage Cloud processes an average of approximately 23.0 million transactions per day and, at peak times, supports approximately 79,000 unique users.

The RealPage Cloud is based on an open architecture that enables third-party applications to access OneSite and other applications hosted in the RealPage Cloud through our RealPage Exchange Platform that provides access to more than

100 different public and private web services and XML gateways that are used to import and export data through third party Application Program Interfaces (APIs) and process hundreds of thousands of transactions per day. RealPage Exchange also enables our cloud services to access and interface with third-party property management systems as well as our software-enabled value-added services.

In addition, our system is designed to replicate data into a Universal Data Store, or UDS, each day. Access to UDS is enabled through an access layer called UDS Direct, which enables customers to build portfolio reports, dashboards and alerts using any Open Database Connectivity or Java Database Connectivity compliant report writer tool such as Microsoft Excel, Microsoft Access, Microsoft SQL Server Reporting Service or Crystal Reports. UDS is also transmitted to a number of our larger customers each night to feed portfolio reporting systems that they have built internally.



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As of December 31, 2011, we employed approximately 88 professionals who are responsible for maintaining data security, integrity, availability, performance and business continuity in our cloud computing facilities. We annually conduct SSAE 16 SOC 1 Type 2 reviews. Certain customers conduct separate business continuity audits of their own. In addition to our production data centers, we manage a separate development and quality assurance testing facility used to control the pre-production testing required before each new release of our on demand software. We typically deploy new releases of the software underlying our on demand software solutions on a monthly or quarterly schedule depending on the solution.

### **Professional Services**

We have developed repeatable, cost-effective consulting and implementation services to assist our customers in taking advantage of the capabilities enabled by our platform. Our consulting and implementation methodology leverages the nature of our on demand software architecture, the industry-specific expertise of our professional services employees and the design of our platform to simplify and expedite the implementation process. Our consulting and implementation services include project and application management procedures, business process evaluation, business model development and data conversion. Our consulting teams work closely with customers to ensure the smooth transition and operation of our systems.

We also offer a variety of training programs through our Online Learning Services for training administrators and onsite property managers on the use of our solutions and on current issues in the property management industry. Training options include regularly hosted classroom and online instruction (through our online learning courseware) as well as online seminars, or webinars. We also enable our customers to integrate their own training content with our content to deliver an integrated and customized training program for their on-site property managers.

### **Product Support**

We offer product support services that provide our customers with assistance from our product support professionals by phone or email in resolving issues with our solutions. We offer three product support options: Standard, Frontline and Platinum. The Standard option includes product support during business hours. The Frontline option includes the features of the Standard option plus escalation to senior support representatives. The Platinum option includes the features of the Frontline option plus emergency product support on Saturdays and a designated senior product support liaison. Technology support is also available for consultations on firewalls, communications, security measures (including virus alerts), workstation configuration and disaster recovery options.

We also sponsor the RealPage User Group to facilitate communications between us and our community of users. The RealPage User Group is governed by a steering committee of our customers, which consists of two elected positions and subcommittee chairs, each representing a RealPage product center or group of product centers.

### **Product Development**

We devote a substantial portion of our resources to developing new solutions and enhancing existing solutions, conducting product testing and quality assurance testing, improving core technology and strengthening our technological expertise in the rental housing industry. We typically deploy new releases of the software underlying our on demand software solutions on a monthly or quarterly schedule depending on the solution. As of December 31, 2011, our product development group consisted of 302 employees in the United States and 93 employees located in India, Canada and the Philippines. Product development expense totaled \$44.6 million, \$36.9 million and \$27.4 million for 2011, 2010 and 2009, respectively.

### **Sales and Marketing**

We sell our software and services through our direct sales organization. As of December 31, 2011, we employed 163 sales representatives. We organize our sales force by geographic region, size of our prospective customers and property type. This focus provides a higher level of service and understanding of our customers' unique needs. Our typical sales cycle with a prospective customer begins with the generation of a sales lead through Internet marketing, tele-sales efforts, trade shows or other means of referral. The sales lead is followed by an assessment of the prospective customer's requirements, sales presentations and product demonstrations. Our sales cycle can vary substantially from customer to customer, but typically requires three to six months for larger customers and one to six weeks for smaller customers.

In addition to new customer sales, we sell additional solutions and consulting services to our existing customers to help them more efficiently and effectively manage their properties as the rental housing market evolves and competitive conditions change.

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We generate customer leads, accelerate sales opportunities and build brand awareness through our marketing programs. Our marketing programs target property management company executives, technology professionals and senior business leaders. Our marketing team focuses on the unique needs of customers within our target markets. Our marketing programs include the following activities:

field marketing events for customers and prospects;

participation in, and sponsorship of, user conferences, trade shows and industry events;

customer programs, including user meetings and our online customer community;

online marketing activities, including email campaigns, online advertising, web campaigns, webinars and use of social media, including blogging, Facebook, and Twitter;

public relations; and

use of our website to provide product and company information, as well as learning opportunities for potential customers.

We host our annual user conference where customers both participate in and deliver a variety of programs designed to help accelerate business performance through the use of our integrated platform of solutions. The conference features a variety of customer speakers, panelists and presentations focused on businesses of all sizes. The event also brings together our customers, technology vendors, service providers and other key participants in the rental housing industry to exchange ideas and best practices for improving business performance. Attendees gain insight into our product plans and participate in interactive sessions that give them the opportunity to provide input into new features and functionality.

### **Strategic Relationships**

We maintain relationships with a variety of technology vendors and service providers to enhance the capabilities of our integrated platform of solutions. This approach allows us to expand our platform and customer base and to enter new markets. We have established the following types of strategic relationships:

#### ***Technology Vendors***

We have relationships with a number of leading technology companies whose products we integrate into our platform or offer to complement our solutions. The cooperative relationships with our software and hardware technology partners allow us to build, optimize and deliver a broad range of solutions to our customers.

#### ***Service Providers***

We have relationships with a number of service providers that offer complementary services that integrate into our platform and address key requirements of rental property owners and managers, including credit card and ACH services, transaction processing capabilities and insurance underwriting services.

#### **Customers**

We are committed to developing long-term customer relationships and working closely with our customers to configure our solutions to meet the evolving needs of the rental housing industry. Our customers include REITs, leading property management companies, fee managers, regionally based owner operators and service providers. As of December 31, 2011, we had approximately 7,800 customers who used one or more of our on demand software solutions to help manage the operations of approximately 7.3 million rental housing units. Our customers include each of the ten largest multi-family property management companies in the United States, ranked as of January 1, 2011 by the National Multi Housing Council, based on number of units managed. For the years ended December 31, 2011, 2010 and 2009, no one customer accounted for more than 5% of our revenue.

See Note 2 of the Notes to Consolidated Financial Statements for the year ended December 31, 2011 for further information regarding measurement of our international revenue and location of our long-lived assets.



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### **Competition**

We face competition primarily from point solution providers including traditional software vendors and other on demand software providers. To a lesser extent, we also compete with internally developed and maintained solutions.

Our competitors vary depending on our solution. Our current principal competitors include:

in the multi-family ERP market, AMSI Property Management (owned by Infor Global Solutions, Inc.), MRI Software LLC and Yardi Systems, Inc. and, in the single-family ERP market, AppFolio, Inc., DIY Real Estate Solutions (acquired by Yardi Systems, Inc.), Buildium, LLC, Rent Manger (owned by London Computer Systems, Inc.) and PropertyBoss Solutions, LLC;

in the applicant screening market, ChoicePoint Inc. (a subsidiary of Reed Elsevier Group plc), CoreLogic, Inc (formerly First Advantage Corporation, an affiliate of the First American Corporation), TransUnion Rental Screening Solutions, Inc. (a subsidiary of TransUnion LLC) and Yardi Systems, Inc. (following its acquisition of RentGrow Inc., an applicant screening provider), On-Site.com and many other smaller regional and local screening companies;

in the insurance market, Assurant, Inc., Bader Company, CoreLogic, Inc. and a number of national insurance underwriters (including GEICO Corporation, The Allstate Corporation, State Farm Fire and Casualty Company, Farmers Insurance Exchange, Nationwide Mutual Insurance Company and United Services Automobile Association) that market renters insurance;

in the CRM market, contact center and call tracking service providers Call Source Inc., Yardi Systems, Inc. (which announced its intention to build a call center) and numerous regional and local call centers, lead tracking solution providers Call Source, Inc. Lead Tracking Solutions (a division of O.C. Concepts, Inc.) and Who's Calling, Inc., content syndication providers Realty DataTrust Corporation (acquired by MRI Software LLC), RentSentinel.com (owned by Yield Technologies, Inc.), rentbits.com, Inc. and companies providing web portal services, including Apartments24-7.com, Inc., Ellipse Communications, Inc., Property Solutions International, Inc., Spherexx.com, Yardi Systems, Inc., Internet listing sources and many other smaller web portal designers;

in the marketing services market, we compete with G5 Search Marketing, Inc, Spherexx LLC, ReachLocal, Inc., Property Solutions International, Inc. and Yodle, Inc.;

in the utility billing market, American Utility Management, Inc., Conservice, LLC, ista North America, Inc., NWP Services Corporation, Yardi Systems, Inc. (following its acquisition of Energy Billing Systems, Inc.) and many other smaller regional or local utilities;

in the revenue management market, The Rainmaker Group, Inc. and Yardi Systems, Inc.;

in the spend management market, SiteStuff, Inc. (owned by Yardi Systems, Inc.), AvidXchange, Inc., Nexus Systems, Inc., Oracle Corporation; and

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

in the Internet listing service market, we compete with ForRent (a division of Dominion Enterprises), Apartment Guide (a division of Primedia Inc.), Rent.com (a division of eBay Inc.), Apartments.com (a division of Classified Ventures, LLC, Apartment Finder (a division of Network Communications, Inc.),

Zillow, Inc. and Move, Inc.;

in the Senior Living market, we compete against A Place for Mom, Inc., SeniorsForLiving, Inc., Care.com, Inc., Caring, Inc., Care Patrol Franchise Systems, LLC, Aging with Grace, LLC and SeniorHomes.com (owned by Moseo, Corp.).

The principal competitive factors in our industry include total cost of ownership, level of integration with property management systems, ease of implementation, product functionality and scope, performance, security, scalability and reliability of service, brand and reputation, sales and marketing capabilities and financial resources of the provider. We believe that we compete favorably with our competitors on the basis of these factors. We also believe that none of our more significant competitors currently offer a more comprehensive or integrated on demand software solution. However, some of our existing competitors have greater name recognition, longer operating histories, larger installed customer bases, larger sales and marketing budgets, as well as greater financial, technical and other resources.

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**Intellectual Property**

We rely on a combination of copyright, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights. These laws, procedures and restrictions provide only limited protection. We currently have no issued patents or pending patent applications. In the future, we may file patent applications, but patents may not be issued with respect to these patent applications, or if patents are issued, they may not provide us with any competitive advantages, may not be issued in a manner that gives us the protection that we seek and may be successfully challenged by third parties.

We endeavor to enter into agreements with our employees and contractors and with parties with whom we do business in order to limit access to and disclosure of our proprietary information. We cannot be certain that the steps we have taken will prevent unauthorized use or reverse engineering of our technology. Moreover, others may independently develop technologies that are competitive with ours or that infringe on our intellectual property. The enforcement of our intellectual property rights also depends on any legal actions against these infringers being successful, but these actions may not be successful, even when our rights have been infringed.

Furthermore, effective patent, trademark, trade dress, copyright and trade secret protection may not be available in every country in which our solutions are available over the Internet. In addition, the legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain and still evolving.

**Employees**

As of December 31, 2011, we had 2,273 employees. We consider our current relationship with our employees to be good. Our employees are not represented by a labor union and are not subject to a collective bargaining agreement.

**Available Information**

We maintain an internet website under the name *www.realpage.com*. We make available, free of charge, on our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after providing such reports to the SEC.

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other documents with the SEC under the Securities Exchange Act, as amended. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an internet website that contains reports, proxy and information statements and other information regarding issuers, including RealPage, Inc., that file electronically with the SEC. The public can obtain any document we file with the SEC at *www.sec.gov*. Information contained on, or connect to, our website is not incorporated by reference into this Form 10-K and should not be considered part of this report or any other filing that we make with the SEC.

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**Item 1A. Risk Factors**

**Risks Related to Our Business**

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

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

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

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

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

changes in our pricing policies or those of our competitors;

the variable nature of our sales and implementation cycles;

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

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

technical difficulties, service interruptions, data or document losses or security breaches;

Internet usage trends among consumers, and the methodologies internet search engines utilized to direct those consumers to websites such as in our LeaseStar product family;

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

changes in the legal, regulatory or compliance environment related to the rental housing industry, including without limitation fair credit reporting, payment processing, privacy, utility billing, insurance, the Internet, e-commerce, licensing, HIPAA and HITECH;

the amount and timing of operating expenses and capital expenditures related to the expansion of our operations and infrastructure;

the timing of revenue and expenses related to recent and potential acquisitions or dispositions of businesses or technologies;

our ability to integrate acquisition operations in a cost-effective and timely manner;

litigation and settlement costs, including unforeseen costs;

public company reporting requirements; and

new accounting pronouncements and changes in accounting standards or practices, particularly any affecting the recognition of subscription revenue or accounting for mergers and acquisitions.



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

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

We have not been consistently profitable on a quarterly or annual basis. Although we had net income for the years ended December 31, 2010 and 2009, we experienced net losses of \$1.2 million, \$3.2 million and \$3.1 million in 2011, 2008 and 2007, respectively. Net income for 2009 included a discrete tax benefit of approximately \$27.0 million as a result of our net deferred tax assets valuation allowance. As of December 31, 2011, our accumulated deficit was \$91.0 million. While we have experienced significant growth over recent quarters, we may not be able to sustain or increase our growth or profitability in the future. We expect to make significant future expenditures related to the development and expansion of our business. As a result of increased general and administrative expenses due to the additional operational and reporting costs associated with being a public company, we will need to generate and sustain increased revenue to achieve future profitability expectations. We may incur significant losses in the future for a number of reasons, including the other risks and uncertainties described in this filing. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays and other unknown factors that may result in losses in future periods. If these losses exceed our expectations or our growth expectations are not met in future periods, our financial performance will be affected adversely.

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

The growth in the size, dispersed geographic locations, complexity and diversity of our business and the expansion of our product lines and customer base has placed, and our anticipated growth may continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. We increased our number of employees from 654 as of December 31, 2007 to 2,273 as of December 31, 2011. We increased our number of on demand customers from 2,199 as of December 31, 2007 to approximately 7,800 as of December 31, 2011. We increased the number of on demand product centers that we offer from 25 as of December 31, 2007 to 46 as of December 31, 2011. In addition, in the past, we have grown and expect to continue to grow through acquisitions. Our ability to effectively manage our anticipated future growth will depend on, among other things, the following:

successfully supporting and maintaining a broad range of solutions;

maintaining continuity in our senior management and key personnel;

attracting, retaining, training and motivating our employees, particularly technical, customer service and sales personnel;

enhancing our financial and accounting systems and controls;

enhancing our information technology infrastructure, processes and controls; and

managing expanded operations in geographically dispersed locations.

If we do not manage the size, complexity and diverse nature of our business effectively, we could experience product performance issues, delayed software releases and longer response times for assisting our customers with implementation of our solutions and could lack adequate resources to support our customers on an ongoing basis, any of which could adversely affect our reputation in the market and our ability to generate revenue from new or existing customers.

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

We manage a complex platform of solutions that consists of our property management systems, integrated software-enabled value-added services and web-based advertising and lease generation services. Many of our solutions include a large number of product centers that are highly integrated and require interoperability with other RealPage products, as well as products and services of third-party service providers. Additionally, we typically deploy new releases of the software underlying our on demand software solutions on a bi-weekly, monthly or quarterly schedule depending on the solution. Due to this complexity and the condensed development cycles under which we

operate, we may experience errors in our software, corruption or loss of our data or unexpected performance issues from time to time. For example, our solutions may face interoperability difficulties with software operating systems or programs being used by our customers, or new releases, upgrades, fixes or the integration of acquired technologies may have unanticipated consequences on the operation and performance of our other solutions. If we encounter integration challenges or discover errors in our solutions late in our development cycle, it may cause us to delay our launch dates. Any major integration or interoperability issues or launch delays could have a material adverse effect on our revenues, operating income and reputation.

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

With the exception of some of our LeaseStar and Propertyware solutions, which are typically month-to-month, we generally license our solutions pursuant to customer agreements with a term of one year. Our customers have no obligation to renew these agreements after their term expires, or to renew these agreements at the same or higher annual contract value. In addition, under specific circumstances, our customers have the right to cancel their customer agreements before they expire, for example, in the event of an uncured breach by us, or in some circumstances, by giving 30 days notice or paying a cancellation fee. In addition, customers often purchase a higher level of professional services in the initial term than they do in renewal terms to ensure successful activation. As a result, our ability to grow is dependent in part on customers purchasing additional solutions or professional services after the initial term of their customer agreement. Though we maintain and analyze historical data with respect to rates of customer renewals, upgrades and expansions, those rates may not accurately predict future trends in customer renewals. Our customers renewal rates may decline or fluctuate for a number of reasons, including, but not limited to, their level of satisfaction with our solutions, our pricing, our competitors pricing, reductions in our customers spending levels or reductions in the number of units managed by our customers. Additionally, we believe one of our competitors, Yardi, is able to exert significant coercive power over its large customer base because of the high switching costs its customers face and that it uses this coercive power to require its customers to sign agreements that prohibit the Yardi customers from using the products and services of competing property management software providers, including RealPage. We have filed federal claims to enjoin Yardi from this anticompetitive practice. That suit is described in Item 1 herein. If our customers cancel or amend their agreements with us during their term, do not renew their agreements, renew on less favorable terms or do not purchase additional solutions or professional services in renewal periods, our revenue may grow more slowly than expected or decline and our profitability may be harmed.

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

We have also experienced, and expect to continue to experience, some number of consolidations of our customers with other parties. If one of our customers consolidates with a party who is not a customer, our customer may decide not to continue to use our solutions. In addition, if one of our customers is consolidated with another customer, the acquiring customer may have negotiated lower prices for our solutions or may use fewer of our solutions than the acquired customer. In each case, the consolidated entity may attempt to negotiate lower prices for using our solutions as a result of their increased size. These consolidations may cause us to lose customers or require us to reduce prices as a result of enhanced customer leverage, which could cause our financial performance and operating results to be adversely affected.

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

We generally recognize revenue from customers ratably over the terms of their customer agreements which, with the exception of our month-to-month advertising, lease generation and Propertyware agreements, are typically one year. As a result, much of the revenue we report in each quarter is deferred revenue from customer agreements entered into during previous quarters. Consequently, a decline in new or renewed customer agreements in any one quarter will not be fully reflected in our revenue or our results of operations until future periods. Accordingly, this revenue recognition model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.

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

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

- our failure to develop new or additional solutions:

  - our inability to market our solutions in a cost-effective manner to new customers or in new vertical or geographic markets;

  - our inability to expand our sales to existing customers;

  - the inability of our LeaseStar product family to grow traffic to its websites, resulting in lower levels of lead and lease/move-in traffic to customers;

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our inability to build and promote our brand;

perceived security, integrity, reliability, quality or compatibility problems with our solutions; and

Yardi's interference with our existing and prospective customer relationships, including its coercive use of agreements requiring its locked-in customer base not to use our products and services.

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

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

We have acquired new technology and domain expertise through multiple acquisitions, including our most recent acquisitions of Compliance Depot in May 2011, SeniorLiving.net in July 2011, Multifamily Technology Solutions, Inc. in August 2011 and Vigilant, Inc. in January 2012. We expect to continue making acquisitions. The success of our future acquisition strategy will depend on our ability to identify, negotiate, complete and integrate acquisitions. Acquisitions are inherently risky, and any acquisitions we complete may not be successful. Any acquisitions we pursue would involve numerous risks, including the following:

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

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

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

the acquisitions may generate insufficient revenue to offset our increased expenses associated with acquisitions;

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

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

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

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

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

We may be unable to secure the equity or debt funding necessary to finance future acquisitions on terms that are acceptable to us, or at all. If we finance acquisitions by issuing equity or convertible debt securities, our existing

stockholders will likely experience ownership dilution, and if we finance future acquisitions with debt funding, we will incur interest expense and may have to comply with additional financing covenants or secure that debt obligation with our assets.

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

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

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

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

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

The ability of our customers to access our service is critical to our business. We currently serve a majority of our customers from a primary data center located in Carrollton, Texas. We also maintain a secondary data center in downtown Dallas, Texas, approximately 20 miles from our primary data center. Services of our most recent acquisitions are provided from data centers located in San Francisco, California, South Carolina, Texas, Winnipeg, Canada, Milwaukee, Wisconsin and Atlanta, Georgia, many of which are operated by third party data vendors. We plan to maintain a data center in San Francisco for LeaseStar and certain other solutions and intend to migrate all other data services to our primary and secondary data centers in Carrollton and Dallas. Until this migration is complete, we have no assurances that the policies and procedures in place at our Carrollton and Dallas data centers will be followed at data centers operated by third party vendors. Any event resulting in extended interruption or delay in our customers access to our services or their data could harm our operating results. There can be no certainty that the measures we have taken to eliminate single points of failure in the primary and secondary data centers will be effective to prevent or minimize interruptions to our operations. Our facilities are vulnerable to interruption or damage from a number of sources, many of which are beyond our control, including, without limitation:

extended power loss;

telecommunications failures from multiple telecommunication or other internet service providers;

natural disaster or an act of terrorism;

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

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

theft and vandalism of equipment;

actions or events arising from human error; and

actions or events caused by or related to third parties.

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

We attempt to mitigate these risks at our data centers through various business continuity efforts, including redundant infrastructure, 24 x 7 x 365 system activity monitoring, backup and recovery procedures, use of a secure off-site storage facility for backup media, separate test systems and change management and system security measures, but



our precautions may not protect against all potential problems. Our secondary data center is equipped with physical space, power, storage and networking infrastructure and Internet connectivity to support the solutions we provide in the event of the interruption of services at our primary data center. Even with this secondary data center, however, our operations would be interrupted during the transition process should our primary data center experience a failure. Moreover, both our primary and secondary data centers are located in the greater metropolitan Dallas area. As a result, any regional disaster could affect both data centers and result in a material disruption of our services.

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

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

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

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

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

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

Our competitors vary depending on our product and service. In the market for property management software, or multi-tenant enterprise resource planning ( ERP ), we face substantial competitive pressure from Yardi and its Voyager products. Because of Yardi's large installed customer base and the high switching costs they face, many customers are essentially locked-in to Voyager. We also face competition from AMSI Property Management (owned by Infor Global Solutions, Inc.) and MRI Software LLC. In the single-family market, our ERP systems compete primarily with AppFolio, Inc., DIY Real Estate Solutions (recently acquired by Yardi Systems, Inc.), Buildium, LLC, Rent Manager (owned by London Computer Systems, Inc.) and Property Boss Solutions, LLC.

In the market for vertically-integrated cloud computing for multifamily real estate owners and property managers ( the vertical cloud market ), our only substantial competition is from Yardi. Our ability to compete in the vertical cloud market is compromised by anticompetitive restrictions imposed by Yardi on its Voyager customers which prevent Voyager customers from using the vertical cloud product of their choice.

We offer a number of software-enabled value-added services that compete with a disparate and large group of competitors. In the applicant screening market, our principal competitors are ChoicePoint Inc. (a subsidiary of Reed Elsevier Group plc), CoreLogic, Inc. (formerly First Advantage Corporation, an affiliate of The First American Corporation), TransUnion Rental Screening Solutions, Inc. (a subsidiary of TransUnion LLC), Yardi Systems, Inc. (following its recent acquisition of RentGrow Inc., an applicant screening provider), On-Site.com and many other smaller regional and local screening companies. In the insurance market, our principal competitors are Assurant, Inc., Bader Company, CoreLogic, Inc. and a number of national insurance underwriters (including GEICO Corporation,

The Allstate Corporation, State Farm Fire and Casualty Company, Farmers Insurance Exchange, Nationwide Mutual Insurance Company and United Services Automobile Association) that market renters insurance. There are many smaller screening and insurance providers in the risk mitigation area that we encounter less frequently, but they nevertheless present a competitive presence in the market.

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

In the marketing services market, we compete with G5 Search Marketing, Inc., Spherexx LLC, ReachLocal, Inc., Property Solutions International, Inc. and Yodle, Inc.

In the Internet listing service market, we compete with ForRent (a division of Dominion Enterprises), Apartment Guide (a division of Primedia Inc.), Rent.com (a division of eBay Inc.), Apartments.com (a division of Classified Ventures, LLC, Apartment Finder (a division of Network Communications, Inc.), Zillow, Inc. and Move, Inc.

In the Senior Living market, we compete against A Place for Mom, Inc., SeniorsForLiving, Inc., Care.com, Inc., Caring, Inc., Care Patrol Franchise Systems, LLC, Aging with Grace, LLC and SeniorHomes.com (owned by Moseo, Corp.).

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

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

In the spend management market, we compete with Site Stuff, Inc. (owned by Yardi Systems, Inc.), AvidXchange, Inc., Nexus Systems, Inc., Ariba, Inc. and Oracle Corporation.

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

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

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

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

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

- take advantage of acquisition and other opportunities more readily;

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

devote greater resources to the research and development of their products and services. If we are not able to compete effectively, our operating results will be harmed.

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

On January 24, 2011, Yardi Systems, Inc. filed a lawsuit in the U.S. District Court for the Central District of California against RealPage, Inc. and DC Consulting, Inc. Yardi filed a First Amended Complaint on August 12, 2011. The lawsuit alleges claims for relief for violation of the Computer Fraud and Abuse Act, violation of the California Comprehensive Data Access and Fraud Act, violation of the Digital Millennium Copyright Act, copyright infringement, trade secret misappropriation, unfair competition, and inducement of breach of contract. Yardi seeks injunctive relief, punitive damages, recovery of all profits attributable to Defendants' allegedly wrongful acts and infringements, statutory damages, exemplary damages, prejudgment interest, and attorneys' fees and costs. The First Amended Complaint alleges, among other things, that RealPage took Yardi employee, client and independent consultant credentials and used them to access Yardi's computer system and steal Yardi's trade secrets and copyrighted software, related support documentation, price lists and other proprietary information. In addition, the First Amended Complaint alleges that RealPage improperly obtained administrative-level access to Yardi's software and copied it onto RealPage's servers for its own competitive purposes, used these unauthorized software copies to discover the allegedly proprietary programming, functionality and feature set of Yardi's software, to compete unfairly against Yardi, to create unauthorized derivative works from Yardi's software, and to enhance RealPage's own products and services. Yardi alleges that in doing so, and in offering to indemnify our customers, RealPage induced Cloud customers to violate their confidentiality and other agreements with Yardi. On March 28, 2011, RealPage filed an answer to Yardi's Complaint, and on September 12, 2011, RealPage answered the First Amended Complaint. RealPage has also filed counterclaims against Yardi, first in connection with its March 28 answer and then in First Amended Counterclaims filed on May 18, 2011. On September 2, 2011, following the Court's order granting in part and denying in part Yardi's motion to dismiss certain of RealPage's causes of action without prejudice, RealPage filed Second Amended Counterclaims. RealPage's counterclaims allege that Yardi and its agents wrongfully obtained and used our trade secrets and engaged in anti-competitive behavior with respect to certain of our clients. RealPage's counterclaims seek relief for misappropriation of trade secrets, Sherman Act (antitrust) violations and California Cartwright Act violations, intentional interference with contract, intentional interference with prospective economic advantage, and violation of California's unfair competition statute. RealPage seeks damages, punitive damages, injunctive relief and all profits, gains and advantages that Yardi received as a result of its wrongful conduct along with attorneys' fees and costs. Yardi filed a Motion to Dismiss RealPage's Second Amended Counterclaims on September 30, 2011. On February 13, 2012, the Court denied Yardi's motion with respect to all claims except for a portion of one of our claims for intentional interference with contract, as to which dismissal was granted. Accordingly, RealPage will move forward with its claims against Yardi. We currently expect trial in this case to be scheduled for late September 2012. It is not possible to predict the outcome of this case, but we intend to defend this case and pursue our counterclaims vigorously. However, even if we were successful in defending against Yardi's claims or in prevailing on our counterclaims, the proceedings could result in significant costs and divert our management's attention. Prior to filing this lawsuit, Yardi Systems, Inc. contacted us and certain of our customers and expressed concerns about our hosting competitor applications in The RealPage Cloud and our performance of certain consulting services. We believe that we are lawfully hosting and accessing Yardi's applications in The RealPage Cloud for purposes authorized by our

customers and within our customers' contractual rights. However, if Yardi or other competitors do not continue to cooperate with us, alter their applications in ways that inhibit or restrict the integration of our solutions or assert that their intellectual property rights restrict our ability to integrate our solutions with their applications and we are not able to find alternative ways to integrate our solutions with our competitors' applications, our business would be harmed. Yardi has also expressed its concern that we may misappropriate its intellectual property by hosting its applications for our mutual customers in The RealPage Cloud.

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

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

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

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

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

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

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

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

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

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

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

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

a reduction in new sales or subscription renewal rates;



unexpected sales credits or refunds to our customers, loss of customers and other potential liabilities;

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delays in customer payments, increasing our collection reserve and collection cycle;

diversion of development resources and associated costs;

harm to our reputation and brand; and

unanticipated litigation costs.

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

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

Our success depends, in part, on our ability to process high volumes of customer data and enhance existing solutions and develop new solutions rapidly and cost effectively. We currently maintain an office in Hyderabad, India where we employ development and data processing personnel. We recently opened an office in Manila, Philippines. We believe that performing these activities in Hyderabad and Manila increases the efficiency and decreases the costs of our development and data processing efforts. However, managing and staffing international operations requires management's attention and financial resources. The level of cost-savings achieved by our international operations may not exceed the amount of investment and additional resources required to manage and operate these international operations. Additionally, if we experience problems with our workforce or facilities in Hyderabad or Manila, our business could be harmed due to delays in product release schedules or data processing services.

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

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

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

We rely on several large payment processing organizations to enable us to provide payment processing services to our customers, including electronic funds transfers, or EFT, check services, bank card authorization, data capture, settlement and merchant accounting services and access to various reporting tools. These organizations include Bank of America Merchant Services, Paymentech, LLC, Jack Henry & Associates, Inc., JPMorgan Chase Bank, N.A. and Wells Fargo, N.A. We also rely on third-party hardware manufacturers to manufacture the check scanning hardware our customers utilize to process transactions. Some of these organizations and service providers are competitors who also directly or indirectly sell payment processing services to customers in competition with us. With respect to these organizations and service providers, we have significantly less control over the systems and processes than if we were to maintain and operate them ourselves. In some cases, functions necessary to our business are performed on

proprietary third-party systems and software to which we have no access. We also generally do not have long-term contracts with these organizations and service providers. Accordingly, the failure of these organizations and service providers to renew their contracts with us or fulfill their contractual obligations and perform satisfactorily could result in significant disruptions to our operations and adversely affect operating results. In addition, businesses that we have acquired, or may acquire in the future, typically rely on other payment processing service providers. We may encounter difficulty converting payment processing services from these service providers to our payment processing platform. If we are required to find an alternative source for performing these functions, we may have to expend significant money, time and other resources to develop or obtain an alternative, and if developing or obtaining an alternative is not accomplished in a timely manner and without significant disruption to our business, we may be unable to fulfill our responsibilities to customers or meet their expectations, with the attendant potential for liability claims, damage to our reputation, loss of ability to attract or maintain customers and reduction of our revenue or profits.

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

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

liability for customer costs related to disputed or fraudulent transactions if those costs exceed the amount of the customer reserves we have during the clearing period or after resident payments have been settled to our customers;

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

reliance on clearing bank sponsors, card payment processors and other service payment provider partners to process electronic transactions;

failure by us or our bank sponsors to adhere to applicable laws and regulatory requirements or the standards of the electronic payments rules and regulations;

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

our inability to increase our fees at times when electronic payment partners or associations increase their transaction processing fees.

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

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

The solutions we provide involve the collection, storage and transmission of confidential personal and proprietary information regarding our customers and our customers' current and prospective residents and business partners. Specifically, we collect, store and transmit a variety of customer data such as demographic information and payment histories of our customers' prospective and current residents and business partners. Additionally, we collect and transmit sensitive financial data such as credit card and bank account information. Treatment of certain types of data, such as personally identifiable information, protected health information and sensitive financial data may be subject to federal or state regulations of heightened privacy and security requirements. If our data security or data integrity measures are breached or otherwise fail or prove to be inadequate for any reason, as a result of third-party actions or our employees' or contractors' errors or malfeasance or otherwise, and unauthorized persons obtains access to this information, or the data is otherwise compromised, we could incur significant liability to our customers and to their

prospective or current residents or business partners, significant costs associated with internal regulatory investigations and litigation, or significant fines and sanctions by payment processing networks or governmental authorities. Any of these events or circumstances could result in damage to our reputation and material harm to our business.

We also rely upon our customers as users of our system to promote security of the system and the data within it, such as administration of customer-side access credentialing and control of customer-side display of data. On occasion, our customers have failed to perform these activities in such a manner as to prevent unauthorized access to data. To date, these breaches have not resulted in claims against us or in material harm to our business, but we cannot be certain that the failure of our customers in future periods to perform these activities will not result in claims against us, which could expose us to potential litigation, damage to our reputation and material harm to our business.

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

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

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

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

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

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

The market for on demand SaaS software solutions in the rental housing industry delivered via the Internet through a web browser is rapidly growing but still relatively immature compared to the market for traditional on premise software installed on a customer s local personal computer or server. It is uncertain whether the on demand delivery model will achieve and sustain high levels of demand and market acceptance, making our business and future prospects difficult to evaluate and predict. While our existing customer base has widely accepted this new model, our future success will depend, to a large extent, on the willingness of our potential customers to choose on demand software solutions for business processes that they view as critical. Many of our potential customers have invested substantial effort and financial resources to integrate traditional enterprise software into their businesses and may be reluctant or unwilling to switch to on demand software solutions. Some businesses may be reluctant or unwilling to

use on demand software solutions because they have concerns regarding the risks associated with security capabilities, reliability and availability, among other things, of the on demand delivery model. Additionally, we believe that one of our competitors, Yardi, is able to exert significant coercive power over its large customer base because of the high switching costs its customers face and that it uses this coercive power to require its customers to sign agreements that prohibit the Yardi customers from using the products and services of competing property management software providers, including RealPage. We have filed suit to enjoin Yardi from this anticompetitive practice. That suit is described in Item 1 herein. Finally, if potential customers do not consider on demand software solutions to be beneficial, then the market for these solutions may not further develop, or it may develop more slowly than we expect, either of which would adversely affect our operating results.

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

Our future success is substantially dependent on the continued use of the Internet and mobile technology as effective media of business and communication by our customers and consumers. Internet and mobile technology use may not continue to develop at historical rates, and consumers may not continue to use the Internet or mobile technology as media for information exchange. Further, these media may not be accepted as viable long-term outlets for rental housing information for a number of reasons, including actual or perceived lack of security of information and possible disruptions of service or connectivity. If consumers begin to access rental housing information through other media and we fail to innovate, our business may be negatively impacted.

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

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

reducing the number of occupied sites and units on which we earn revenue;

preventing our customers from expanding their businesses and managing new properties;

causing our customers to reduce spending on our solutions;

subjecting us to increased pricing pressure in order to add new customers and retain existing customers;

causing our customers to switch to lower-priced solutions provided by our competitors or internally developed solutions;

delaying or preventing our collection of outstanding accounts receivable; and

causing payment processing losses related to an increase in customer insolvency.

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

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

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

increasing the number of consumers of our LeaseStar products and services;

competing effectively for advertising dollars with other online media companies;

continuing to develop our advertising products and services;

keeping pace with changes in technology and with our competitors; and

offering an attractive return on investment to our advertiser customers for their advertising spending with us.

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



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

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

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges or opportunities, including the need to develop new solutions or enhance our existing solutions, enhance our operating infrastructure or acquire businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Debt financing secured by us in the future could involve additional restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges or opportunities could be significantly limited.

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

In December 2011, we entered into an Amended and Restated Credit Agreement with Wells Fargo Capital Finance, Comerica Bank and the other lenders party thereto ( Restated Agreement ) to amend and restate our original credit facility. The Restated Agreement provides for a secured revolving credit facility in an aggregate principal amount of up to \$150.0 million, subject to a borrowing formula, with a sublimit of \$10.0 million for the issuance of letters of credit on our behalf. The Restated Agreement converted our outstanding term loan under the original agreement into revolving loans. As of December 31, 2011, \$50.3 million was outstanding under our revolving line of credit and \$10.0 million was available for the issuance of letters of credit. Our interest expense in twelve months ended December 31, 2011, 2010 and 2009 for the credit facility was approximately \$2.3 million, \$2.7 million and \$0.9 million, respectively. Advances under credit facility may be voluntarily prepaid, and must be prepaid with the proceeds of certain dispositions, extraordinary receipts and indebtedness and in full upon a change in control.

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

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

incur additional indebtedness or guarantee indebtedness of others;

create liens on our assets;

enter into mergers or consolidations;

dispose of assets;

prepay indebtedness or make changes to our governing documents and certain of our agreements;

pay dividends and make other distributions on our capital stock, and redeem and repurchase our capital stock;

make investments, including acquisitions;

enter into transactions with affiliates; and

make capital expenditures.

Our credit facility also contains customary affirmative covenants, including, among other things, requirements to: take certain actions in the event we form or acquire new subsidiaries; hold annual meetings with our lenders; provide copies of material contracts and amendments to our lenders; locate our collateral only at specified locations; and use commercially reasonable efforts to ensure that certain material contracts permit the assignment of the contract to our lenders; subject in each case to customary exceptions and qualifications. We are also required to comply with a fixed charge coverage ratio, which is a ratio of our EBITDA to our fixed charges as determined in accordance with the credit facility, of 1.25:1.00 for each 12-month period ending at the end of a fiscal quarter, and a senior leverage ratio, which is a ratio of the outstanding revolver usage to our EBITDA as determined in accordance with the credit facility, of 2.75:1.00 for each fiscal quarter.

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The credit facility contains customary events of default, subject to customary cure periods for certain defaults, that include, among others, non-payment defaults, covenant defaults, material judgment defaults, bankruptcy and insolvency defaults, cross-defaults to certain other material indebtedness, inaccuracy of representations and warranties and a failure to meet certain liquidity thresholds both before and after we make cash payments for earnouts and holdbacks in connection with acquisition transactions.

If we experience a decline in cash flow due to any of the factors described in this **Risk Factors** section or otherwise, we could have difficulty paying interest and principal amounts due on our indebtedness and meeting the financial covenants set forth in our credit facility. If we are unable to generate sufficient cash flow or otherwise obtain the funds necessary to make required payments under our credit facility, or if we fail to comply with the requirements of our indebtedness, we could default under our credit facility. Any default that is not cured or waived could result in the acceleration of the obligations under the credit facility, an increase in the applicable interest rate under the credit facility and a requirement that our subsidiaries that have guaranteed the credit facility pay the obligations in full, and would permit our lender to exercise remedies with respect to all of the collateral that is securing the credit facility, including substantially all of our and our subsidiary guarantors' assets. Any such default could have a material adverse effect on our liquidity and financial condition.

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

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

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

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

One of our competitors, Yardi Systems, Inc., contacted us and certain of our customers and expressed its concern that we may misappropriate its intellectual property by hosting its applications for our mutual customers in The RealPage Cloud. On January 24, 2011, Yardi Systems, Inc. filed a lawsuit in the U.S. District Court for the Central District of California against RealPage, Inc. and DC Consulting, Inc. Yardi filed a First Amended Complaint on August 12, 2011. The lawsuit alleges claims for relief for violation of the Computer Fraud and Abuse Act, violation of the California Comprehensive Data Access and Fraud Act, violation of the Digital Millennium Copyright Act, copyright infringement, trade secret misappropriation, unfair competition, and inducement of breach of contract. Yardi seeks injunctive relief, punitive damages, recovery of all profits attributable to Defendants' allegedly wrongful acts and infringements, statutory damages, exemplary damages, prejudgment interest, and attorneys' fees and costs. The First Amended Complaint alleges, among other things, that RealPage took Yardi employee, client and independent consultant credentials and used them to access Yardi's computer system and steal Yardi's trade secrets and copyrighted

software, related support documentation, price lists and other proprietary information. In addition, the First Amended Complaint alleges that RealPage improperly obtained administrative-level access to Yardi's software and copied it onto RealPage's servers for its own competitive purposes, used these unauthorized software copies to discover the allegedly proprietary programming, functionality and feature set of Yardi's software, to compete unfairly against Yardi, to create unauthorized derivative works from Yardi's software, and to enhance RealPage's own products and services. Yardi alleges that in doing so, and in offering to indemnify our customers, RealPage induced Cloud customers to violate their confidentiality and other agreements with Yardi. On March 28, 2011, RealPage filed an answer to Yardi's Complaint, and on September 12, 2011 RealPage answered the First Amended Complaint. RealPage has also filed counterclaims against Yardi,

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first in connection with its March 28 answer and then in First Amended Counterclaims filed on May 18, 2011. On September 2, 2011, following the Court's order granting in part and denying in part Yardi's motion to dismiss certain of RealPage's causes of action without prejudice, RealPage filed Second Amended Counterclaims. RealPage's counterclaims allege that Yardi and its agents wrongfully obtained and used our trade secrets and engaged in anti-competitive behavior with respect to certain of our clients. RealPage's counterclaims seek relief for misappropriation of trade secrets, Sherman Act (antitrust) violations and California Cartwright Act violations, intentional interference with contract, intentional interference with prospective economic advantage, and violation of California's unfair competition statute. RealPage seeks damages, punitive damages, injunctive relief and all profits, gains and advantages that Yardi received as a result of its wrongful conduct along with attorneys' fees and costs. Yardi filed a Motion to Dismiss RealPage's Second Amended Counterclaims on September 30, 2011. On February 13, 2012, the Court denied Yardi's motion with respect to all claims except for a portion of one of our claims for intentional interference with contract, as to which dismissal was granted. Accordingly, RealPage will move forward with its claims against Yardi. We currently expect trial in this case to be scheduled for late September 2012. It is not possible to predict the outcome of this case, but we intend to defend this case and pursue our counterclaims vigorously. However, even if we were successful in defending against Yardi's claims or in prevailing on our counterclaims, the proceedings could result in significant costs and divert our management's attention.

On March 26, 2010, Smarter Agent, LLC, a provider of mobile real estate applications, filed a complaint against one of our subsidiaries, Multifamily Technology Solutions, Inc., and multiple other defendants for patent infringement in the U.S. District Court for the District of Delaware. The complaint alleges, among other things, that our mobile technology infringes three patents held by Smarter Agent purporting to cover: a Global positioning-based real estate database access device and method, a Position-based information access device and method and a Position-based information access device and method of searching, and seeks injunctive relief, unspecified damages, enhanced damages, prejudgment interest, and attorneys' fees and costs. We have denied the allegations and asserted counterclaims seeking declarations that we are not infringing the patents and that the patents are invalid. In November 2010, the U.S. Patent and Trademark Office granted our petition for re-examination of the three patents-in-suit and its first office action found all claims invalid. Smarter Agent has submitted arguments to overcome the objections, but the U.S. Patent and Trademark Office has finally rejected one of the patents, with final action on the other two still pending. In March 2011, the court stayed the litigation pending the completion of the re-examination proceedings and any related appeals. Because this lawsuit is at an early stage, it is not possible to predict its outcome. We intend to defend this case and pursue our counterclaims vigorously. However, even if we were successful in defending against such claims or in prevailing on our counterclaims, the proceedings could result in significant costs and divert management's attention.

On January 18, 2012, Earthcomber, LLC filed a complaint in the United States District Court for the Northern District of Illinois alleging that RealPage, Inc. and Multifamily Technology Solutions, Inc. which is the d/b/a for MyNewPlace infringed upon two patents owned by Earthcomber. The complaint seeks an unspecified amount of damages for the alleged infringement. Because this lawsuit is at an early stage, it is not possible to predict its outcome. An unfavorable outcome in this case could adversely affect our operating results and/or cash flow. We are in the process of evaluating the Earthcomber patent claims, and we intend to defend this case vigorously. However, even if we were successful in defending against Earthcomber's claims, the proceedings could result in significant costs and divert our management's attention.

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

license for such technology, we may be required to refund some or the entire license fee paid for the infringing technology by our customers.

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

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

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

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

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

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

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

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



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

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

On January 18, 2012, Earthcomber, LLC filed a complaint in the United States District Court for the Northern District of Illinois alleging that RealPage, Inc. and Multifamily Technology Solutions, Inc. which is the d/b/a for MyNewPlace infringed upon two patents owned by Earthcomber. The complaint seeks an unspecified amount of damages for the alleged infringement. Because this lawsuit is at an early stage, it is not possible to predict its outcome. An unfavorable outcome in this case could adversely affect our operating results and/or cash flow. We are in the process of evaluating the Earthcomber patent claims, and we intend to defend this case vigorously. However, even if we were successful in defending against Earthcomber's claims, the proceedings could result in significant costs and divert our management's attention.

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

against such claims, the proceedings could result in significant costs and divert management's attention.

On March 26, 2010, Smarter Agent, LLC, a provider of mobile real estate applications, filed a complaint against our subsidiary, Multifamily Technology Solutions, Inc., and multiple other defendants for patent infringement in the U.S. District Court for the District of Delaware. The complaint alleges, among other things, that our mobile technology infringes three patents held by Smarter Agent purporting to cover: a Global positioning-based real estate database access device and method, a Position-based information

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access device and method and a Position-based information access device and method of searching, and seeks injunctive relief, unspecified damages, enhanced damages, prejudgment interest, and attorneys' fees and costs. We have denied the allegations and asserted counterclaims seeking declarations that we are not infringing the patents and that the patents are invalid. In November 2010, the U.S. Patent and Trademark Office granted our petition for re-examination of the three patents-in-suit and its first office action found all claims invalid. Smarter Agent has submitted arguments to overcome the objections, but the U.S. Patent and Trademark Office has finally rejected one of the patents, with final action on the other two still pending. In March 2011, the court stayed the litigation pending the completion of the re-examination proceedings and any related appeals. Because this lawsuit is at an early stage, it is not possible to predict its outcome. We intend to defend this case and pursue our counterclaims vigorously. However, even if we were successful in defending against such claims or in prevailing on our counterclaims, the proceedings could result in significant costs and divert management's attention.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

in any given jurisdiction as it has been conducted in the past.

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

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

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

Multifamily Internet Ventures LLC is required to maintain a 50-state general agency insurance license as well as individual insurance licenses for each sales agent involved in the solicitation of insurance products. Both the agency and individual licenses require compliance with state insurance regulations, payment of licensure fees, and continuing education programs. In the event that regulatory compliance requirements are not met, Multifamily Internet Ventures LLC could be subject to license suspension or revocation, state Department of Insurance audits, and regulatory fines. As a result, our ability to engage in the business of insurance could be restricted, and our operating revenue will be adversely affected.

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

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

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

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

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



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

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

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

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

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

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

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

### **Risks Related to Ownership of our Common Stock**

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

Our executive officers, directors, and entities affiliated with them together beneficially owned approximately 52.8% of our common stock as of December 31, 2011. Further, Stephen T. Winn, our Chief Executive Officer and Chairman of the Board, and entities beneficially owned by Mr. Winn held an aggregate of approximately 37.6% of our common stock as of December 31, 2011. This significant concentration of ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. Mr. Winn and entities beneficially owned by Mr. Winn may control our management and affairs and matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership may have the effect of delaying or preventing a change of control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change of control would benefit our other stockholders.

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

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

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

- variations in operating results of similar companies;

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

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

- marketing, advertising or other initiatives by us or our competitors;

- the gain or loss of customers;

threatened or actual litigation;

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major changes in our board of directors or management;

recruitment or departure of key personnel;

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

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

the overall performance of the equity markets;

sales of our shares of common stock by existing stockholders;

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

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

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

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

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

As of December 31, 2011, we had 72,701,571 shares of common stock outstanding. Of these shares, 71,032,511 were immediately tradable without restriction or further registration under the Securities Act, unless these shares are held by affiliates, as that term is defined in Rule 144 under the Securities Act.

As of December 31, 2011, holders of 37,966,766 shares, or approximately 52.8%, of our outstanding common stock were entitled to rights with respect to the registration of these shares under the Securities Act. If we register their shares of common stock, these stockholders could sell those shares in the public market without being subject to the volume and other restrictions of Rule 144 and Rule 701.

In addition, we have registered approximately 16,934,606 shares of common stock that have been issued or reserved for future issuance under our stock incentive plans. Of these shares, 3,482,000 shares were eligible for sale upon the exercise of vested options as of December 31, 2011.

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

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

a classified board of directors whose members serve staggered three-year terms;

not providing for cumulative voting in the election of directors;

authorizing our board of directors to issue, without stockholder approval, preferred stock with rights senior to those of our common stock;  
prohibiting stockholder action by written consent; and

requiring advance notification of stockholder nominations and proposals.

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These and other provisions of our amended and restated certificate of incorporation and our amended and restated bylaws and under Delaware law could discourage potential takeover attempts, reduce the price that investors might be willing to pay in the future for shares of our common stock and result in the market price of our common stock being lower than it would be without these provisions.

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

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

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

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. If we do not pay cash dividends, you would receive a return on your investment in our common stock only if the market price of our common stock has increased when you sell your shares. In addition, the terms of our credit facilities currently restrict our ability to pay dividends.

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**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

We currently lease approximately 200,000 square feet of space for our corporate headquarters and data center in Carrollton, Texas under lease agreements that expire in August 2016. We have offices in Tulsa, Oklahoma; Camarillo, California; Irvine, California; San Francisco, California; San Diego, California; Plano, TX; Kennesaw, Georgia; Milwaukee, Wisconsin; Vienna, Virginia; Williston, Vermont; Mason, Ohio; Charlotte, North Carolina; Greer, South Carolina; Washington D.C.; Portland, Oregon; Winnipeg, Manitoba, Canada; Manila, Philippines and Hyderabad, India. We believe our current and planned data centers and office facilities will be adequate for the foreseeable future. We also license data center space and collocation services at a facility in Dallas, Texas for our secondary data center pursuant to a master services agreement with DataBank Holdings Ltd., or DataBank. Our agreement with DataBank has an initial term of 36 months and automatically renews for successive one-year terms unless we elect to terminate the agreement by giving notice 30 days prior to the end of a current term, in which case the agreement terminates at the end of such term. The initial term of our agreement with DataBank expired on May 31, 2010, and the agreement automatically renews for successive one-year terms. We may also terminate the master services agreement for convenience upon 30 days notice and payment of specified fees, and either party may terminate the agreement for cause and without penalty. Following termination of the master services agreement for any reason, DataBank is obligated to continue to provide such services related to the termination as we may reasonably request, but only for a period of 15 days. Any unplanned termination of our master services agreement with DataBank or DataBank's failure to perform its obligations under the agreement would require us to move our secondary data center to another provider and could cause disruptions in the continuous availability of our secondary data center or some of our services.

**Item 3. Legal Proceedings**

From time to time, we have been and may be involved in various legal proceedings arising from our ordinary course of business.

On January 18, 2012, Earthcomber, LLC filed a complaint in the United States District Court for the Northern District of Illinois alleging that RealPage, Inc. and Multifamily Technology Solutions, Inc. which is the d/b/a for MyNewPlace infringe two patents owned by Earthcomber. The complaint seeks an unspecified amount of damages for the alleged infringement. Because this lawsuit is at an early stage, it is not possible to predict its outcome. An unfavorable outcome in this case could adversely affect our operating results and/or cash flow. We are in the process of evaluating the Earthcomber patent claims, and we intend to defend this case vigorously. However, even if we were successful in defending against Earthcomber's claims, the proceedings could result in significant costs and divert our management's attention.

On January 24, 2011, Yardi Systems, Inc. filed a lawsuit in the U.S. District Court for the Central District of California against RealPage, Inc. and DC Consulting, Inc. Yardi filed a First Amended Complaint on August 12, 2011. The lawsuit alleges claims for relief for violation of the Computer Fraud and Abuse Act, violation of the California Comprehensive Data Access and Fraud Act, violation of the Digital Millennium Copyright Act, copyright infringement, trade secret misappropriation, unfair competition, and inducement of breach of contract. Yardi seeks injunctive relief, punitive damages, recovery of all profits attributable to Defendants' allegedly wrongful acts and infringements, statutory damages, exemplary damages, prejudgment interest, and attorneys' fees and costs. The First Amended Complaint alleges, among other things, that RealPage took Yardi employee, client and independent consultant credentials and used them to access Yardi's computer system and steal Yardi's trade secrets and copyrighted software, related support documentation, price lists and other proprietary information. In addition, the First Amended Complaint alleges that RealPage improperly obtained administrative-level access to Yardi's software and copied it onto RealPage's servers for its own competitive purposes, used these unauthorized software copies to discover the allegedly proprietary programming, functionality and feature set of Yardi's software, to compete unfairly against Yardi, to create unauthorized derivative works from Yardi's software, and to enhance RealPage's own products and services. Yardi alleges that in doing so, and in offering to indemnify our customers, RealPage induced Cloud customers to violate their confidentiality and other agreements with Yardi. On March 28, 2011, RealPage filed an answer to Yardi's Complaint, and on September 12, 2011, RealPage answered the First Amended Complaint. RealPage

has also filed counterclaims against Yardi, first in connection with its March 28 answer and then in First Amended Counterclaims filed on May 18, 2011. On September 2, 2011, following the Court's order granting in part and denying in part Yardi's motion to dismiss certain of RealPage's causes of action without prejudice, RealPage filed Second Amended Counterclaims. RealPage's counterclaims allege that Yardi and its agents wrongfully obtained and used our trade secrets and engaged in anti-competitive behavior with respect to certain of our clients. RealPage's counterclaims seek relief for misappropriation of trade secrets, Sherman Act (antitrust) violations and California Cartwright Act violations, intentional interference with contract, intentional interference with prospective economic advantage, and violation of California's unfair competition statute. RealPage seeks damages, punitive damages, injunctive relief and



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all profits, gains and advantages that Yardi received as a result of its wrongful conduct along with attorneys' fees and costs. Yardi filed a Motion to Dismiss RealPage's Second Amended Counterclaims on September 30, 2011. On February 13, 2012, the Court denied Yardi's motion with respect to all claims except for a portion of one of our claims for intentional interference with contract, as to which dismissal was granted. Accordingly, RealPage will move forward with its claims against Yardi. We currently expect trial in this case to be scheduled for late September 2012. It is not possible to predict the outcome of this case, but we intend to defend this case and pursue our counterclaims vigorously. However, even if we were successful in defending against Yardi's claims or in prevailing on our counterclaims, the proceedings could result in significant costs and divert our management's attention.

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

On March 26, 2010, Smarter Agent, LLC, a provider of mobile real estate applications, filed a complaint against our subsidiary, Multifamily Technology Solutions, Inc., and multiple other defendants for patent infringement in the U.S. District Court for the District of Delaware. The complaint alleges, among other things, that our mobile technology infringes three patents held by Smarter Agent purporting to cover: a Global positioning-based real estate database access device and method, a Position-based information access device and method and a Position-based information access device and method of searching, and seeks injunctive relief, unspecified damages, enhanced damages, prejudgment interest, and attorneys' fees and costs. We have denied the allegations and asserted counterclaims seeking declarations that we are not infringing the patents and that the patents are invalid. In November 2010, the U.S. Patent and Trademark Office granted our petition for re-examination of the three patents-in-suit and its first office action found all claims invalid. Smarter Agent has submitted arguments to overcome the objections, but the U.S. Patent and Trademark Office has finally rejected one of the patents, with final action on the other two still pending. In March 2011, the court stayed the litigation pending the completion of the re-examination proceedings and any related appeals. Because this lawsuit is at an early stage, it is not possible to predict its outcome. We intend to defend this case and pursue our counterclaims vigorously. However, even if we were successful in defending against such claims or in prevailing on our counterclaims, the proceedings could result in significant costs and divert management's attention.

**Item 4. Reserved**

**Table of Contents****PART II****Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information and Holders**

Our common stock is traded on the NASDAQ Global Select Market under the symbol RP. The following table sets forth for the periods indicated the high and low sale prices per share of our common stock as reported on the NASDAQ Global Select Market for the periods indicated:

<b>Year Ending December 31, 2010</b>	<b>Low</b>	<b>High</b>
Third Quarter	\$ 12.42	\$ 19.99
Fourth Quarter	\$ 18.78	\$ 34.19
<b>Year Ending December 31, 2011</b>	<b>Low</b>	<b>High</b>
First Quarter	\$ 22.00	\$ 31.00
Second Quarter	\$ 24.10	\$ 32.83
Third Quarter	\$ 18.17	\$ 26.71
Fourth Quarter	\$ 19.33	\$ 28.08

On February 10, 2012, the closing price of our common stock on the NASDAQ Global Select Market was \$27.10 per share and, as of February 10, 2012, there were over 650 holders of record of our common stock.

**Dividend Policy**

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

**Equity Compensation Plan Information**

For information regarding securities authorized for issuance under equity compensation plans, see Part III Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

**Table of Contents****Performance Graph**

The following graph compares the relative performance of our common stock, the NASDAQ Global Market Index, NASDAQ Composite and the NASDAQ Computer and Data Processing Index. This graph covers the quarterly periods from August 12, 2010 (the first trading date immediately following our initial public offering), through December 31, 2011. In each case, this graph assumes a \$100 investment on August 12, 2010 at our closing price of \$14.52 per share and reinvestment of all dividends, if any.

	August 12, 2010	September 30, 2010	December 31, 2010	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011
RealPage, Inc.	\$ 100.00	\$ 131.40	\$ 213.02	\$ 190.98	\$ 182.30	\$ 140.84	\$ 174.04
NASDAQ Composite Total Returns	100.00	108.34	121.72	127.86	127.82	111.59	120.76
NASDAQ Global Market Index	100.00	111.01	124.92	133.57	130.56	102.34	108.29
NASDAQ Computer and Data Processing Index	100.00	109.98	124.92	128.83	127.79	115.66	121.08

**Recent Sales of Unregistered Securities**

1. In connection with our August 24, 2011 acquisition of Multifamily Technology Solutions, Inc. ( MTS ), on September 6, 2011, we issued an aggregate total of 294,770 shares of our common stock to certain accredited investors in partial consideration of their ownership of MTS. Pursuant to the Agreement and Plan of Merger relating to the MTS acquisition, a portion of the consideration payable to such accredited investors in connection with our acquisition of MTS was divided by approximately \$23.29 to determine the number of restricted shares of our common stock that would be issued to such accredited investors. The sale and issuance of these shares of our common stock was exempt from registration under Rule 506 of Regulation D promulgated under the Securities Act.

The foregoing transaction did not involve any underwriters, underwriting discounts or commissions. Stock certificates issued in the foregoing transaction bear appropriate Securities Act legends as to the restricted nature of such securities.

**Table of Contents****Item 6. Selected Financial Data**

We have derived the consolidated statements of operations and balance sheet data for the years ended December 31, 2011, 2010, 2009, 2008 and 2007 from our audited consolidated financial statements, which have been audited by Ernst & Young LLP, independent registered public accounting firm. Over the last five fiscal years, we have acquired a number of companies as disclosed in Note 3 Acquisitions in the notes to our consolidated financial statements. The results of our acquired companies have been included in our consolidated financial statements since their respective dates of acquisition and have contributed to our growth in our results of operations. You should read this information in conjunction with our audited consolidated financial statements, the related notes to these financial statements and the information in Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report. Our historical results are not necessarily indicative of our future results.

	<b>Year Ended December 31,</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>(in thousands, except per share data)</b>				
Revenue:					
On demand	\$ 239,436	\$ 169,678	\$ 128,377	\$ 95,192	\$ 62,592
On premise	6,581	8,545	3,860	7,582	11,560
Professional and other	11,962	10,051	8,665	9,794	9,429
<b>Total revenue</b>	<b>257,979</b>	<b>188,274</b>	<b>140,902</b>	<b>112,568</b>	<b>83,581</b>
Cost of revenue	105,717	79,044	58,513	46,058	35,703
<b>Gross profit</b>	<b>152,262</b>	<b>109,230</b>	<b>82,389</b>	<b>66,510</b>	<b>47,878</b>
Operating expenses:					
Product development	44,561	36,922	27,446	28,806	21,708
Sales and marketing	63,923	37,693	27,804	23,923	18,047
General and administrative	41,968	28,328	20,210	14,135	9,756
<b>Total operating expense</b>	<b>150,452</b>	<b>102,943</b>	<b>75,460</b>	<b>66,864</b>	<b>49,511</b>
<b>Operating income (loss)</b>	<b>1,810</b>	<b>6,287</b>	<b>6,929</b>	<b>(354)</b>	<b>(1,633)</b>
Interest expense and other, net	(3,251)	(5,501)	(4,528)	(2,152)	(1,510)
<b>Net (loss) income before taxes</b>	<b>(1,441)</b>	<b>786</b>	<b>2,401</b>	<b>(2,506)</b>	<b>(3,143)</b>
Income tax (benefit) expense	(210)	719	(26,028)	703	
<b>Net (loss) income</b>	<b>\$ (1,231)</b>	<b>\$ 67</b>	<b>\$ 28,429</b>	<b>\$ (3,209)</b>	<b>\$ (3,143)</b>
Net (loss) income attributable to common stockholders:					
Basic	\$ (1,231)	\$ (2,877)	\$ 10,611	\$ (10,658)	\$ (9,143)
Diluted	\$ (1,231)	\$ (2,877)	\$ 10,611	\$ (10,658)	\$ (9,143)
Net (loss) income per share attributable to common stockholders:					
Basic	\$ (0.02)	\$ (0.07)	\$ 0.44	\$ (0.77)	\$ (0.89)
Diluted	\$ (0.02)	\$ (0.07)	\$ 0.42	\$ (0.77)	\$ (0.89)
Weighted average shares used in computing net (loss) income per					

share attributable to common  
stockholders:

Basic	68,480	39,737	23,934	13,886	10,223
Diluted	68,480	39,737	25,511	13,886	10,223

### Consolidated Balance Sheet

#### Data:

Cash and cash equivalents(1)	\$ 51,273	\$ 118,010	\$ 4,427	\$ 4,248	\$ 2,731
Total current assets	124,758	170,522	51,003	49,119	30,414
Total assets	400,065	342,792	142,113	102,340	59,518
Total current liabilities	114,376	93,974	78,050	75,705	54,969
Total deferred revenue	66,018	55,664	49,428	47,232	41,052
Current and long-term debt(2)	50,377	66,629	53,990	48,943	23,809
Total liabilities	177,184	170,208	136,757	129,622	87,954
Redeemable convertible preferred stock			71,832	71,675	78,534
Total stockholders' equity (deficit)	222,881	172,584	(66,476)	(98,957)	(106,969)

#### Other Financial Data:

Adjusted EBITDA(3)	\$ 56,459	\$ 35,303	\$ 25,593	\$ 13,064	\$ 5,984
Operating cash flow	49,226	27,690	24,758	7,962	4,441
Capital expenditures	16,147	12,178	9,509	10,263	7,122

#### Selected Operating Data:

Number of on demand customers at period end	7,790	6,922	5,032	2,669	2,199
Number of on demand units at period end	7,302	6,066	4,551	3,833	2,800
Total number of employees at period end	2,273	1,759	1,141	922	654

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- (1) Excludes restricted cash.
- (2) Includes capital lease obligations.
- (3) We define this metric as net (loss) income plus depreciation and asset impairment; amortization of intangible assets; interest expense, net; income tax expense (benefit); stock-based compensation expense and acquisition-related expense. In 2011, Adjusted EBITDA excludes litigation related expenses pertaining to the Yardi litigation as discussed in Part I, Item 3 Legal Proceedings. Beginning in the second quarter of 2011, Adjusted EBITDA includes acquisition-related deferred revenue adjustments.

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

Adjusted EBITDA provides investors and other users of our financial information consistency and comparability with our past financial performance, facilitates period-to-period comparisons of operations and facilitates comparisons with our peer companies, many of which use similar non-GAAP financial measures to supplement their GAAP results; and it is useful to exclude certain non-cash charges, such as depreciation and asset impairment, amortization of intangible assets and stock-based compensation and non-core operational charges, such as acquisition-related expense and litigation-related expenses, from Adjusted EBITDA because the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations and these expenses can vary significantly between periods as a result of new acquisitions, full amortization of previously acquired tangible and intangible assets or the timing of new stock-based awards, as the case may be.

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

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

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

	<b>Year Ended December 31,</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>				
Net (loss) income	\$ (1,231)	\$ 67	\$ 28,429	\$ (3,209)	\$ (3,143)
Acquisition-related deferred revenue adjustment	706				
Depreciation, asset impairment and loss on sale of asset	11,539	10,371	9,231	9,847	4,854
Amortization of intangible assets	18,006	10,675	5,784	2,095	2,273
Interest expense, net	2,868	5,510	4,528	2,152	1,510

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Income tax (benefit) expense	(210)	719	(26,028)	703	
Litigation-related expense	1,298				
Stock-based compensation expense	22,618	7,340	2,805	1,476	490
Acquisition-related expense	865	621	844		
Adjusted EBITDA	\$ 56,459	\$ 35,303	\$ 25,593	\$ 13,064	\$ 5,984

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

	<b>Year Ended December 31,</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>				
Cost of revenue	\$ 1,655	\$ 633	\$ 367	\$ 104	\$ 48
Product development	4,594	2,568	1,175	727	251
Sales and marketing	12,017	2,493	498	277	110
General and administrative	4,352	1,646	765	368	81
 Total stock-based compensation expense	 \$ 22,618	 \$ 7,340	 \$ 2,805	 \$ 1,476	 \$ 490



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**ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

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

**Overview**

We are a leading provider of on demand software solutions for the rental housing industry. Our broad range of property management solutions enable owners and managers of single-family and a wide variety of multi-family rental property types to manage their marketing, pricing, screening, leasing, accounting, purchasing and other property operations. We deliver our on demand software solutions via the Internet through an integrated software platform that provides a single point of access and a shared repository of prospect, resident and property data.

We derive a substantial majority of our revenue from sales of our on demand software solutions. We also derive revenue from our professional and other services. A small percentage of our revenue is derived from sales of our on premise software solutions to our existing on premise customers. Our on demand software solutions are sold pursuant to subscription license agreements, and our on premise software solutions are sold pursuant to term or perpetual license agreements and associated maintenance agreements. Typically, we price our solutions based primarily on the number of units the customer manages with our solutions. For our insurance and transaction-based solutions, we price based on a fixed commission rate of earned premiums or a fixed rate per transaction, respectively. We sell our solutions through our direct sales organization and derive substantially all of our revenue from sales in the United States. Our revenue has increased from \$140.9 million in 2009 to \$258.0 million in 2011. The increase in revenue has primarily been driven by increased sales of our on demand software solutions, a substantial amount of which has been derived from purchases of additional on demand software solutions by our existing customers. In 2011, our on demand revenue represented 92.8% of our total revenue.

While the adoption of on demand software solutions in the rental housing industry is growing rapidly, it remains at a relatively early stage of development. Additionally, there is a low level of penetration of our on demand software solutions in our existing customer base. We believe these factors present us with significant opportunities to generate revenue through sales of additional on demand software solutions. Our existing and potential customers base their decisions to invest in our solutions on a number of factors, including general economic conditions. Accordingly, macroeconomic conditions negatively impacted our business in 2011 and may continue to negatively impact our business.

Our company was formed in 1998 to acquire Rent Roll, Inc., which marketed and sold on premise property management systems for the conventional and affordable multi-family rental housing markets. In June 2001, we released OneSite, our first on demand property management system. Since 2002, we have expanded our on demand software solutions to include a number of software-enabled value-added services that provide complementary sales and marketing, asset optimization, risk mitigation, billing and utility management and spend management capabilities. In connection with this expansion, we have allocated greater resources to the development and infrastructure needs of developing and increasing sales of our suite of on demand software solutions. In addition, since July 2002, we have completed 18 acquisitions of complementary technologies to supplement our internal product development and sales and marketing efforts and expand the scope of our solutions, the types of rental housing properties served by our solutions and our customer base. As of December 31, 2011, we had approximately 2,273 employees.

On August 11, 2010, our registration statement on Form S-1 (File No 333-166397) relating to our initial public offering was declared effective by the Securities and Exchange Commission, or SEC. We sold 6,000,000 shares of common stock in our initial public offering. Our common stock began trading on August 12, 2010 on the NASDAQ Global Select Stock Market under the symbol RP, and the offering closed on August 17, 2010. Upon closing of our initial public offering, all outstanding shares of our convertible preferred stock, including a portion of accrued but unpaid dividends on our outstanding shares of Series A, Series A1 and Series B convertible preferred stock, were

converted into 29,567,952 shares of common stock.

On December 6, 2010, our registration statement on Form S-1 (File No 333-170667) relating to a public stock offering was declared effective by the SEC. We sold an additional 4,000,000 shares of common stock in the offering. The offering closed on December 10, 2010.

**Table of Contents****New Product Family**

In August 2011, we announced our new product family, LeaseStar, which will consolidate and integrate products and services related to our acquisitions of eREI, LevelOne, SeniorLiving.net, MTS and our suite of products and services historically branded as Crossfire. We believe the LeaseStar product family will unify major organic and paid lead channels into a single marketplace where consumers can find a rental unit and transact business by viewing real time availability, pricing, pre-qualify and lease online.

**Recent Acquisitions**

In May 2011, we acquired substantially all of the assets of Compliance Depot LLC ( Compliance Depot ) for approximately \$22.5 million which included a cash payment of \$19.2 million and three deferred payments of \$1.1 million each payable six, twelve and eighteen months after the acquisition date. The acquisition of Compliance Depot expands our ability to provide vendor risk management and compliance software for the rental housing industry. Interfacing with vendors through a branded platform, Compliance Depot allows property managers and owners to: track compliance with vendor obligations to carry workers compensation and general liability insurance, identify vendor bankruptcy filings, liens, criminal records, collections and professional license verification, confirm federal regulation compliance, such as The Patriot Act; as well as manage contractual agreements and federal and state tax documents.

In July 2011, we acquired Senior-Living.com, Inc., operating under the name SeniorLiving.net ( SLN ), for a purchase price consisting of a cash payment of \$4.0 million at closing, additional cash payments of \$0.5 million, half of which is due on each of the first and second anniversaries of the acquisition date, and a deferred earn out payment of up to \$0.5 million in cash and up to 400,000 shares of our common stock, in each case payable based on the achievement of specified milestones on or before June 30, 2014. The acquisition of SLN expands our lead generation capabilities into the senior living rental housing market.

In August 2011, we acquired Multifamily Technology Solutions, Inc. ( MTS ), which owns the Internet listing service for rental properties called MyNewPlace, pursuant to an Agreement and Plan of Merger. MTS continued as the surviving corporation of the Merger and a wholly owned subsidiary of RealPage. We acquired MTS for a purchase price of \$74.9 million, net of cash acquired, comprised of approximately \$64.0 million in cash, 294,770 shares of RealPage restricted common stock and the assumption of MTS stock options exercisable for 349,693 shares of RealPage common stock. The acquisition of MTS adds a pay-for-performance Internet listing service, expands our suite of SAAS lead generation and management tools and service delivery capabilities.

In January 2012, we acquired substantially all of the operating assets of Vigilant, Incorporated ( Vigilant ). A provider of assisted living software-as-a-service, Vigilant products allow assisted living communities to monitor and schedule detailed care, manage labor costs, provide accurate billing as well as compliance tools through its comprehensive compliance module. We acquired Vigilant for a purchase price of \$5.0 million consisting of a cash payment of \$4.0 million and two additional cash payments of up to \$0.5 million each due 12 months and 24 months after the acquisition date.

**Key Business Metrics**

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

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(in thousands, except dollar per unit data)</b>		
Revenue:			
Total revenue	\$ 257,979	\$ 188,274	\$ 140,902
On demand revenue	\$ 239,436	\$ 169,678	\$ 128,377
On demand revenue as a percentage of total revenue	92.8%	90.1%	91.1%
Ending on demand units	7,302	6,066	4,551
Average on demand units	6,574	5,249	4,128

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Non-GAAP on demand revenue	\$ 240,142	\$ 169,678	\$ 128,377
Non-GAAP on demand revenue per average on demand unit	\$ 36.53	\$ 32.33	\$ 31.10
Adjusted EBITDA	\$ 56,459	\$ 35,303	\$ 25,593
Adjusted EBITDA as a percentage of total revenue	21.9%	18.8%	18.2%

*On demand revenue.* This metric represents the license and subscription fees for accessing our on demand software solutions, typically licensed for one year terms, commission income from sales of 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.

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

*Ending on demand units.* This metric represents the number of rental housing units managed by our customers with one or more of our on demand software solutions at the end of the period. We use ending on demand units to measure the success of our strategy of increasing the number of rental housing units managed with our on demand software solutions. Property unit counts are provided to us by our customers as new sales orders are processed. Property unit counts may be adjusted periodically as information related to our customers' properties is updated or supplemented, which could result in adjusting the number of units previously reported. We expect ending on demand units will continue to increase in 2012 and 2013.

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

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

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(in thousands)</b>		
On demand revenue	\$ 239,436	\$ 169,678	\$ 128,377
Acquisition-related deferred revenue adjustment	706		
Non-GAAP on demand revenue	\$ 240,142	\$ 169,678	\$ 128,377

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

*Adjusted EBITDA.* We define this metric as net (loss) income plus depreciation and asset impairment; amortization of intangible assets; interest expense, net; income tax expense (benefit); stock-based compensation expense and acquisition-related expense. In 2011, Adjusted EBITDA excludes litigation related expenses pertaining to the Yardi litigation as discussed in Part I, Item 3 Legal Proceedings. Beginning in the second quarter of 2011, Adjusted EBITDA includes acquisition-related deferred revenue adjustments. We believe that the use of Adjusted EBITDA is useful in evaluating our operating performance because it excludes certain non-cash expenses, including depreciation, amortization and stock-based compensation. Adjusted EBITDA is not determined in accordance with accounting principles generally accepted in the United States, or GAAP, and should not be considered as a substitute for or superior to financial measures determined in accordance with GAAP. For further discussion regarding Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income, refer to the table below. Our Adjusted EBITDA grew from approximately \$25.6 million in 2009 to approximately \$56.5 million in 2011, as a result of our efforts to expand market share and increase revenue.

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

**Year Ended December 31,**

	<b>2011</b>	<b>2010</b>	<b>2009</b>
		<b>(in thousands)</b>	
Net (loss) income	\$ (1,231)	\$ 67	\$ 28,429
Acquisition-related deferred revenue adjustment	706		
Depreciation and asset impairment	11,539	10,371	9,231
Amortization of intangible assets	18,006	10,675	5,784
Interest expense, net	2,868	5,510	4,528
Income tax expense (benefit)	(210)	719	(26,028)
Litigation-related expense	1,298		
Stock-based compensation expense	22,618	7,340	2,805
Acquisition-related expense	865	621	844
Adjusted EBITDA	\$ 56,459	\$ 35,303	\$ 25,593

**Table of Contents****Key Components of our Results of Operations*****Revenue***

We derive our revenue from three primary sources: our on demand software solutions; our on premise software solutions; and our professional and other services. In 2011, 2010, 2009, we generated revenue of \$258.0 million, \$188.3 million and \$140.9 million, respectively.

***On Demand Revenue***

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

In 2011, 2010 and 2009, revenue from our on demand software solutions was approximately \$239.4 million, \$169.7 million and \$128.4 million, respectively, representing approximately 92.8%, 90.1% and 91.1% of our total revenue for the same periods. Revenue from our on demand software solutions has continued to increase in absolute dollars and as a percentage of our total revenue as we have ceased actively marketing our legacy on premise software solutions to new customers and as many of our existing on premise customers have transitioned to our on demand software solutions. We expect our on demand revenue to continue to increase in absolute dollars and as a percentage of revenue in 2012, although the actual percentage of revenue may vary from period to period due to a number of factors, including the impact of acquisitions and revenue derived from our professional and other services related to our on demand software solutions.

***On Premise Revenue***

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

We no longer actively market our legacy on premise software solutions to new customers, and only license our on premise software solutions to a small portion of our existing on premise customers as they expand their portfolio of rental housing properties. For the on premise software solutions acquired in February 2010, we expect many of these customers to migrate to our on demand solutions over time; however, we will continue to support these on premise software solutions for the foreseeable future and integrate our software-enabled value-added services into them.

In 2011, 2010 and 2009, revenue from our on premise software solutions was approximately \$6.6 million, \$8.5 million and \$3.9 million, respectively, representing approximately 2.6%, 4.5% and 2.7%, and of our total revenue for the same periods, respectively. Revenue from our on premise software solutions has continued to decrease in absolute dollars as we have ceased actively marketing our legacy on premise software solutions to new customers and as many of our existing on premise customers have transitioned to our on demand software solutions. We expect our legacy on premise revenue to decrease over time in absolute dollars and as a percentage of our total revenue. In addition, the actual percentage of revenue may vary from period to period due to a number of factors, including the impact of our recent and potential future acquisition of on premise software solutions.

***Professional and Other Revenue***

Revenue from professional and other services consists of consulting and implementation services, training and other ancillary services. We complement our solutions with professional and other services for our customers willing to invest in enhancing the value or decreasing the implementation time of our solutions. Professional and other services engagements are typically time and material. In 2011, 2010 and 2009, revenue from professional and other services was approximately \$12.0 million, \$10.1 million \$8.7 million, respectively, representing approximately 4.6%, 5.3% and 6.1% of our total revenue for the same periods, respectively. We expect professional and other services will

represent 10.0% or less of our total revenue in 2012 and 2013 consistent with our performance for the previous three years.



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

Cost of revenue consists primarily of personnel costs related to our operations, support services, training and implementation services, expenses related to the operation of our data center and fees paid to third-party service providers. Personnel costs include salaries, bonuses, stock-based compensation and employee benefits. Cost of revenue also includes an allocation of facilities costs, overhead costs and depreciation, as well as amortization of acquired technology related to strategic acquisitions and amortization of capitalized development costs. We allocate facilities costs, overhead costs and depreciation based on headcount. We expect our cost of revenue in 2012 and 2013 to increase in absolute dollars.

***Operating Expenses***

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

Our operating expenses increased in absolute dollars in each of 2011 and 2010 as we have built infrastructure and added employees across all categories in order to accelerate and support our growth and to expand our markets. We expect our operating expenses in 2012 and 2013 to continue to increase in absolute dollars as compared to 2011 but decrease as a percentage of revenue, as the capacity we have added in prior years is more fully utilized and we continue to create operating leverage.

*Product development.* Product development expense consists primarily of personnel costs for our product development employees and executives and fees to contract development vendors. Our product development efforts are focused primarily on increasing the functionality and enhancing the ease of use of our on demand software solutions and expanding our suite of on demand software solutions. In 2008 and 2011, we established a product development and service center in Hyderabad, India and Manila, Philippines, respectively, to take advantage of strong technical talent at lower personnel costs compared to the United States. We expect our product development expenses in 2012 and 2013 to increase in absolute dollars.

*Sales and marketing.* Sales and marketing expense consists primarily of personnel costs for our sales, marketing and business development employees and executives, travel and entertainment and marketing programs. Marketing programs consist of amounts paid for online advertising, including search engine optimization ( SEO ) and search engine marketing ( SEM ), renter's insurance and other advertising, tradeshow, user conferences, public relations, industry sponsorships and affiliations and product marketing. In addition, sales and marketing expense includes amortization of certain purchased intangible assets, including customer relationships and key vendor and supplier relationships obtained in connection with our acquisitions. We expect our sales and marketing expense in 2012 and 2013 to increase in absolute dollars.

*General and administrative.* General and administrative expense consists of personnel costs for our executive, finance and accounting, human resources, management information systems and legal personnel, as well as legal, accounting and other professional service fees and other corporate expenses. We expect our general and administrative expense in 2012 and 2013 to increase in absolute dollars as compared to 2011.

***Interest Expense, Net***

Interest expense, net, consists primarily of interest income and interest expense. Interest income represents earnings from our cash, cash equivalents and short-term investments. Interest expense for 2011, 2010 and 2009 is associated with our term loan, revolver, secured promissory note, promissory note issued to preferred stockholders, capital lease obligations and certain acquisition-related liabilities. Total amounts outstanding under our interest-bearing obligations at December 31, 2011, 2010 and 2009 include:

	<b>As of December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>

	<b>(in thousands)</b>		
Term loan	\$	\$ 66,039	\$ 33,688
Revolver	50,312		
Secured promissory note			10,000
Promissory notes issued to preferred stockholders			8,173
Capital lease obligations	65	590	2,129
Interest bearing acquisition-related liabilities	1,420	1,955	2,470

Based on our current operations, we expect our interest expense in 2012 to remain consistent with 2011 expense.

**Table of Contents*****Income Taxes***

As of December 31, 2011, we had net operating loss carry forwards for federal and state income tax purposes of approximately \$168.8 million. If not utilized, our federal net operating loss carry forwards will begin to expire in 2020 and the state operating losses will begin to expire in 2012. Net operating losses generated by us are not currently subject to the Section 382 limitation; however certain net operating losses generated by subsidiaries prior to their acquisition by us are subject to the Section 382 limitation. The limitation on these pre-acquisition net operating loss carryforwards will fully expire in 2020. A cumulative change in ownership among material shareholders, as defined in Section 382 of the Internal Revenue Code, during a three-year period may limit utilization of the federal net operating loss carryforwards.

***Critical Accounting Policies***

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

We believe that the assumptions and estimates associated with revenue recognition, accounts receivable, business combinations, goodwill and other intangible assets with indefinite lives, impairment of long-lived assets, intangible assets, stock-based compensation, income taxes and capitalized product development costs have the greatest potential impact on our consolidated financial statements. Therefore, we believe the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving our management's judgments, assumptions and estimates.

***Revenue Recognition***

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

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

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

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

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



## **Table of Contents**

From time to time, we sell on demand software solutions with professional services. In such cases, we allocate arrangement consideration based on our estimated selling price of the on demand software solution and VSOE of the selling price of the professional services.

### *On Demand Revenue*

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

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

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

As part of our risk mitigation services to the rental housing industry, we act as an insurance agent and derive commission revenue from the sale of insurance products to individuals. The commissions are based upon a percentage of the premium that the insurance company charges to the policyholder and are subject to forfeiture in instances where a policyholder cancels prior to the end of the policy. If the policy is cancelled, our commissions are forfeited as a percent of the unearned premium. As a result, we recognize the commissions related to these services ratably over the policy term as the associated premiums are earned. Additionally, we earn a contingent commission based upon loss experience of the policies sold by us. Our estimate of this contingent commission is recorded quarterly based on actual and estimated claims and losses.

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

### *On Premise Revenue*

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

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

### *Professional and Other Revenue*

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

### *Accounts Receivable*

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

certain transactions, we have met the requirements to recognize income in advance of physically invoicing the customer. In these instances, we record an asset for the amount that will be due from the customer upon invoicing.

**Table of Contents*****Business Combinations***

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

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

We test goodwill and other intangible assets with indefinite lives for impairment separately on an annual basis in the fourth quarter of each year. Additionally, we will test goodwill and other intangible assets with indefinite lives in the interim if events and circumstances indicate that goodwill and other intangible assets with indefinite lives may be impaired. The events and circumstances that we consider include significant under-performance relative to projected future operating results and significant changes in our overall business and/or product strategies. We evaluate impairment of goodwill by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required using a two-step process. The first step of the two-step test involves a comparison of the fair value of a reporting unit with its carrying amount. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying amount of the goodwill of that reporting unit and determination of the impairment charge, if any. We evaluate other intangible assets with indefinite lives by estimating the fair value of those assets based on estimated future earnings derived from the assets using the income approach model. For those intangible assets with indefinite lives that have been determined to be inseparable due to their interchangeable use, we have grouped into single units of accounting for purposes of testing for impairment. If the carrying amount of the other intangible assets with indefinite lives exceeds the fair value, we would recognize an impairment loss equal to the excess of carrying value over fair value. If an event occurs that would cause us to revise our estimates and assumptions used in analyzing the value of our goodwill and other intangible assets with indefinite lives, the revision could result in a non-cash impairment charge that could have a material impact on our financial results.

We recorded goodwill and other intangible assets with indefinite lives in conjunction with all our business acquisitions completed since the beginning of 2008. We test goodwill for impairment based on a single reporting unit. We believe we operate in a single reporting unit because our chief operating decision maker does not regularly review our operating results other than at a consolidated level for purposes of decision making regarding resource allocation and operating performance.

***Impairment of Long-lived Assets***

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

***Intangible Assets***

Intangible assets consist of acquired developed product technologies, acquired customer relationships, vendor relationships, non-competition agreements and trade names. We record intangible assets at fair value and amortize

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



**Table of Contents*****Stock-Based Compensation***

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

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

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

Risk-free interest rates	0.9-5.1%
Expected option life (in years)	5-6
Dividend yield	0%
Expected volatility	49-60%

At each stock option grant date, we utilized peer group data to calculate our expected volatility. Expected volatility was based on historical and expected volatility rates of comparable publicly traded peers. Expected life is computed using the mid-point between the vesting period and contractual life of the options granted. The risk-free interest rate was based on the treasury yield rate with a maturity corresponding to the expected option life assumed at the grant date.

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

Prior to our initial public offering, we granted stock options at exercise prices above the fair value of our common stock as of the grant date, as determined by our compensation committee on a contemporaneous basis. Given the absence of any active market for our common stock, the fair value of the common stock underlying stock options granted was determined by our compensation committee, with input from our management. In arriving at these valuations, our compensation committee and management also considered contemporaneous third-party valuations. Options granted subsequent to our initial public offering have been granted at fair market value as of the date of grant. The fair value of our time-based restricted stock awards is based on the closing price on the date of grant. For our performance-based restricted stock awards, we recognize compensation expense based on the probability of achievement of the performance condition.

***Income Taxes***

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

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

We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. We consider whether a valuation allowance is needed on our deferred tax assets by evaluating all positive and negative evidence relative to our ability to recover deferred tax assets, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, we begin with historical results, if any, and incorporate assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies, if any. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying

businesses. Given the nature of our recurring revenue streams, we believe we have a reasonable basis to estimate future taxable income.

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***Capitalized Product Development Costs***

We capitalize specific product development costs, including costs to develop software products or the software components of our solutions to be marketed to our customers, as well as software programs to be used solely to meet our internal needs. The costs incurred in the preliminary stages of development related to research, project planning, training, maintenance and general and administrative activities, and overhead costs are expensed as incurred. The costs of relatively minor upgrades and enhancements to the software are also expensed as incurred. Once an application has reached the development stage, internal and external costs incurred in the performance of application development stage activities, including materials, services and payroll-related costs for employees are capitalized, if direct and incremental, until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. We also capitalize costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Capitalized costs are recorded as part of property and equipment. Internal use software is amortized on a straight-line basis over its estimated useful life, generally three years. We capitalized \$2.3 million and \$1.4 million of product development costs during the years ended December 31, 2011 and 2010, respectively, and recognized amortization expense of \$1.8 million, \$1.3 million and \$1.3 million, during the years ended December 31, 2011, 2010 and 2009, respectively, included as a component of cost of revenue. Unamortized product development cost was \$3.7 million, \$3.2 million and at December 31, 2011 and 2010, respectively. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. There were no impairments to internal use software during the years ended December 31, 2011, 2010 or 2009.

**Results of Operations**

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

**Table of Contents****Consolidated Statements of Operations Data**

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(in thousands)</b>		
Revenue:			
On demand	\$ 239,436	\$ 169,678	\$ 128,377
On premise	6,581	8,545	3,860
Professional and other	11,962	10,051	8,665
 Total revenue	 257,979	 188,274	 140,902
Cost of revenue(1)	105,717	79,044	58,513
 Gross profit	 152,262	 109,230	 82,389
Operating expense:			
Product development(1)	44,561	36,922	27,446
Sales and marketing(1)	63,923	37,693	27,804
General and administrative(1)	41,968	28,328	20,210
 Total operating expense	 150,452	 102,943	 75,460
 Operating income	 1,810	 6,287	 6,929
Interest expense and other, net	(3,251)	(5,501)	(4,528)
 Net (loss) income before taxes	 (1,441)	 786	 2,401
Income tax expense (benefit)	(210)	719	(26,028)
 Net (loss) income	 \$ (1,231)	 \$ 67	 \$ 28,429

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

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(in thousands)</b>		
Cost of revenue	\$ 1,655	\$ 633	\$ 367
Product development	4,594	2,568	1,175
Sales and marketing	12,017	2,493	498
General and administrative	4,352	1,646	765

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

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(as a percentage of total revenue)</b>		
Revenue:			
On demand	92.8%	90.1%	91.1%
On premise	2.6	4.5	2.7

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Professional and other	4.6	5.3	6.1
Total revenue	100.0	100.0	100.0
Cost of revenue	41.0	42.0	41.5
Gross profit	59.0	58.0	58.5
Operating expense:			
Product development	17.3	19.6	19.5
Sales and marketing	24.7	20.0	19.7
General and administrative	16.3	15.0	14.3
Total operating expenses	58.3	54.7	53.5
Operating income	0.7	3.3	4.9
Interest expense and other, net	(1.2)	(2.9)	(3.2)
Net (loss) income before taxes	(0.5)	0.4	1.7
Income tax expense (benefit)	0.0	0.4	(18.5)
Net (loss) income	(0.5)	0.0	20.2

**Table of Contents****Year Ended December 31, 2011 and 2010****Revenue**

	<b>2011</b>	<b>Year Ended December 31, 2010</b>	<b>Change</b>	<b>% Change</b>
	<b>(in thousands, except dollar per unit data)</b>			
Revenue:				
On demand	\$ 239,436	\$ 169,678	\$ 69,758	41.1%
On premise	6,581	8,545	(1,964)	(23.0)
Professional and other	11,962	10,051	1,911	19.0
<b>Total revenue</b>	<b>\$ 257,979</b>	<b>\$ 188,274</b>	<b>\$ 69,705</b>	<b>37.0</b>
On demand unit metrics:				
Ending on demand units	7,302	6,066	1,236	20.4
Average on demand units	6,574	5,249	1,325	25.2
Non-GAAP on demand revenue	\$ 240,142	\$ 169,678	\$ 70,464	41.5
Non-GAAP on demand revenue per average on demand unit	\$ 36.53	\$ 32.33	\$ 4.20	13.0

*On demand revenue.* Our on demand revenue increased \$69.8 million, or 41.1%, in 2011 compared to 2010 due to an increase in rental property units managed with our on demand solutions and an increase in the number of our on demand solutions utilized by our existing customer base as well as an increase in revenue resulting from our 2011 and 2010 acquisitions.

*On premise revenue.* On premise revenue decreased \$2.0 million, or 23.0%, in 2011 compared to 2010. As of December 31, 2011, we have completed migrating our legacy on premise customer base (i.e. RentRoll and HUDManager) to our on demand property management systems. We no longer actively market our legacy on premise software solutions to new customers and only market and support our acquired on premise software solutions. We expect on premise revenue to continue to decline over time as we transition acquired on premise customers to our on demand property management systems.

*Professional and other revenue.* Professional and other services revenue increased \$1.9 million, or 19.0%, in 2011 compared to 2010, primarily due to an increase in revenue from training and consulting services.

*On demand unit metrics.* As of December 31, 2011, one or more of our on demand solutions was utilized in the management of 7.3 million rental property units, representing an increase of 1.2 million units, or 20.4% compared to 2010. The increase in the number of rental property units managed by one or more of our on demand solutions was due to new customer sales and marketing efforts and our 2011 acquisitions in which contributed 8.9% of total ending on demand units as of December 31, 2011.

As of December 31, 2011, annualized non-GAAP on demand revenue per average on demand unit was \$36.53, representing an increase of \$4.20, or 13.0%, compared to 2010, primarily due to improved penetration of our on demand solutions into our customer base.

**Cost of Revenue**

	<b>2011</b>	<b>Year Ended December 31, 2010</b>	<b>Change</b>	<b>% Change</b>
	<b>(in thousands)</b>			
Cost of revenue	\$ 90,663	\$ 66,677	\$ 23,986	36.0%
Depreciation and amortization	15,054	12,367	2,687	21.7
<b>Total cost of revenue</b>	<b>\$ 105,717</b>	<b>\$ 79,044</b>	<b>\$ 26,673</b>	<b>33.7</b>

*Cost of revenue.* Total cost of revenue increased \$26.7 million, or 33.7%, in 2011 compared to 2010. The increase in cost of revenue was primarily due to: a \$7.9 million increase from costs related to the increased sales of our solutions, which includes investments in infrastructure and other support services; a \$15.1 million increase in personnel expense primarily related to our 2011 and 2010 acquisitions; a \$2.0 million increase in non-cash amortization of acquired technology as a result of our 2010 and 2011 acquisitions; a \$0.7 million increase in property and equipment depreciation expense resulting from expanding our infrastructure to support revenue delivery activities; and a \$1.0 million increase in stock-based compensation related to our professional services personnel and data center operations personnel. Cost of revenue as a percentage of total revenue was 41.0% for the year ended December 31, 2011 as compared to 42.0% for the same period in 2010.

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

	2011	Year Ended December 31,		% Change
		2010	Change	
		(in thousands)		
Product development	\$ 42,672	\$ 34,692	\$ 7,980	23.0%
Depreciation and amortization	1,889	2,230	(341)	(15.3)
Total product development expense	\$ 44,561	\$ 36,922	\$ 7,639	20.7

*Product development* Total product development expense increased \$7.6 million, or 20.7%, in 2011 compared to 2010. The increase in product development expense was primarily due to: a \$4.6 million increase in personnel related expense primarily related to product development groups added as a result of our 2011 and 2010 acquisitions combined with the associated costs to support our growth initiatives; a \$2.0 million increase in stock-based compensation related to product development personnel expense; a \$0.8 million increase in web hosting and other information technology costs; a \$0.5 million increase in facilities expense; and \$0.3 million decrease in depreciation expense.

	2011	Year Ended December 31,		% Change
		2010	Change	
		(in thousands)		
Sales and marketing	\$ 53,913	\$ 32,893	\$ 21,020	63.9%
Depreciation and amortization	10,010	4,800	5,210	108.5
Total sales and marketing expense	\$ 63,923	\$ 37,693	\$ 26,230	69.6

*Sales and marketing.* Total sales and marketing expense increased \$26.2 million, or 69.6%, in 2011 compared to 2010. The increase in sales and marketing expense was primarily due to: a \$9.5 million increase in stock-based compensation related to sales and marketing personnel and a \$6.9 million increase in salaries, bonuses and employee benefits for sales and marketing personnel. We have increased our sales force head count from 116 at December 31, 2010 to 163 at December 31, 2011, which includes sales personnel added as a result of our 2011 acquisitions and overall company growth. Additional factors contributing to the increase in sales and marketing expense include a \$0.9 million increase in marketing program expense as a part of our strategy to expand our market share and further penetrate our existing customer base with sales of additional on demand solutions; \$2.3 million increase from SEO and SEM activity driven by our 2011 acquisitions of MyNewPlace and SeniorLiving.net; a \$0.9 million increase in travel related expense; a \$5.3 million increase in non-cash amortization expense as a result of our 2010 and 2011 acquisitions; and a \$0.4 million increase in other general sales and marketing expense.

	2011	Year Ended December 31,		% Change
		2010	Change	
		(in thousands)		
General and administrative	\$ 39,774	\$ 26,767	\$ 13,007	48.6%
Depreciation and amortization	2,194	1,561	633	40.6
Total general and administrative expense	\$ 41,968	\$ 28,328	\$ 13,640	48.2

*General and administrative.* Total general and administrative expense increased \$13.6 million, or 48.2%, in 2011 compared to 2010. The increase in general and administrative expense was primarily due to: a \$4.7 million increase in personnel expense related to accounting, management information systems, legal, and human resources staff to



support the growth in our business combined with the increase from our 2011 acquisitions; a \$0.8 million increase in facilities expense, a \$2.7 million increase in stock-based compensation related to general and administrative personnel; a \$1.2 million increase in professional fees primarily resulting from our 2011 acquisitions; a \$0.6 million in depreciation expense; a \$0.4 million increase in travel expense; a \$0.5 million increase in insurance expense; a \$0.5 million increase in information technology costs; a \$0.7 million increase in sales and property taxes; \$1.1 million increase in legal fees related to litigation; a \$0.4 million decrease from the fair value adjustment of acquisition-related liabilities; and \$0.8 million increase in other general and administrative expense.

**Table of Contents****Interest Expense and Other, Net**

Interest expense and other, net, decreased \$2.2 million, or 40.9%, in 2011 compared to 2010. The change was primarily due to a decrease associated with the early extinguishment of our preferred stockholder notes payable in connection with our initial public offering combined with the effect of lower interest rates under our amended credit agreement. See Long-term Debt Obligations for further discussion regarding our amended credit agreement. This decrease was offset by an increase in other losses of \$0.4 million related to the sale of a non-operating asset held for sale.

**Year Ended December 31, 2010 and 2009****Revenue**

	2010	Year Ended December 31, 2009		Change	% Change
	(in thousands, except dollar per unit data)				
Revenue:					
On demand	\$ 169,678	\$ 128,377	\$ 41,301		32.2%
On premise	8,545	3,860	4,685		121.4
Professional and other	10,051	8,665	1,386		16.0
 Total revenue	 \$ 188,274	 \$ 140,902	 \$ 47,372		 33.6
 On demand unit metrics:					
Ending on demand units	6,066	4,551	1,515		33.3
Average on demand units	5,249	4,128	1,121		27.2
On demand revenue per average on demand unit	\$ 32.33	\$ 31.10	\$ 1.23		4.0

*On demand revenue.* Our on demand revenue increased \$41.3 million, or 32.2%, in 2010 compared to 2009, primarily due to an increase in rental property units managed with our on demand solutions and an increase in the number of our on demand solutions utilized by our existing customer base.

*On premise revenue.* On premise revenue increased \$4.7 million, or 121.4%, in 2010 compared to 2009, primarily as a result of our February 2010 acquisition. During February 2010, we completed a strategic acquisition of assets that included on premise software solutions that have been historically marketed and sold pursuant to perpetual license agreements and related maintenance agreements. For the year ended December 31, 2010, the February 2010 acquisition contributed \$6.6 million of revenue related to maintenance agreements and perpetual license sales. The revenue increase from the February 2010 acquisition was partially offset by our decision to cease actively marketing our legacy on premise solutions in 2003 and our efforts to migrate customers of our on premise solutions to our on demand solutions. For the on premise software solutions acquired in February 2010, we expect many of these customers to migrate to our on demand solutions over time; however, we will continue to support these software solutions for the foreseeable future and integrate our software-enabled value-added services into them.

*Professional and other revenue.* Professional and other services revenue increased \$1.4 million, or 16.0%, in 2010 compared to 2009, primarily due to an increase in revenue from consulting services, partially offset by lower infrastructure services and training volumes.

*Total revenue.* Our total revenue increased \$47.4 million, or 33.6% , in 2010 compared 2009, primarily due to an increase in rental property units managed with our on demand solutions and improved penetration of our on demand solutions into our customer base.

*On demand unit metrics.* As of December 31, 2010, one or more of our on demand solutions was utilized in the management of 6.1 million rental property units, representing an increase of 1.5 million units, or 33.3% compared to 2009. The increase in the number of rental property units managed by one or more of our on demand solutions was due to new customer sales and marketing efforts and our 2010 acquisitions in which contributed 14.1% of ending on demand units as of December 31, 2010.

As of December 31, 2010, our annualized on demand revenue per average on demand unit was \$32.33, representing an increase of \$1.23, or 4.0%, compared to 2009, primarily due to improved penetration of our on demand solutions into our customer base.

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

	<b>2010</b>	<b>Year Ended December 31,</b>		
		<b>2009</b>	<b>Change</b>	<b>% Change</b>
		<b>(in thousands)</b>		
Cost of revenue	\$ 66,677	\$ 51,260	\$ 15,417	30.1%
Depreciation and amortization	12,367	7,253	5,114	70.5
Total cost of revenue	\$ 79,044	\$ 58,513	\$ 20,531	35.1

*Cost of revenue.* Total cost of revenue increased \$20.5 million, or 35.1%, in 2010 compared to 2009. The increase in cost of revenue was primarily due to: a \$15.1 million increase from costs related to the increased sales of our solutions, which includes investments in infrastructure and other support services; a \$4.3 million increase in non-cash amortization of acquired technology as a result of our 2009 and 2010 acquisitions; a \$0.8 million increase in property and equipment depreciation expense resulting from expanding our infrastructure to support revenue delivery activities; and a \$0.3 million increase in stock-based compensation related to our professional services personnel and data center operations personnel. Cost of revenue as a percentage of total revenue was 42.0% for the year ended December 31, 2010 as compared to 41.5% for the same period in 2009. The increase as a percentage of total revenue was primarily due to an increase in non-cash amortization of acquired technology as a result of our 2009 and 2010 acquisitions.

**Operating Expenses**

	<b>2010</b>	<b>Year Ended December 31,</b>		
		<b>2009</b>	<b>Change</b>	<b>% Change</b>
		<b>(in thousands)</b>		
Product development	\$ 34,692	\$ 25,277	\$ 9,415	37.2%
Depreciation and amortization	2,230	2,169	61	2.8
Total product development expense	\$ 36,922	\$ 27,446	\$ 9,476	34.5

*Product development* Total product development expense increased \$9.5 million, or 34.5%, in 2010 compared to 2009. The increase in product development expense was primarily due to: a \$7.0 million increase in personnel expense primarily related to product development groups added as a result of our 2009 and 2010 acquisitions combined with the associated costs to support our growth initiatives; a \$1.4 million increase in stock-based compensation related to product development personnel; a \$0.6 million increase in third-party software maintenance expense; and \$0.5 million increase in other general product development expense.

	<b>2010</b>	<b>Year Ended December 31,</b>		
		<b>2009</b>	<b>Change</b>	<b>% Change</b>
		<b>(in thousands)</b>		
Sales and marketing	\$ 32,893	\$ 23,744	\$ 9,149	38.5%
Depreciation and amortization	4,800	4,060	740	18.2
Total sales and marketing expense	\$ 37,693	\$ 27,804	\$ 9,889	35.6

*Sales and marketing.* Total sales and marketing expense increased \$9.9 million, or 35.6%, in 2010 compared to 2009. The increase in sales and marketing expense was primarily due to: a \$4.0 million increase in personnel expense. We have increased our sales force head count from 95 at December 31, 2009 to 116 at December 31, 2010, which includes sales personnel added as a result of our 2010 acquisitions. Additional factors contributing to the increase in sales and marketing expense include a \$1.8 million increase in marketing program expense as part of our strategy to expand our

market share and further penetrate our existing customer base with sales of additional on demand solutions; a \$2.0 million increase in stock-based compensation related to sales and marketing personnel; a \$0.6 million increase in travel related expense; a \$0.6 million increase in non-cash amortization expense as a result of our 2009 and 2010 acquisitions; and a \$0.9 million increase in other general sales and marketing expense.

	<b>2010</b>	<b>Year Ended December 31,</b>		
		<b>2009</b>	<b>Change</b>	<b>% Change</b>
		<b>(in thousands)</b>		
General and administrative	\$ 26,767	\$ 18,923	\$ 7,844	41.5%
Depreciation and amortization	1,561	1,287	274	21.3
<b>Total general and administrative expense</b>	<b>\$ 28,328</b>	<b>\$ 20,210</b>	<b>\$ 8,118</b>	<b>40.2</b>

*General and administrative.* Total general and administrative expense increased \$8.1 million, or 40.2%, in 2010 compared to 2009. The increase in general and administrative expense was primarily due to: a \$4.3 million increase in personnel expense related to accounting, management information systems, legal, and human resources staff to support the growth in our business as well as provide the necessary organizational structure to support public company requirements; a \$0.9 million increase in facilities expense primarily as a result of our 2009 and 2010 acquisitions, a \$0.9 million increase in stock-based compensation related to general and administrative personnel; a \$0.6 million increase in professional fees; a \$0.3 million in depreciation expense; a \$0.3 million increase in insurance expense; and \$0.8 million increase in other general and administrative expense.

**Table of Contents****Interest Expense and Other, Net**

Interest expense, net, increased \$1.0 million, or 21.5%, in 2010 compared to 2009. The change in interest expense, net, was primarily due to: \$0.5 million of accelerated interest expense associated with the early extinguishment of notes issued to our preferred stockholders in payment of dividends payable during the third quarter of 2010; \$0.2 million of penalties incurred in connection with the early extinguishment of our secured subordinated promissory notes during the third quarter of 2010; and higher average debt balances related to the financing of our 2009 and 2010 acquisitions.

**Provision for Taxes**

As of December 31, 2010, we incurred tax expense of \$0.7 million resulting from net income in foreign jurisdictions; deferred income taxes at a federal level as a result of net operating loss utilization; and state taxes where it is considered an income tax for financial reporting purposes but is assessed on adjusted gross revenue rather than adjusted net income.

**Quarterly Results of Operations**

The following table presents our unaudited consolidated quarterly results of operations for the eight fiscal quarters ended December 31, 2011. This information is derived from our unaudited consolidated financial statements, and includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for fair statement of our financial position and operating results for the quarters presented. Operating results for these periods are not necessarily indicative of the operating results for a full year. Historical results are not necessarily indicative of the results to be expected in future periods. You should read this data together with our consolidated financial statements and the related notes to these financial statements included elsewhere in this filing.

	<b>Three Months Ended,</b>							
	<b>December 31, 2011</b>	<b>September 30, 2011</b>	<b>June 30, 2011</b>	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>September 30, 2010</b>	<b>June 30, 2010</b>	<b>March 31, 2010</b>
	<b>(in thousands)</b>							
Revenue:								
On demand	\$ 66,695	\$ 62,765	\$ 57,039	\$ 52,937	\$ 49,285	\$ 43,097	\$ 40,089	\$ 37,207
On premise	1,536	1,772	1,628	1,645	2,126	2,127	2,424	1,868
Professional and other	2,910	3,118	2,968	2,966	2,648	2,804	2,296	2,303
<b>Total revenue</b>	<b>71,141</b>	<b>67,655</b>	<b>61,635</b>	<b>57,548</b>	<b>54,059</b>	<b>48,028</b>	<b>44,809</b>	<b>41,378</b>
Cost of revenue(1)	27,639	27,585	25,810	24,683	22,449	20,203	18,534	17,858
Gross profit	43,502	40,070	35,825	32,865	31,610	27,825	26,275	23,520
Operating expense:								
Product development(1)	12,478	11,230	10,537	10,316	10,491	9,127	8,989	8,315
Sales and marketing(1)	18,931	17,688	14,510	12,794	11,900	9,428	8,825	7,540
General and administrative(1)	10,778	11,840	9,574	9,776	8,098	6,969	6,739	6,522
<b>Total operating expense</b>	<b>42,187</b>	<b>40,758</b>	<b>34,621</b>	<b>32,886</b>	<b>30,489</b>	<b>25,524</b>	<b>24,553</b>	<b>22,377</b>
Operating income (loss)	1,315	(688)	1,204	(21)	1,121	2,301	1,722	1,143
Interest expense and other, net	(669)	(684)	(732)	(1,166)	(752)	(1,822)	(1,463)	(1,464)
Net income (loss) before taxes	646	(1,372)	472	(1,187)	369	479	259	(321)

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Income tax expense (benefit)	405	(266)	190	(539)	555	187	95	(118)
Net income (loss)	\$ 241	\$ (1,106)	\$ 282	\$ (648)	\$ (186)	\$ 292	\$ 164	\$ (203)
Net income (loss) attributable to common stockholders								
Basic	241	(1,106)	282	(648)	(186)	(327)	(807)	(1,353)
Diluted	241	(1,106)	282	(648)	(186)	(327)	(807)	(1,353)
Net income (loss) per share attributable to common stockholders								
Basic	0.00	(0.02)	0.00	(0.01)	0.00	(0.01)	(0.03)	(0.05)
Diluted	0.00	(0.02)	0.00	(0.01)	0.00	(0.01)	(0.03)	(0.05)

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

	<b>Three Months Ended,</b>							
	<b>December 31, 2011</b>	<b>September 30, 2011</b>	<b>June 30, 2011</b>	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>September 30, 2010</b>	<b>June 30, 2010</b>	<b>March 31, 2010</b>
	(in thousands)							
Cost of revenue	\$ 586	\$ 459	\$ 312	\$ 298	\$ 226	\$ 140	\$ 144	\$ 123
Product development	1,251	1,258	1,105	980	904	627	530	507
Sales and marketing	3,224	3,433	2,627	2,733	1,952	201	176	164
General and administrative	1,327	1,258	925	842	513	391	442	300
Total stock-based compensation expense	\$ 6,388	\$ 6,408	\$ 4,969	\$ 4,853	\$ 3,595	\$ 1,359	\$ 1,292	\$ 1,094

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

	<b>Three Months Ended,</b>							
	<b>December 31, 2011</b>	<b>September 30, 2011</b>	<b>June 30, 2011</b>	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>September 30, 2010</b>	<b>June 30, 2010</b>	<b>March 31, 2010</b>
	(as a percentage of total revenue)							
Revenue:								
On demand	93.8%	92.8%	92.5%	92.0%	91.2%	89.7%	89.5%	89.9%
On premise	2.2	2.6	2.6	2.9	3.9	4.4	5.4	4.5
Professional and other	4.0	4.6	4.9	5.2	4.9	5.8	5.1	5.6
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cost of revenue:								
Software and services	38.9	40.8	41.9	42.9	41.5	42.1	41.4	43.2
Gross profit	61.1	59.2	58.1	57.1	58.5	57.9	58.6	56.8
Operating expense:								
Product development	17.5	16.6	17.1	17.9	19.4	19.0	20.1	20.1
Sales and marketing	26.6	26.1	23.5	22.2	22.0	19.6	19.7	18.2
General and administrative	15.2	17.5	15.5	17.0	15.0	14.5	15.0	15.8
Total operating expenses	59.3	60.2	56.1	57.1	56.4	53.1	54.8	54.1
Operating income (loss)	1.8	(1.0)	2.0	0.0	2.1	4.8	3.9	2.8
Interest expense and other, net	(0.9)	(1.0)	(1.2)	(2.0)	(1.4)	(3.8)	(3.3)	(3.5)
Net income (loss) before taxes	0.9	(2.0)	0.8	(2.1)	0.7	1.0	0.6	(0.8)
Income tax expense (benefit)	0.6	(0.4)	0.3	(0.9)	1.0	0.4	0.2	(0.3)
Net income (loss)	0.3	(1.6)	0.5	(1.1)	(0.3)	0.6	0.4	(0.5)

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

Our investor and analyst presentations include Adjusted EBITDA. We define this metric as net income (loss) plus depreciation and asset impairment; amortization of intangible assets; interest expense, net; income tax expense



(benefit); stock-based compensation expense and acquisition-related expense. In 2011, Adjusted EBITDA excludes litigation related expenses pertaining to the Yardi litigation as discussed in Part I, Item 3 Legal Proceedings. Beginning in the second quarter of 2011, Adjusted EBITDA includes acquisition-related deferred revenue adjustments. We believe that the use of Adjusted EBITDA is useful to investors and other users of our financial statements in evaluating our operating performance because it provides them with an additional tool to compare business performance across companies and across periods. We believe that:

Adjusted EBITDA provides investors and other users of our financial information consistency and comparability with our past financial performance, facilitates period-to-period comparisons of operations and facilitates comparisons with our peer companies, many of which use similar non-GAAP financial measures to supplement their GAAP results; and  
it is useful to exclude certain non-cash charges, such as depreciation and asset impairment, amortization of intangible assets and stock-based compensation and non-core operational charges, such as acquisition-related expense, from Adjusted EBITDA because the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations and these expenses can vary significantly between periods as a result of new acquisitions, full amortization of previously acquired tangible and intangible assets or the timing of new stock-based awards, as the case may be.

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

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

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The following table presents a reconciliation of net income (loss) to Adjusted EBITDA for the eight fiscal quarters ended December 31, 2011:

	<b>Three Months Ended,</b>							
	<b>December 31, 2011</b>	<b>September 30, 2011</b>	<b>June 30, 2011</b>	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>September 30, 2010</b>	<b>June 30, 2010</b>	<b>March 31, 2010</b>
	<b>(in thousands)</b>							
Net income (loss)	\$ 241	\$ (1,106)	\$ 282	\$ (648)	\$ (186)	\$ 292	\$ 164	\$ (203)
Acquisition-related deferred revenue adjustment	186	276	244					
Depreciation and asset impairment	2,969	2,696	2,750	3,124	2,714	2,606	2,595	2,456
Amortization of intangible assets	4,720	4,749	4,491	4,046	3,419	2,760	2,282	2,214
Interest expense, net	669	684	732	783	751	1,823	1,472	1,464
Income tax expense (benefit)	405	(266)	190	(539)	555	187	95	(118)
Litigation related expense	337	605	36	320				
Stock-based compensation expense	6,388	6,408	4,969	4,853	3,595	1,359	1,292	1,094
Acquisition-related expense	(334)	969	44	186	168	60	68	324
Adjusted EBITDA	\$ 15,581	\$ 15,015	\$ 13,738	\$ 12,125	\$ 11,016	\$ 9,087	\$ 7,968	\$ 7,231

**Liquidity and Capital Resources**

Prior to our initial public offering, we financed our operations primarily through private placements of convertible preferred stock and common stock, secured credit facilities with commercial lenders, a private placement of subordinated debt securities and cash provided by operating activities. On August 11, 2010, our registration statement on Form S-1 (File No. 333-166397) relating to our initial public offering was declared effective by the SEC. We sold 6,000,000 shares of common stock in our initial public offering. On December 3, 2010, our registration statement on Form S-1 (File No 333-170667) relating to a public stock offering was declared effective by the SEC. We sold an additional 4,000,000 shares of common stock in the offering. As of December 31, 2011, our 2010 stock offerings resulted in proceeds, net of transaction expenses, of \$155.2 million.

Our primary sources of liquidity as of December 31, 2011 consisted of \$51.3 million of cash and cash equivalents, \$99.7 million available under our revolving line of credit and \$16.4 million of current assets less current liabilities (excluding \$51.3 of cash and cash equivalents and \$57.3 million of deferred revenue).

Our principal uses of liquidity have been to fund our operations, working capital requirements, capital expenditures and acquisitions and to service our debt obligations. We expect that working capital requirements, capital expenditures and acquisitions will continue to be our principal needs for liquidity over the near term. In addition, we have made several acquisitions in which a portion of the cash purchase price is payable at various times through 2014. We expect to fund these obligations from cash provided by operating activities or, in some cases, the issuance of shares of our common stock at our election.

We believe that our existing cash and cash equivalents, working capital (excluding deferred revenue and cash and cash equivalents) and our cash flow from operations, will be sufficient to fund our operations and planned capital expenditures and service our debt obligations for at least the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the timing and size of acquisitions, the expansion of our sales and marketing activities, the timing and extent of spending to support product development efforts, the timing of introductions of new solutions and enhancements to existing solutions and the continuing market acceptance of our solutions. We may enter into acquisitions of complementary businesses, applications or technologies, in the future, which could require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us, or at all. As of December 31, 2011, we have Federal and State net operating loss carryforwards of \$163.5 million and \$5.3 million, respectively. These carryforwards may be available to offset potential payments of future federal and state income tax liabilities and which, if unused, expire at various dates through 2031 for both federal and state income tax purposes.

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

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Net cash provided by operating activities	\$ 49,226	\$ 27,690	\$ 24,758
Net cash used in investing activities	(109,228)	(84,119)	(24,676)
Net cash provided by financing activities	(6,694)	170,028	97
<b><i>Net Cash Provided by Operating Activities</i></b>			

In 2011, we generated \$49.2 million of net cash from operating activities representing an increase of \$21.5 million, or 77.8%, compared to 2010. Our net cash from operating activities consisted of our net loss of \$1.2 million and net non-cash charges of \$52.4 million partially offset by a \$2.0 million use of operating cash flow resulting from changes in working capital. Net non-cash charges to income primarily consisted of depreciation, amortization and stock-based compensation expense. The \$2.0 million use of operating cash flow resulting from the changes in working capital was primarily due to higher accounts receivable balances, general timing differences in other current assets, accounts payable and other current liabilities, offset by an increase in deferred revenue.

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In 2010, we generated \$27.7 million of net cash from operating activities representing an increase of \$2.9 million, or 11.8%, compared to 2009. Our net cash from operating activities consisted of our net income of \$0.1 million and net non-cash charges of \$28.1 million partially offset by a \$0.5 million use of operating cash flow resulting from changes in working capital. Net non-cash charges to income primarily consisted of depreciation, amortization and stock-based compensation expense. The \$0.5 million use of operating cash flow resulting from the changes in working capital was primarily due to higher accounts receivable balances, general timing differences in other current assets, accounts payable and other current liabilities, offset by an increase in deferred revenue.

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

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

In 2011, our investing activities used \$109.2 million. Investing activities consisted of acquisition consideration of \$89.2 million, net of cash acquired, for our 2011 acquisitions, acquisition-related payments of \$2.0 million for commitments related to prior years' acquisitions and \$18.0 million of capital expenditures and intangible asset purchases. The increase in cash used in investing activities from 2010 relates to the consideration paid net of cash acquired for our 2011 acquisitions combined with an increase in capital spending.

In 2010, our investing activities used \$84.1 million. Investing activities consisted of acquisition consideration of \$70.4 million net of cash acquired for our 2010 acquisitions, acquisition-related payments of \$1.5 million for commitments related to prior years' acquisitions and \$12.2 million of capital expenditures. The increase in cash used in investing activities from 2009 relates to the consideration paid net of cash acquired for our 2010 acquisitions combined with an increase in capital spending.

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

Capital expenditures as of December 31, 2011, 2010 and 2009 were primarily related to investments in technology infrastructure to support our growth initiatives.

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

Our financing activities used \$6.7 million in 2011, representing a decrease of \$176.7 million, as compared to the same period of 2010. Cash used by financing activities during 2011 was primarily related to payments on our term loan of \$8.1 million, payments on our revolving credit facility of \$8.0 million, capital lease payments of \$0.5 million, \$0.8 million of follow on offering costs and \$0.2 million of excess tax benefit related to stock options. These increases were offset by \$10.5 million in proceeds from the issuance of common stock.

Our financing activities provided \$170.0 million in 2010, representing an increase of \$169.9 million, as compared to the same period of 2009. Cash provided by financing activities during 2010 was used to support our operations, as a funding source for acquisitions and for capital expenditures related to the expansion of our technology infrastructure. Cash provided by financing activities in 2010 was primarily related to net proceeds from our initial public offering on August 11, 2010, a subsequent public stock offering on December 10, 2010 and \$40.0 million of proceeds as a result of borrowing from our credit facility. Related to our August 11, 2010 initial public offering, we sold 6,000,000 shares of common stock resulting in proceeds, net of transaction expenses, of \$57.5 million. Related to our December 3, 2010 public stock offering, we sold an additional 4,000,000 shares of common stock in the offering resulting in net proceeds, net of transaction expenses, of \$98.4 million. Cash proceeds were partially offset by payments to extinguish our secured subordinated promissory notes and our preferred stockholder notes payable of \$10.0 million and

\$6.5 million, respectively, in the third quarter of 2010, combined with aggregate principal payments of \$11.3 million for scheduled term debt maturities, capital lease obligations and preferred stockholder notes payable. Additionally, during 2010, we paid \$0.7 million of preferred stock dividends that had accrued on our convertible preferred stock, which were offset by \$2.4 million in proceeds from the issuance of common stock.

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

Cash provided by financing activities during 2011 was used to support our operations until we achieved positive operating cash flow, as a funding source for acquisitions and for capital expenditures related to the expansion of our technology infrastructure.

**Contractual Obligations, Commitments and Contingencies**

The following table summarizes, as of December 31, 2011, our minimum payments for long-term debt and other obligations for the next five years and thereafter:

	Total	Payments Due by Period			More Than 5 years
		Less Than 1 year	1-3 years (in thousands)	3-5 years	
Secured revolving credit facility	\$ 50,312	\$	\$	\$ 50,312	\$
Interest payments on long-term debt obligations(1)	6,080	1,520	3,040	1,520	
Capital (finance) leases	65	65			
Operating lease obligations	27,913	6,593	11,678	9,642	
Acquisition-related liabilities(2)	14,311	12,728	1,583		
	\$ 98,681	\$ 20,906	\$ 16,301	\$ 61,474	\$

(1) The amount of interest payments on long-term debt obligations represents current obligations using rates in effect as of December 31, 2011.

(2) We have made several acquisitions in which a portion of the cash purchase price is payable at various times through 2014.

**Long-Term Debt Obligations**

In September 2009, we entered into a credit facility which provided for a \$35.0 million term loan and a \$10.0 million revolving line of credit. A portion of the proceeds from the credit facility was used to repay the balance outstanding under our prior credit facility. The term loan and revolving line of credit were collateralized by substantially all our personal property. Prior to the June 2010 amendment discussed below, the term loan and revolving line of credit bore interest at rates of the greater of 7.5%, a stated rate of 5.0% plus LIBOR (or, if greater, 2.5%), or a stated rate of 5.0% plus the bank's prime rate (or, if greater, 3.5%, the federal funds rate plus 0.5% or three month LIBOR plus 1.0%).

In February 2010, we entered into an amendment to the credit facility. Under the terms of the amendment, the original term loan was increased by an additional \$10.0 million. The proceeds from the amendment were primarily used to finance the February 2010 acquisition of certain assets of Domin-8 Enterprise Solutions, Inc. The related interest rates and maturity periods remained consistent with the terms of the credit facility. Until the June 2010 amendment discussed below, we made principal payments on the term loan in quarterly installments of approximately \$1.8 million.

In June 2010, we entered into a subsequent amendment to the credit facility. Under the terms of the June 2010 amendment, an additional \$30.0 million in term loans was made available for borrowing until December 22, 2011. After the June 2010 amendment and prior to the February 2011 amendment discussed below, the term loan and revolving line of credit bore interest at a stated rate of 3.5% plus LIBOR, or a stated rate of 0.75% plus Wells Fargo's prime rate (or, if greater, the federal funds rate plus 0.5% or three month LIBOR plus 1.0%). After the June 2010

amendment and prior to the February 2011 amendment discussed below, interest on the term loans and the revolver was payable monthly, or for LIBOR loans, at the end of the applicable 1-, 2-, or 3-month interest period. Under the terms of the June 2010 amendment and prior to the December 2011 amendment and restatement discussed below, principal payments on the term loan were paid in quarterly installments equal to 3.75% of the principal amount of term loans.

In September 2010, we entered into an amendment to the credit facility. Under the terms of the September 2010 amendment, the definition of *fixed charges* under the credit facility was amended to specifically exclude the cash dividend and debt repayments made with the proceeds of our initial public offering.

In November 2010, we entered into an additional amendment to the credit facility and obtained consent to the Level One acquisition. Under the terms of the November 2010 amendment, we increased the maximum allowable *senior leverage ratio* under the credit facility and amended the definition of *permitted indebtedness* in the credit facility to permit amounts payable in the future pursuant to the Level One acquisition. In addition, we borrowed \$30.0 million on our delayed draw term loans to facilitate the acquisition.

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In February 2011, we entered into a subsequent amendment to the Credit Agreement. Under the terms of the February 2011 amendment, our revolving line of credit was increased from \$10.0 million to \$37.0 million. In addition, the interest rates on the term loan and revolving line of credit were amended to provide for a rate that was dependent on our senior leverage ratio and ranged from a stated rate of 2.75% to 3.25% plus LIBOR or, at our option, a stated rate of 0.0% to 0.5% plus Wells Fargo's prime rate (or, if greater, the federal funds rate plus 0.5% or three month LIBOR plus 1.0%). Prior to the December 2011 amendment and restatement discussed below, principal payments on the term loan and outstanding revolver balance remain consistent with the June 2010 amendment.

In December 2011, we entered into an Amended and Restated Credit Agreement ( Restated Agreement ) to amend the original credit facility. The Restated Agreement provides for a secured revolving credit facility in an aggregate principal amount of up to \$150.0 million, subject to a borrowing formula, with a sublimit of \$10.0 million for the issuance of letters of credit on our behalf. The Restated Agreement converted our outstanding term loan under the original credit facility into revolving loans. As of December 31, 2011, \$50.3 million was outstanding under our revolving line of credit and \$10.0 million was available for the issuance of letters of credit. Revolving loans accrue interest at a per annum rate equal to, at the Company's option, either LIBOR or Wells Fargo's prime rate (or, if greater, the federal funds rate plus 0.50% or three month LIBOR plus 1.00%), in each case plus a margin ranging from 2.50% to 3.00%, in the case of LIBOR loans, and 0.00% to 0.25% in the case of prime rate loans, based upon the Company's senior leverage ratio. The interest is due and payable monthly, in arrears, for loans bearing interest at the prime rate and at the end of the applicable 1-, 2-, or 3-month interest period in the case of loans bearing interest as the adjusted LIBOR rate. Principal, together with all accrued and unpaid interest, is due and payable on December 30, 2015. Advances under the credit facility may be voluntarily prepaid, and must be prepaid with the proceeds of certain dispositions, extraordinary receipts and indebtedness and in full upon a change in control.

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

Our credit facility contains customary covenants which limit our and certain of our subsidiaries' ability to, among other things, incur additional indebtedness or guarantee indebtedness of others; create liens on our assets; enter into mergers or consolidations; dispose of assets; prepay indebtedness or make changes to our governing documents and certain of our agreements; pay dividends and make other distributions on our capital stock, and redeem and repurchase our capital stock; make investments, including acquisitions; enter into transactions with affiliates; and make capital expenditures. Our credit facility additionally contains customary affirmative covenants, including requirements to, among other things, take certain actions in the event we form or acquire new subsidiaries; hold annual meetings with our lenders; provide copies of material contracts and amendments to our lenders; locate our collateral only at specified locations; and use commercially reasonable efforts to ensure that certain material contracts permits the assignment of the contract to our lenders; subject in each case to customary exceptions and qualifications. We are also required to comply with a fixed charge coverage ratio, which is a ratio of our EBITDA to our fixed charges as determined in accordance with the credit facility, of 1.25:1.00 for each 12-month period ending at the end of a fiscal quarter, and a senior leverage ratio, which is a ratio of the outstanding revolver usage to our EBITDA as determined in accordance with the credit facility, of 2.75:1.00 on the last day of each fiscal quarter.

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

**Off-Balance Sheet Arrangements**



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

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**Recent Accounting Pronouncements**

***Goodwill***

In September 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2011-08, Intangibles Goodwill and Other (Topic 350) Testing Goodwill for Impairment, to allow entities to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. We adopted this accounting standard in the fourth quarter 2011.

***Comprehensive Income***

In June 2011, the FASB issued ASU 2011-05 Comprehensive Income (Topic 220) Presentation of Comprehensive Income ( ASU 2011-05 ) effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 with early adoption permitted. This accounting standard provides new disclosure guidance related to the presentation of the Statement of Comprehensive Income. This guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. We adopted this accounting standard in the fourth quarter 2011. This adoption does not have any impact on our financial position or results of operations.

***Business Combinations***

In December 2010, the FASB issued ASU 2010-29 Business Combinations (Topic 805) Disclosure of Supplementary Pro Forma Information for Business Combinations ( ASU 2010-29 ) effective prospectively for material (either on an individual or aggregate basis) business combinations entered into in fiscal years beginning on or after December 15, 2010. This accounting standard update clarifies SEC registrants presenting comparative financial statements should disclose in their pro forma information revenue and earnings of the combined entity as though the current period business combinations had occurred as of the beginning of the comparable prior annual reporting period only. The update also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. These requirements changed our annual pro forma disclosures for acquisitions which have historically included the impact on all comparable periods. ASU 2010-29 also changes our annual and quarterly pro forma disclosures to include a description and the related amount of material adjustments made to pro forma results as seen in Note 3 of the Notes to the Consolidated Financial Statements herein.

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**Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

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

We had cash and cash equivalents of \$51.3 million and \$118.0 million at December 31, 2011 and 2010, respectively.

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

We had total outstanding debt of \$50.3 million and \$66.0 at December 31, 2011 and 2010, respectively. The interest rate on this debt is variable and adjusts periodically based on the three-month LIBOR rate. If the LIBOR rate changes by 1%, our annual interest expense would change by approximately \$0.5 million.

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**Item 8. Financial Statements and Supplementary Data**

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of  
RealPage, Inc.

We have audited the accompanying consolidated balance sheets of RealPage, Inc. (the Company ) as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive (loss) income, redeemable convertible preferred stock and stockholders' (deficit) equity and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the index under Item 15(c). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedule are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of RealPage, Inc. at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011 in conformity with United States generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth within.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Dallas, Texas

February 24, 2012

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

RealPage, Inc.

We have audited RealPage, Inc.'s (the Company) internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based upon the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Report by management on internal control over financial reporting, management's assessment of, and conclusion on, the effectiveness of internal control over financial reporting did not include the internal controls of SeniorLiving.net and Multifamily Technology Solutions, Inc., which are included in the December 31, 2011 consolidated financial statements of the Company and collectively constituted approximately 29 percent and 4 percent of total assets and revenues, respectively, as of December 31, 2011. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Senior-Living.com, Inc. and Multifamily Technology Solutions, Inc.

In our opinion, RealPage, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2011 of the Company and our report dated February 24, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Dallas, Texas

February 24, 2012



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**RealPage, Inc.**  
**Consolidated Balance Sheets**  
(in thousands, except share amounts)

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 51,273	\$ 118,010
Restricted cash	19,098	15,346
Accounts receivable, less allowance for doubtful accounts of \$979 and \$1,370 at December 31, 2011 and 2010, respectively	43,883	29,577
Deferred tax asset, net of valuation allowance	272	1,529
Other current assets	10,232	6,060
Total current assets	124,758	170,522
Property, equipment, and software, net	27,974	24,515
Goodwill	129,292	73,885
Identified intangible assets, net	112,308	54,361
Deferred tax asset, net of valuation allowance	2,539	17,322
Other assets	3,194	2,187
Total assets	\$ 400,065	\$ 342,792
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable	\$ 12,218	\$ 4,787
Accrued expenses and other current liabilities	25,816	15,436
Current portion of deferred revenue	57,325	47,717
Current portion of long-term debt		10,781
Customer deposits held in restricted accounts	19,017	15,253
Total current liabilities	114,376	93,974
Deferred revenue	8,693	7,947
Revolving credit facility	50,312	
Long-term debt, less current portion		55,258
Other long-term liabilities	3,803	13,029
Total liabilities	177,184	170,208
Commitments and contingencies (Note 8)		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized and zero shares issued and outstanding at December 31, 2011 and 2010, respectively		
Stockholders equity:		
Common stock, \$0.001 par value: 125,000,000 shares authorized, 73,115,779 and 68,703,366 shares issued and 72,701,571 and 68,490,277 shares outstanding at December 31, 2011 and 2010, respectively	73	69
Additional paid-in capital	316,964	263,219
Treasury stock, at cost: 414,208 and 213,089 shares at December 31, 2011 and 2010, respectively	(3,138)	(958)



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Accumulated deficit	(90,961)	(89,730)
Accumulated other comprehensive loss	(57)	(16)
Total stockholders' equity	222,881	172,584
Total liabilities and stockholders' equity	\$ 400,065	\$ 342,792

See accompanying notes

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**RealPage, Inc.**  
**Consolidated Statements of Operations**  
(in thousands, except per share amounts)

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Revenue:</b>			
On demand	\$ 239,436	\$ 169,678	\$ 128,377
On premise	6,581	8,545	3,860
Professional and other	11,962	10,051	8,665
Total revenue	257,979	188,274	140,902
Cost of revenue(1)	105,717	79,044	58,513
<b>Gross profit</b>	152,262	109,230	82,389
<b>Operating expense:</b>			
Product development(1)	44,561	36,922	27,446
Sales and marketing(1)	63,923	37,693	27,804
General and administrative(1)	41,968	28,328	20,210
Total operating expense	150,452	102,943	75,460
<b>Operating income</b>	1,810	6,287	6,929
Interest expense and other, net	(3,251)	(5,501)	(4,528)
<b>(Loss) income before income taxes</b>	(1,441)	786	2,401