REALPAGE INC
Form 10-Q
May 10, 2018

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-34846

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

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

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

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

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

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

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

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

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

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

Class	April 20, 2018
Common Stock, $0.001 par value	85,075,874

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

	March 31, 2018 (unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$101,646	$69,343
Restricted cash	112,478	96,002
Accounts receivable, less allowance for doubtful accounts of $7,821 and $3,951 at March 31, 2018 and December 31, 2017, respectively	101,005	124,505
Prepaid expenses	15,400	12,107
Other current assets	9,838	6,622
Total current assets	340,367	308,579
Property, equipment, and software, net	145,522	148,428
Goodwill	751,017	751,052
Identified intangible assets, net	238,704	252,337
Deferred tax assets, net	45,205	44,887
Other assets	19,533	11,010
Total assets	$1,540,348	$1,516,293
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$29,020	$26,733
Accrued expenses and other current liabilities	76,284	79,379
Current portion of deferred revenue	109,965	116,622
Current portion of term loans	16,133	14,116
Customer deposits held in restricted accounts	112,334	96,057
Total current liabilities	343,736	332,907
Deferred revenue	5,457	5,538
Revolving facility	50,000	50,000
Term loans, net	299,343	303,261
Convertible notes, net	284,046	281,199
Other long-term liabilities	35,739	41,513
Total liabilities	1,018,321	1,014,418
Commitments and contingencies (Note 9)		
Stockholders’ equity:		
Preferred stock, $0.001 par value: 10,000,000 shares authorized and zero shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	—	—
Common stock, $0.001 par value: 125,000,000 shares authorized, 87,160,085 and 87,153,085 shares issued and 84,507,545 and 83,180,401 shares outstanding at March 31, 2018 and December 31, 2017, respectively	87	87
Additional paid-in capital	651,996	637,851
Treasury stock, at cost: 2,652,540 and 3,972,684 shares at March 31, 2018 and December 31, 2017, respectively	(68,407)	(61,260)
Accumulated deficit	(61,924)	(75,046)
Accumulated other comprehensive income	275	243

Total stockholders’ equity	522,027	501,875
Total liabilities and stockholders’ equity	$1,540,348	$1,516,293

See accompanying notes.

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

	Three Months Ended March 31, 2018	2017
Revenue:		
On demand	$193,300	$146,213
Professional and other	8,001	6,706
Total revenue	201,301	152,919
Cost of revenue	76,660	63,042
Gross profit	124,641	89,877
Operating expenses:		
Product development	29,040	20,387
Sales and marketing	50,241	35,147
General and administrative	27,090	24,251
Total operating expenses	106,371	79,785
Operating income	18,270	10,092
Interest expense and other, net	(7,670)	(1,086)
Income before income taxes	10,600	9,006
Income tax (benefit) expense	(301)	811
Net income	$10,901	$8,195
Net income per share attributable to common stockholders:		
Basic	$0.13	$0.10
Diluted	$0.13	$0.10
Weighted average shares used in computing net income per share attributable to common stockholders:		
Basic	81,166	78,263
Diluted	84,817	81,386

See accompanying notes.

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

	Three Months Ended March 31,	
	2018	2017
Net income	$10,901	$8,195
Gain on interest rate swaps, net	159	106
Foreign currency translation adjustment	(127)	(50)
Comprehensive income	$10,933	$8,251

See accompanying notes.

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

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Shares		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance as of December 31, 2017	87,153	$ 87	$ 637,851	$ 243	$ (75,046)	(3,973)	$ (61,260)	$ 501,875
Cumulative effect of adoption of ASU 2014-09	—	—	—	—	2,221	—	—	2,221
Issuance of common stock	7	—	5,038	—	—	241	—	5,038
Issuance of restricted stock	—	—	(1,303)	—	—	1,336	1,303	—
Treasury stock purchases, at cost	—	—	—	—	—	(257)	(8,450)	(8,450)
Stock-based expense	—	—	10,410	—	—	—	—	10,410
Interest rate swap agreements	—	—	—	258	—	—	—	258
Foreign currency translation	—	—	—	(127)	—	—	—	(127)
Reclassification of realized gain on cash flow hedge to earnings, net of tax	—	—	—	(99)	—	—	—	(99)
Net income	—	—	—	—	10,901	—	—	10,901
Balance as of March 31, 2018	87,160	$ 87	$ 651,996	$ 275	$ (61,924)	(2,653)	$ (68,407)	$ 522,027

See accompanying notes.

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

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	$10,901	$8,195
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,260	14,440
Amortization of debt discount and issuance costs	3,012	89
Deferred taxes	(1,154)	243
Stock-based expense	10,318	10,092
Loss on disposal and impairment of other long-lived assets	942	24
Acquisition-related consideration	402	121
Changes in assets and liabilities, net of assets acquired and liabilities assumed in business combinations:		
Accounts receivable	15,648	5,987
Prepaid expenses and other current assets	(3,738)	(845)
Other assets	(1,015)	(655)
Accounts payable	6,943	1,084
Accrued compensation, taxes, and benefits	(7,391)	(5,556)
Deferred revenue	(3,031)	1,810
Customer deposits	16,277	12,723
Other current and long-term liabilities	(603)	(769)
Net cash provided by operating activities	70,771	46,983
Cash flows from investing activities:		
Purchases of property, equipment, and software	(12,660)	(9,925)
Acquisition of businesses, net of cash acquired	—	(66,103)
Purchase of other investment	(1,800)	—
Net cash used in investing activities	(14,460)	(76,028)
Cash flows from financing activities:		
Payments on term loans	(2,016)	—
Deferred financing costs	(1,087)	(1,288)
Payments on capital lease obligations	(114)	(101)
Payments of acquisition-related consideration	(776)	(6,461)
Issuance of common stock	5,038	7,927
Purchase of treasury stock related to stock-based compensation	(8,450)	(3,576)
Net cash used in financing activities	(7,405)	(3,499)
Net increase (decrease) in cash, cash equivalents and restricted cash	48,906	(32,544)
Effect of exchange rate on cash	(127)	(50)
Cash, cash equivalents and restricted cash:		
Beginning of period	165,345	188,540
End of period	$214,124	$155,946

See accompanying notes.

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

	Three Months Ended March 31,	
	2018	2017
Supplemental cash flow information:		
Cash paid for interest	$2,886	$789
Cash (received) paid for income taxes, net	$(71)	$325
Non-cash investing activities:		
Accrued property, equipment, and software	$675	$9,941

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Condensed Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Condensed Consolidated Statements of Cash Flows:

	Three Months Ended March 31,	
	2018	2017
Cash and cash equivalents	$101,646	$59,516
Restricted cash	112,478	96,430
Total cash, cash equivalents and restricted cash shown in the Condensed Consolidated Statements of Cash flows	$214,124	$155,946

See accompanying notes.

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

1. The Company

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

During May 2018, the Company learned it was the subject of a targeted email phishing campaign that led to a business email compromise, pursuant to which an unauthorized party gained access to an external third party system used by a subsidiary that was acquired by the Company in 2017. The incident resulted in the diversion of approximately $8 million of funds intended for disbursement to three clients. RealPage immediately notified relevant financial institutions and certain government agencies of the incident and restored all funds to the client accounts. No client consumer data was compromised.

The Company immediately engaged a leading forensics firm to investigate the incident. The intrusion was limited to the external third party system used by its subsidiary that the Company was migrating to the core Company platform. Although the investigation is ongoing, there is no evidence at this time that this event involved access to any other Company systems, including operational, security or proprietary risk management systems, whether corporate or client-facing. The Company has taken action to remediate the security weakness that gave rise to the incident. While certain remedial actions have been completed, the Company continues to actively plan for and implement additional control procedures.

This incident did not have an impact on the business, cash flows, financial condition or results of operations of the Company for the three months ended March 31, 2018. The Company maintains insurance coverage to limit its losses related to criminal and network security events. During the three months ended June 30, 2018, the Company expects to take a charge related to the diverted funds and other associated expenses offset by a receivable for amounts deemed probable of recovery from applicable insurance coverage. Presently, the Company believes that such net charge will not be material to its 2018 financial results.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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

These financial statements should be read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K filed with the SEC on March 1, 2018 ("Form 10-K").

Segment and Geographic Information

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

Principally, all of our revenue for the three months ended March 31, 2018 and 2017 was earned in the United States. Net property, equipment, and software located in the United States amounted to $136.9 million and $140.0 million at March 31, 2018 and December 31, 2017, respectively. Net property, equipment, and software located in our international subsidiaries amounted to $8.6 million and $8.4 million at March 31, 2018 and December 31, 2017, respectively. Substantially all of the net property, equipment, and software held in our international subsidiaries was located in the Philippines, Spain, and India at both March 31, 2018 and December 31, 2017.

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Concentrations of Credit Risk

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

Concentrations of credit risk with respect to accounts receivable result from substantially all of our clients being in the residential rental housing market. Our clients, however, are dispersed across different geographic areas. We do not require collateral from clients. We maintain an allowance for doubtful accounts for credits we offer our clients in certain instances and to reflect our best estimate of the amount of consideration we will ultimately receive based on relevant factors such as our historical experience, current contractual requirements, potential client buying patterns, age of the outstanding balance, and our clients' ability to pay.

No single client accounted for 10% or more of our revenue or accounts receivable for the three months ended March 31, 2018 or 2017.

Accounting Policies and Use of Estimates

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

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity date, when purchased, of three months or less to be cash equivalents.

Restricted Cash

Restricted cash consists of cash collected from tenants that will be remitted primarily to our clients.

Business Combinations

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

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

The total purchase consideration is allocated to the assets acquired and liabilities assumed based on their estimated fair values. Any excess consideration is classified as goodwill. Acquired intangibles are recorded at their estimated fair value based on the income approach using market-based estimates. Acquired intangibles generally include developed product technologies, which are amortized over their useful life on a straight-line basis, and client relationships, which are amortized over their useful

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life proportionately to the expected discounted cash flows derived from the asset. When trade names acquired are not classified as indefinite-lived, they are amortized on a straight-line basis over their expected useful life.

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

Derivative Financial Instruments

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

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

Accounts Receivable

Accounts receivable primarily represent trade receivables from clients that are recorded at the invoice amount, net of an allowance for doubtful accounts and credits. For certain transactions, we have met the requirements to recognize revenue in advance of invoicing the client. In these instances, we record unbilled receivables for the amount that will be due from the client upon invoicing.

We maintain an allowance for doubtful accounts for credits we offer our clients in certain instances and to reflect the Company's best estimate of the amount of consideration to which it is entitled and that it will ultimately receive. In evaluating the sufficiency of the allowance for doubtful accounts, we consider relevant factors such as the Company's historical experience, current contractual requirements, potential client buying patterns, age of the outstanding balance, and our clients' ability to pay. 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. A portion of our allowance is for services not yet rendered and is therefore classified as an offset to deferred revenue.

Accounts receivable are written off upon determination of non-collectability following established Company policies. During the three months ended March 31, 2018 and 2017, we incurred bad debt expense of $0.6 million and $0.4 million, respectively.

Accounts receivable includes commissions due to the Company related to the sale of insurance products to individuals and commissions which are contingent based upon the activity in the underlying policies. Contingent commissions receivables are recorded at their estimated net realizable value, based on estimates and considerations which include, but are not limited to, the historical and projected loss rates incurred by the underlying policies.

Deferred Revenue

Deferred revenue primarily consists of billings issued or payments received for service obligations we have not yet completed. For several of our solutions, we invoice our clients in annual, monthly, or quarterly installments in advance of the commencement of the service period. Accordingly, the deferred revenue balance does not represent the total contract value of annual or multi-year, non-cancellable subscription agreements. Deferred revenue that will be recognized during the succeeding twelve-month period is recorded as current deferred revenue and the remaining portion is recorded as noncurrent.

Revenue Recognition

We derive our revenue from two primary sources: (1) on demand software solutions and (2) professional services and other goods and services. We recognize revenue as we satisfy one or more service obligations under the terms of a contract, generally as control of goods and services are transferred to our clients. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. We include estimates of variable consideration in revenue to the extent that it is probable that a significant reversal of cumulative revenue will not occur once the uncertainty is resolved.

We determine revenue recognition through the following steps:

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- identification of the contract, or contracts, with a client;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, we satisfy a performance obligation.

On Demand Revenue

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

We generally recognize revenue from subscription fees on a straight-line basis over the access period beginning on the date that we make our service available to the client. Our subscription agreements generally are non-cancellable, have an initial term of one year or longer and are billed either monthly or annually in advance. Recognition on subscription fees starts and is recorded when, or as, service obligations are satisfied. Non-refundable upfront fees billed at the initial order date that are not associated with an upfront service obligation are recognized as revenue on a straight-line basis over the period over which the client is expected to benefit, which we consider to be three years.

We recognize revenue from transaction fees in the month the related services are performed based on the amount we have a right to invoice.

As part of our resident services offerings, we offer risk mitigation services to our clients by acting as an insurance agent and derive commission revenue from the sale of insurance products to our clients' residents. The commissions are based upon a percentage of the premium that our insurance company underwriting partners charge to the policyholder and are subject to forfeiture in instances where a policyholder cancels prior to the end of the policy. Our contracts with our underwriting partners also provide for contingent commissions to be paid to us in accordance with the agreements. Such commissions are variable in nature and based on a calculation that considers, on the policies sold by us, earned premiums less i) earned agent commissions; ii) a percent of premium retained by our underwriting partner; iii) incurred losses; and iv) profit retained by our underwriting partner during the time period. Our estimate of contingent commission revenue considers historical loss experience on the policies sold by us. If the policy is cancelled, our commissions are forfeited as a percent of the unearned premium. As a result, we recognize commissions related to these services as earned ratably over the policy term.

Professional and Other Revenue

Professional services and other revenues generally consists of the fees we receive for providing implementation and consulting services, submeter equipment and ongoing maintenance of our existing on premise licenses.

Professional services are billed either on a fixed rate per hour (time) and materials basis or on a fixed price basis, and revenue is recognized over time as we perform the obligation. Professional services are typically sold bundled in a contract with other on demand solutions but may be sold separately. Professional service contracts sold separately generally have terms of one year or less. For bundled arrangements, where the Company accounts for individual services as a separate performance obligation, the transaction price is allocated between separate services in the bundle based on their relative standalone selling prices.

Other revenues consist primarily of submeter equipment sales that include related installation services. Such sales are considered bundled, and revenue from these bundled sales is recognized in proportion to the number of fully installed units completed to date as compared to the total contracted number of units to be provided and installed. For all other equipment sales, we generally recognize revenue when control of the hardware has transferred to our client. Revenue recognized for on premise software sales generally consists of annual maintenance renewals on existing term or perpetual licenses, which is recognized ratably over the service period.

Contracts with Multiple Performance Obligations

The majority of the contracts we enter into with clients, including multiple contracts entered into at or near the same time with the same client, require us to provide one or more on demand software solutions, professional services and/or equipment. For these contracts, we account for individual performance obligations separately i) if they are distinct or ii) if the promised obligations represent a series of distinct services that are substantially the same and have the same pattern of transfer to the client. Once we determine the performance obligations, we determine the transaction price, which includes estimating the amount of variable consideration, if any, to be included in the transaction price. If the contract contains a single performance obligation, we allocate the entire transaction price to the single performance obligation. For contracts with multiple performance obligations, we allocate the transaction price to the separate performance obligations on a relative standalone selling price basis. The standalone selling prices of our services are typically estimated using a market assessment approach

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based on our overall pricing objectives taking into consideration market conditions and other factors including the number of solutions sold, client demographics, and the number and types of users within our contracts.

Sales, value add, and other taxes we collect from clients and remit to governmental authorities are excluded from revenues.

Reserves for Variable Consideration

We recognize revenues from on demand and professional service sales at the net sales price (transaction price), which includes estimates of reserves we establish for credits we offer our clients in certain instances. These reserves are based on the amounts expected to be credited on the related sales and are classified as reductions of revenue and the related accounts receivable. Where appropriate, these estimates take into consideration relevant factors such as the Company's historical experience, current contractual requirements, specific known market events and trends, and forecasted buying and payment patterns. These reserves reduce revenue to an amount that reflects the Company's best estimates of the amount of consideration to which it is entitled and that it will ultimately receive based on the terms of the contract. The amount of variable consideration which is included in the transaction price may be constrained, and is included in the net sales price only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in a future period. Actual amounts of consideration ultimately received may differ from the Company's estimates. If actual results in the future vary from the Company's estimates, the Company will adjust these estimates, which will affect net revenue and earnings in the period such variances become known.

Deferred Commissions

Sales commissions, including sales-based incentive payments, earned by our direct sales force are considered incremental and recoverable costs of obtaining a contract with a client. These costs are deferred in "Other current assets" and "Other assets" and amortized into "Sales and marketing expense" on a straight line basis over a period of benefit that we have determined to be three years. We determined the period of benefit by taking into consideration our client contracts, our technology, historical pricing practices and other factors. We periodically review these capitalized costs for impairment.

Fair Value Measurements

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

Legal Contingencies

We review the status of each legal matter and record a provision for a liability when we consider that it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We review these provisions quarterly and make adjustments where needed as additional information becomes available. If either or both of the criteria are not met, we assess whether there is at least a reasonable possibility that a loss, or additional losses beyond those already accrued, may be incurred. If there is a reasonable possibility that a material loss (or additional material loss in excess of any accrual) may be incurred, we disclose an estimate of the amount of loss or range of losses, either individually or in the aggregate, as appropriate, if such an estimate can be made, or disclose that an estimate of loss cannot be made.

Recently Adopted Accounting Standards

Accounting Standards Update 2014-09

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09, as amended by certain supplementary ASU's released in 2016, replaces all current GAAP guidance on this topic and eliminates all industry-specific guidance. The new revenue recognition standard requires the recognition of revenue when promised goods or services are transferred to clients in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also includes Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers, which requires the deferral of incremental costs of obtaining a contract with a client. Collectively, we refer to Topic 606 and Subtopic 340-40 as the "new revenue standard" or "ASC 606."

We adopted the requirements of the new revenue standard on January 1, 2018 using the modified retrospective method. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings at the beginning of 2018. Comparative information from prior year periods has not been restated and continues to be reported under the accounting standards in effect for those periods. The cumulative effects of the changes made to our condensed consolidated January 1, 2018 balance sheet for the adoption of the new revenue standard were as follows:

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	Balance at December 31, 2017	Adjustments due to ASU 2014-09	Balance at January 1, 2018
	(in thousands)		
Assets			
Accounts receivable, less allowance for doubtful accounts	$124,505	$ (7,925)	$116,580
Other current assets	6,622	2,771	9,393
Deferred tax assets, net	44,887	(780)	44,107
Other assets	11,010	4,459	15,469
Liabilities			
Current portion of deferred revenue	116,622	(3,696)	112,926
Stockholders' Equity			
Accumulated deficit	(75,046)	2,221	(72,825)

Adoption of the new revenue standard resulted in changes to our accounting policies for revenue recognition, certain variable considerations, and commissions expense. The adoption of the new revenue standard did not have a significant effect on our revenue; however, it did have an impact on the timing of when we expense commission costs incurred to obtain a contract and the reserves we establish for variable consideration from credits or other pricing accommodations we provide our clients. We expect the effect of the new revenue standard to be immaterial to our revenue on an ongoing basis. The primary effect to our net income on an ongoing basis relates to the reserve for credit accommodations and deferral of incremental commission costs incurred to obtain new contracts. Under the new revenue standard, we accrue for credit accommodations in our reserve during the month of billing and credits reduce this reserve when issued. Further, we now initially defer commission costs and amortize these costs to expense over a period of benefit that we have determined to be three years.

See Note 4 for additional required disclosures related to the impact of adopting the new revenue standard and our accounting for costs to obtain a contract.

Accounting Standards Update 2016-18

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows - Restricted Cash, which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. This ASU must be adopted retrospectively.

We adopted ASU 2016-18 effective January 1, 2018. As a result of our adoption, changes in customer deposits held in restricted accounts will result in an increase or reduction in our cash flows from operating activities. Under previous rules, such changes were largely offset by the corresponding change in restricted cash and had a minimal impact on our statement of cash flows. The prior period financial statements included in this filing have been adjusted to reflect the adoption of ASU 2016-18. The effects of those adjustments to the Condensed Consolidated Statements of Cash Flows have been summarized in the table below:

	Originally Reported	Effect of Change	As Adjusted
	(in thousands)		
Statement of Cash Flows for the three months ended March 31, 2017			
Net cash provided by operating activities	$34,207	$12,776	$46,983
Cash, cash equivalents and restricted cash at end of period	59,516	96,430	155,946

Accounting Standards Update 2017-09

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting, which provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This ASU does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the fair value, vesting conditions, or award classification (as equity or liability) and would not be required if the changes are considered non-substantive. This new standard was effective for the Company on January 1, 2018. Adoption of ASU 2017-09 did not have a material impact on our consolidated financial statements.

Accounting Standards Update 2017-01

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business to assist entities with evaluating whether a set of transferred assets and activities (a "set") is a business. Under the new guidance, an entity first determines whether substantially all of the fair value of the set is concentrated in a single identifiable

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asset or a group of similar identifiable assets. If this threshold is met, the set is not a business. If the threshold is not met, the entity evaluates whether the set meets the requirements that a business include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The provisions of this ASU became effective for the Company on January 1, 2018, and the adoption did not have a significant impact on our classification of businesses and complementary technologies acquired.

Accounting Standards Update 2016-01

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities and ASU 2018-03, Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10) in February 2018, which provides clarification on certain guidance issued under ASU 2016-01. Among other things, ASU 2016-01 eliminates the cost method of accounting and requires that investments in equity securities that were previously accounted for under the cost method must now be measured at fair value, with changes in fair value recognized in net income. Equity instruments that do not have readily determinable fair values may be measured at cost less impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer. This ASU became effective on January 1, 2018. The Company holds an investment which was accounted for under the cost method of accounting prior to January 1, 2018, which does not have a readily determinable fair value and has had no observable price change. Therefore, we continue to measure this investment at cost, less any impairment. The adoption of this standard did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Standards

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which provides companies the option to reclassify tax effects stranded in accumulated other comprehensive income as a result of the 2017 Tax Cuts and Jobs Act (“Tax Reform Act”) to retained earnings. ASU 2018-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years, and should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Reform Act is recognized. Early adoption is permitted. We are currently evaluating this ASU, but the adoption is not expected to have a material impact on our consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which expands an entity’s ability to apply hedge accounting for nonfinancial and financial risk components and allows for a simplified approach for fair value hedging of interest rate risk. Certain of the amendments in this ASU as they relate to cash flow hedges, eliminate the requirement to separately record hedge ineffectiveness currently in earnings. Instead, the entire change in the fair value of the hedging instrument is recorded in Other Comprehensive Income (“OCI”), and amounts deferred in OCI will be reclassified to earnings in the same income statement line item in which the earnings effect of the hedged item is reported. Additionally, this ASU simplifies the hedge documentation and effectiveness assessment requirements under the previous guidance. ASU 2017-12 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted. The changes in this ASU will be applied on a modified retrospective basis through a cumulative effect adjustment to the opening balance of retained earnings as of the initial application date.

While we are continuing to assess all potential impacts of ASU 2017-12 on our consolidated financial statements, its most immediate effect will be the initial recognition of the entire change in the fair value of our interest rate swaps in other comprehensive income. Similar to our current treatment of the effective portion of a change in fair value, the ineffective portion will be reclassified into interest expense as interest payments are made on our variable rate debt. Under our current practice, the ineffective portion is initially recorded as a component of interest expense in the period of change. We have not yet selected an adoption date and do not expect the changes in the ASU to have a material impact on our consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815). The amendments of this ASU allow companies to exclude a down round feature when determining whether a financial instrument (or embedded conversion feature) is considered indexed to the entity's own stock. As a result, financial instruments (or embedded conversion features) with down round features may no longer be required to be accounted for as derivative liabilities. A company will recognize the value of a down round feature only when it is triggered and the strike price has been adjusted downward. For equity-classified freestanding financial instruments, an entity will treat the value of the effect of the down round as a dividend and a reduction of income available to common shareholders in computing basic earnings per share. For convertible instruments with embedded conversion features containing down round provisions, entities will recognize the value of the down round as a beneficial conversion discount to be amortized to earnings. ASU 2017-11 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, and the guidance is to be applied using a full or modified retrospective approach. We are currently evaluating the impact of adopting ASU 2017-11 on our consolidated financial statements.

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

On February 25, 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new guidance requires lessees to recognize the assets and liabilities arising from all leases, with a lease term of more than 12 months, including those classified as operating leases under previous accounting guidance, on the balance sheet. It also requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations.

ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. On March 7, 2018, the FASB affirmed a proposal that allows entities to apply the legacy ASC 840 guidance and relevant disclosure requirements to comparative periods. The Company anticipates electing the new transition approach when it adopts this ASU on January 1, 2019. We have formed a team to identify and analyze our existing lease agreements and are in the process of implementing changes to our systems, processes, disclosures and internal controls in conjunction with such review. The team has begun assessing the population for the new standard and evaluating the impact to our consolidated financial statements. We anticipate the standard will have a material impact on our balance sheet, but do not expect a material impact to the income statement. The most significant impact will be from the recognition of right of use assets and lease liabilities for operating leases, while we expect our accounting for finance leases to remain substantially unchanged.

3. Acquisitions

Current Acquisition Activity

No acquisitions were completed during the three months ended March 31, 2018.

2017 Acquisitions

Lease Rent Options

In February 2017, we entered into an agreement with The Rainmaker Ventures, LLC (“Rainmaker”) to acquire substantially all of the assets and liabilities that comprised Rainmaker’s multifamily revenue optimization business (“LRO”). We completed the acquisition when the transaction closed in December 2017. LRO is a revenue management solution that empowers optimized pricing for multifamily housing communities. This acquisition extended our revenue management footprint, augmented our repository of real-time lease transaction data, and increased our data science talent and capabilities. We also expect the acquisition of LRO to increase the market penetration of our YieldStar Revenue Management solution and drive revenue growth in our other asset optimization solutions.

We acquired LRO for a purchase price of $299.9 million. The purchase price consisted of a cash payment of $298.0 million, a deferred cash obligation of up to $1.6 million, which had a fair value of $1.5 million on the date of acquisition, and the assumption of certain liabilities totaling $0.4 million. Subject to any indemnification claims made, the deferred cash obligation will be released on the first anniversary of the closing date. The acquisition of LRO was financed using funds available under our Credit Facility, as defined in Note 7, and cash on hand.

The acquired identified intangible assets consisted of developed technology, client relationships, and trade names. These intangible assets were assigned estimated useful lives of seven, ten, and two years, respectively. Preliminary goodwill recognized of $203.2 million is primarily comprised of anticipated synergies from leveraging LRO’s repository of lease transaction data and data science talent with our existing platform of pricing, demand, and credit optimization tools. Goodwill and the acquired identified intangible assets are deductible for tax purposes. Accounts receivable acquired had a gross contractual value of $4.7 million at acquisition, of which $0.2 million was estimated to be uncollectible. Acquisition costs associated with this transaction, totaled $13.8 million, including $10.7 million incurred related to the Hart-Scott-Rodino Antitrust Improvements Act review process, and were expensed as incurred.

PEX Software

In October 2017, the Company acquired all of the issued and outstanding shares of PEX Software Limited ("PEX"). PEX is a rental housing solution provider based in the United Kingdom that helps companies transform work practices and service delivery models, create and leverage competitive advantage, reduce costs, and scale businesses. PEX's platform serves market-leading clients in the United Kingdom, European Union, and Australia. The acquisition of PEX will help us to secure a leading market position in the private rental segment of the United Kingdom's housing market and facilitate our expansion into the European Union and other international markets.

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We acquired PEX for a purchase price of $6.0 million. The purchase price consisted of a cash payment of $5.1 million at closing, net of cash acquired of $0.1 million, and a deferred cash obligation of up to $1.0 million. The deferred cash obligation is payable over a period of 24 months, and its fair value was $0.9 million at the date of acquisition. This acquisition was financed using cash on hand, which included a portion of the net offering proceeds from the issuance of the Convertible Notes.

The acquired identified intangible assets consisted of developed technology, client relationships, and trade names. These intangible assets were assigned estimated useful lives of seven, nine, and six years, respectively. Preliminary goodwill recognized of $3.2 million is chiefly attributable to the presence we gained in international markets and anticipated synergies from combining PEX’s consumer facing solutions with our platform of property management, accounting, and asset optimization solutions. Goodwill and the acquired identified intangible assets are not deductible for tax purposes. Acquisition costs associated with this transaction totaled $0.4 million and were expensed as incurred.

On-Site

In September 2017, we acquired certain discrete assets of On-Site Manager, Inc., including its ownership interest in its majority-owned subsidiary, DepositIQ & RentersIQ Insurance Agency, LLC (“DIQ”) (collectively, “On-Site”). We also acquired the remaining minority interest in DIQ. On-Site is a leasing platform for property managers and renters that assimilates leads from any source and converts them into signed leases for both the multifamily and single family housing industries. The acquisition of On-Site increased the footprint of our screening services and added incremental consumer-oriented data that benefits our data analytics solutions. Additionally, we anticipate On-Site will improve the integration of our leasing solutions into other major property management systems.

We acquired On-Site, including the minority interest in DIQ, for an aggregate purchase price of $253.4 million. The purchase price consisted of a cash payment of $225.3 million at closing, net of cash acquired of $1.7 million, and a deferred cash obligation of up to $29.6 million. The fair value of the deferred cash obligation was $28.1 million at the date of acquisition. Subject to any indemnification claims made, the deferred cash obligation will be paid over a period of 36 months, with the majority due approximately twelve months following the acquisition date. This acquisition was financed using cash on hand, which included a portion of the net offering proceeds from the issuance of the Convertible Notes.

The acquired identifiable intangible assets consisted of trade names, developed technologies, and client relationships, which will be amortized over estimated useful lives of two, five, and ten years, respectively. Preliminary goodwill recognized of $184.5 million primarily arises from anticipated synergies from leveraging our existing cost structure and integrated sales force. Goodwill and the acquired identified intangible assets arising from the acquisition of On-Site Manager are deductible for tax purposes; those arising from the acquisition of DIQ are not. Accounts receivable acquired had a gross contractual value of $5.6 million at acquisition, of which $0.9 million was estimated to be uncollectible. Acquisition costs associated with this transaction, including those related to the Hart-Scott-Rodino Antitrust Improvements Act review process, totaled $1.8 million and were expensed as incurred.

American Utility Management

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

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

The acquired identifiable intangible assets consisted of trade names, developed technology, non-compete agreements, and client relationships, which will be amortized over estimated useful lives of two, three, five, and ten years, respectively. Preliminary goodwill recognized of $45.9 million primarily arises from anticipated synergies from integrating the acquired assets with our existing resident utility management system and leveraging the energy cost and consumption benchmarking capabilities and data acquired. Goodwill and the acquired identified intangible assets are deductible for tax purposes. Accounts receivable acquired had a gross contractual value of $2.7 million at acquisition, of which $0.3 million was estimated to be uncollectible. Acquisition costs associated with this transaction totaled $0.3 million and were expensed as incurred.

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Axiometrics LLC

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

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

The acquired identified intangible assets consisted of developed technology, client relationships, and trade names. These intangible assets were assigned estimated useful lives of five, ten, and three years, respectively. We recognized goodwill in the amount of $54.2 million related to this acquisition, which is primarily comprised of anticipated synergies with our existing multifamily data analytics platform. Goodwill and the acquired identified intangible assets are deductible for tax purposes. Acquisition costs associated with this transaction totaled $0.3 million and were expensed as incurred.

Purchase Price Allocation

For certain of the acquisitions in the table below, the estimated fair values of assets acquired and liabilities assumed are provisional and are based primarily on the information available as of the acquisition dates. We believe this information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the Company is awaiting additional information necessary to finalize those values. Therefore, the provisional measurements of fair value are subject to change, and such changes could be significant. We expect to finalize the valuation of these assets and liabilities as soon as practicable, but no later than one year from the acquisition dates.

The allocation of each purchase price, including the effects of measurement period adjustments recorded as of March 31, 2018, was as follows:

	Axiometrics (Final)	AUM (Provisional)	On-Site (Provisional)	PEX (Provisional)	LRO (Provisional)
	(in thousands)				
Restricted cash	$—	$ 5,954	$ 3,458	$ —	$ —
Accounts receivable	1,620	2,409	4,718	174	4,498
Property, equipment, and software	400	319	789	8	1,507
Intangible assets:					
Developed product technologies	15,500	10,800	16,960	2,350	42,000
Client relationships	6,830	7,470	41,360	590	49,000
Trade names	3,200	208	7,000	160	666
Non-compete agreements	—	3,920	—	—	—
Goodwill	54,190	45,907	184,534	3,242	203,171
Other assets	273	850	826	78	475
Accounts payable and accrued liabilities	(367)	(2,150)	(952)	(242)	(533)
Client deposits held in restricted accounts	—	(5,954)	(3,458)	—	—
Deferred revenue	(7,115)	(321)	(565)	(221)	(861)
Other long-term liabilities	(774)	—	—	—	—
Deferred tax liability	—	—	(1,240)	(108)	—
Total purchase price	$73,757	$ 69,412	$ 253,430	$ 6,031	$ 299,923

At March 31, 2018 and December 31, 2017, deferred cash obligations related to acquisitions completed in 2017 totaled $44.0 million and $44.8 million, and were carried net of a discount and indemnified obligations of $1.2 million and $2.3 million, respectively, in the Condensed Consolidated Balance Sheets. The aggregate fair value of contingent cash obligations related to these acquisitions was $0.1 million and $0.2 million at March 31, 2018 and December 31, 2017, respectively. During the three months ended March 31, 2018, we recognized a gain of $0.1 million due to changes in the fair value of contingent cash obligations related to acquisitions completed in 2017. We made deferred cash payments of $0.2 million during the three months ended March 31, 2018, related to these acquisitions.

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Acquisition Activity Prior to 2017

At March 31, 2018 and December 31, 2017, the aggregate carrying value of deferred cash obligations related to acquisitions completed prior to 2017 totaled $3.8 million and $4.4 million, respectively. We paid deferred cash obligations related to these acquisitions in the amount of $0.6 million and $6.7 million during the three months ended March 31, 2018 and 2017, respectively. During the same period in 2018, we made contingent cash obligation payments of $0.2 million related to acquisitions completed prior to 2017.

No contingent cash obligations remained outstanding at March 31, 2018 related to acquisitions completed prior to 2017. The aggregate carrying value of contingent cash obligations related to these acquisitions was estimated to be $0.2 million at December 31, 2017. During the three months ended March 31, 2018, we paid contingent cash obligations in the amount of $0.2 million related to acquisitions completed prior to 2017. We recognized an expense of $0.2 million during the three months ended March 31, 2017, due to changes in the fair value of contingent cash obligations related to these acquisitions.

Pro Forma Results of Acquisitions

The following table presents unaudited pro forma results of operations for the three months ended March 31, 2017, as if the aforementioned acquisitions had occurred as of January 1, 2016. The pro forma information includes the business combination accounting effects resulting from these acquisitions, including interest expense, tax benefit, and additional amortization resulting from the valuation of amortizable intangible assets. We prepared the pro forma financial information for the combined entities for comparative purposes only, and it is not indicative of what actual results would have been if the acquisitions had occurred at the beginning of the periods presented, or of future results.

	Three Months Ended March 31, 2017 Pro Forma (in thousands, except per share amounts)
Total revenue	$ 184,519
Net income	4,952
Net income per share:	
Basic and Diluted	$ 0.06

No pro forma results of operations are presented for the three months ended March 31, 2018, as no acquisitions were completed during the first quarter of 2018.

4. Revenue Recognition

On January 1, 2018, we adopted the new revenue standard using the modified retrospective method for those contracts with remaining service obligations as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under the new revenue standard, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period.

We recorded a net increase to opening equity of $2.2 million as of January 1, 2018 as the cumulative effect of adopting the new revenue standard. The effect on revenues of adopting the new revenue standard for the three months ended March 31, 2018 was immaterial.

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Disaggregation of Revenue

The following table presents our revenues disaggregated by major revenue source. Sales and usage-based taxes are excluded from revenues.

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
On demand		
Property management	$45,319	$40,341
Resident services	77,177	60,968
Leasing and marketing	39,416	27,816
Asset optimization	31,388	17,088
Total on demand revenue	193,300	146,213
Professional and other	8,001	6,706
Total revenue	$201,301	$152,919

On Demand Revenue

We generate the majority of our on demand revenue by licensing software-as-a-service ("SaaS") solutions to our clients on a subscription basis. We group our SaaS solutions in four primary categories: property management, resident services, leasing and marketing and asset optimization. Each solution category generally represents a different stage of the renter life cycle and the operations of a property owner's or manager's rental properties. Each of our solution categories includes multiple product centers that provide distinct capabilities that can be bundled as a package or licensed separately. Each on demand solution is provided pursuant to contractual commitments that typically include a promise that we will stand ready, on a monthly basis, to deliver access to our technology platform over defined service delivery periods. The Company has concluded these promises represent a single performance obligation that includes a series of distinct services since they provide a form of rental real estate management and property operation service that we consider to be substantially similar and which has the same pattern of transfer to the client. The majority of our on demand sales revenue continues to be recognized over time as clients receive and consume the benefits of accessing our on demand solutions.

Consideration for the Company's on demand subscription services consist of fixed, variable and usage-based fees. We invoice a portion of our fees at the initial order date and then monthly or annually thereafter. Subscription fees are generally fixed based on the number of sites and the level of services selected by the client.

We sell certain usage-based services, primarily within our property management, resident services and leasing and marketing solutions, to clients based on a fixed rate per transaction. Revenues are calculated based on the number of transactions processed monthly and will vary from month to month based on actual usage of these transaction-based services over the contract term, which is typically one year in duration. The fees for usage-based services are not associated with every distinct service promised in the series of distinct services we provide our clients. As a result, we allocate variable usage-based fees only to the related transactions and recognize them in the month that usage occurs. Usage-based fees are considered fully constrained until the related usage occurs.

As part of our resident services offerings, we offer risk mitigation services to our clients by acting as an insurance agent and derive commission revenue from the sale of insurance products to our clients' residents. The commissions are based upon a percentage of the premium that the insurance company underwriting partners charge to the policyholder and are subject to forfeiture in instances where a policyholder cancels prior to the end of the policy. The overall insurance services we provide represent a single performance obligation that qualifies as a separate series in accordance with the new revenue standard. Our contracts with our underwriting partners also provide for contingent commissions to be paid to us in accordance with the agreements. Such commissions are variable in nature and are calculated in accordance with the terms of the agreements, which consider, on the policies sold by us, earned premiums less i) earned agent commissions; ii) a percent of premium retained by our underwriting partners; iii) incurred losses; and iv) profit retained by our underwriting partners during the time period. Our estimate of contingent commission revenue considers historical loss experience on the policies sold by us. The contingent commissions are not associated with every distinct service promised in the series of distinct insurance services we provide. We generally accrue and recognize contingent commissions monthly based on estimates of the factors described above.

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Professional Services and Other Revenues

Professional services and other revenues generally consists of the fees we receive for providing implementation and consulting services, submeter equipment and ongoing maintenance of our existing on premise licenses.

Professional Services: Professional services revenues primarily consist of fees for implementation services, consulting services and training. Professional services are billed either on a fixed rate per hour (time) and materials basis or on a fixed price basis. Professional services are typically sold bundled in a contract with other on demand solutions but may be sold separately. Professional service contracts sold separately generally have terms of one year or less. For bundled arrangements, the Company accounts for individual services as a separate performance obligation if a service is separately identifiable from other items in the bundled arrangement and if a client can benefit from it on its own or with other resources readily available to the client. In these cases, the transaction price is allocated between separate services in the bundle based on their relative standalone selling prices.

Equipment: The majority of other revenue is related to our sale of submeter hardware and bundled installation services we provide as part of our utility management solutions. We consider the delivery and installation of submeters to be part of a single performance obligation due to the significance of the integration and interdependency of the installation services with the meter equipment. Our typical payment terms for submeter installations require a percentage of the overall transaction price to be paid upfront, with the remainder billed as progress payments. We recognize submeter revenue in proportion to the number of fully installed units completed to date as compared to the total contracted number of units to be provided and installed. We also sell other hardware used for storing mail packages and for processing renter payments and invoices to our clients. For all other equipment sales, we generally recognize revenue when control of the hardware has transferred to our client, which occurs at a point in time, typically upon delivery to the client.

On Premise: A small percentage of other revenue is derived from sales of our on premise software solutions, which are distributed to our clients and maintained locally on the client's hardware. We no longer actively market our legacy on premise software solutions to new clients, and the majority of on premise revenue consists of maintenance renewals from clients who renew for an additional one-year term. Maintenance renewal revenue is recognized ratably over the service period based upon the standalone selling price of that service obligation.

Contract Balances

Contract assets generally consist of amounts recognized as revenue before they can be invoiced to clients or amounts invoiced to clients prior to the period in which the service is provided where the right to payment is subject to conditions other than just the passage of time. These contract assets are included in "Accounts receivable" in the accompanying Condensed Consolidated Financial Statements and related disclosures. Contract liabilities are comprised of billings or payments received from our clients in advance of performance under the contract. We refer to these contract liabilities as "Deferred revenue" in the accompanying Condensed Consolidated Financial Statements and related disclosures. We recognized $63.8 million of on demand revenue during the quarter ended March 31, 2018, which was included in the line "Deferred revenue" in the accompanying Condensed Consolidated Balance Sheet as of the beginning of the period.

Contract Acquisition Costs

Under the new revenue standard, we are required to initially capitalize certain contract acquisition costs consisting of commissions earned when contracts are signed. We will subsequently amortize such costs to expense over a period of benefit that we have determined to be three years. Under the previous guidance, we expensed commissions in the period they were earned by our sales representatives. As of March 31, 2018, the current and noncurrent balance of capitalized commissions costs recorded in the lines "Other current assets" and "Other assets" in the accompanying Condensed Consolidated Balance Sheet was $3.6 million and $5.4 million, respectively. During the quarter ended March 31, 2018, we amortized commission costs totaling $0.8 million. No impairment loss was recognized in relation to these costs capitalized.

Transaction Price Allocated to Remaining Performance Obligations

Our client contracts from license and subscription fees relating to our on demand software solutions typically possess a one year renewable term. As such, we disclose within Item 2 the annual client value to allow investors to evaluate future revenue potential.

Certain clients commit to purchase our solutions for terms ranging from two to seven years. We expect to recognize approximately $354.0 million of revenue in the future related to performance obligations for on demand contracts with an original duration greater than one year that were unsatisfied or partially unsatisfied as of March 31, 2018. Our estimate does not include amounts related to:

- professional and usage-based services that are billed and recognized based on services performed in a certain period;
- amounts attributable to unexercised contract renewals that represent a material right; or
- amounts attributable to unexercised client options to purchase services that do not represent a material right.

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We expect to recognize revenue on approximately 75.0% of the remaining performance obligations over the next 24 months, with the remainder recognized thereafter. Revenue from remaining performance obligations for professional service contracts as of March 31, 2018 was immaterial.

Impact on Financial Statements

In accordance with the new revenue standard requirements, the following tables summarize the effects of this new standard on selected unaudited line items within our Condensed Consolidated Statement of Operations and Balance Sheet:

	Three Months Ended March 31, 2018		
	As reported	Balances without adoption of ASU 2014-09	Effect of Change on Net Income Higher/(Lower)
	(in thousands)		
Revenue			
On demand	$193,300	$193,455	$ (155)
Professional and other	8,001	7,419	582
Total revenue	$201,301	$200,874	$ 427
Operating expenses			
Sales and marketing	$50,241	$52,101	$ 1,860
Net income	10,901	8,614	2,287

	Balances at March 31, 2018 - as reported	Balances at March 31, 2018 without adoption of ASU 2014-09	Effect of Change Higher/(Lower)
	(in thousands)		
Assets			
Accounts receivable, less allowance for doubtful accounts	$101,005	$109,266	$ (8,261)
Other current assets	9,838	6,201	3,637
Other assets	19,533	14,114	5,419
Liabilities			
Current portion of deferred revenue	109,965	110,305	(340)
Deferred revenue	5,457	5,457	—

The adoption of ASU 2014-09 had no net effect on the Company's Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2018.

5. Property, Equipment, and Software

Property, equipment, and software consisted of the following at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
	(in thousands)	
Leasehold improvements	$59,864	$ 59,179
Data processing and communications equipment	75,112	83,922
Furniture, fixtures, and other equipment	31,292	28,752
Software	113,497	107,924
Property, equipment, and software, gross	279,765	279,777

Less: Accumulated depreciation and amortization	(134,243)	(131,349)
Property, equipment, and software, net	$ 145,522	$ 148,428

Depreciation and amortization expense for property, equipment, and purchased software was $6.9 million and $6.6 million for the three months ended March 31, 2018 and 2017, respectively.

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The carrying amount of capitalized software development costs was $77.7 million and $73.4 million at March 31, 2018 and December 31, 2017, respectively. Total accumulated amortization related to these assets was $30.4 million and $27.8 million at March 31, 2018 and December 31, 2017, respectively. Amortization expense related to capitalized software development costs totaled $2.6 million and $1.7 million for the three months ended March 31, 2018 and 2017, respectively.

6. Goodwill and Identified Intangible Assets

Changes in the carrying amount of goodwill during the three months ended March 31, 2018 were as follows, in thousands:

Balance as of December 31, 2017	$751,052
Measurement period adjustments	(35)
Balance as of March 31, 2018	$751,017

Identified intangible assets consisted of the following at March 31, 2018 and December 31, 2017:

	March 31, 2018			December 31, 2017		
	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
	(in thousands)					
Finite-lived intangible assets:						
Developed technologies	$164,847	$(82,267)	$82,580	$164,639	$(76,576)	$88,063
Client relationships	213,718	(84,756)	128,962	213,728	(78,390)	135,338
Vendor relationships	5,650	(5,650)	—	5,650	(5,650)	—
Trade names	17,506	(5,852)	11,654	17,556	(4,325)	13,231
Non-compete agreements	4,173	(802)	3,371	4,173	(605)	3,568
Total finite-lived intangible assets	405,894	(179,327)	226,567	405,746	(165,546)	240,200
Indefinite-lived intangible assets:						
Trade names	12,137	—	12,137	12,137	—	12,137
Total identified intangible assets	$418,031	$(179,327)	$238,704	$417,883	$(165,546)	$252,337

Amortization expense related to finite-lived intangible assets was $13.8 million and $6.1 million for the three months ended March 31, 2018 and 2017, respectively.

7. Debt

Credit Facility

On September 30, 2014, we entered into an agreement for a secured credit facility to refinance our outstanding revolving loans. The credit facility agreement was subsequently amended during the years ended 2016 and 2017, and was further amended in March 2018 by the Seventh Amendment, discussed below (inclusive of these amendments, the “Credit Facility”). For more information regarding these amendments, refer to our 2017 Form 10-K. The Credit Facility matures on February 27, 2022, and includes the following:

Revolving Facility: The Credit Facility provides $350.0 million in aggregate commitments for revolving loans, with sublimits of $10.0 million for the issuance of letters of credit and $20.0 million for swingline loans (“Revolving Facility”).

Term Loan: In February 2016, we originated a term loan in the original principal amount of $125.0 million under the Credit Facility (“Term Loan”). We make quarterly principal payments of $0.8 million, which will increase to $1.5 million beginning on June 30, 2018, and to $3.1 million beginning on June 30, 2020.

Delayed Draw Term Loan: In December 2017, we drew funds of $200.0 million available under the delayed draw term loan (“Delayed Draw Term Loan”). Subsequent to disbursal of the Delayed Draw Term Loan funds, we began making quarterly principal payments on the Delayed Draw Term Loan equal to an initial amount of $1.3 million. The quarterly principal payments increase to $2.5 million beginning on June 30, 2018, and to $5.0 million beginning on June 30, 2020.

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

Accordion Feature: The Credit Facility also allows us, subject to certain conditions, to request additional term loans or revolving commitments up to an aggregate principal amount of $150.0 million, plus an amount that would not cause our Senior Leverage Ratio, as defined below, to exceed 3.50 to 1.00.

At our option, amounts outstanding under the Credit Facility accrue interest at a per annum rate equal to either LIBOR, plus a margin ranging from 1.25% to 2.25%, or the Base Rate, plus a margin ranging from 0.25% to 1.25% (“Applicable Margin”). The base LIBOR is, at our discretion, equal to either one, two, three, or six month LIBOR. The Base Rate is defined as the greater of Wells Fargo's prime rate, the Federal Funds Rate plus 0.50%, or one month LIBOR plus 1.00%. In each case, the Applicable Margin is determined based upon our Net Leverage Ratio, as defined below. Accrued interest on amounts outstanding under the Credit Facility is due and payable quarterly, in arrears, for loans bearing interest at the Base Rate and at the end of the applicable interest period in the case of loans bearing interest at the adjusted LIBOR.

Certain of our existing and future material domestic subsidiaries are required to guarantee our obligations under the Credit Facility, and the obligations under the Credit Facility are secured by substantially all of our assets and the assets of the subsidiary guarantors. The Credit Facility contains customary covenants, subject in each case to customary exceptions and qualifications. Our covenants include, among other limitations, a requirement that we comply with a maximum Consolidated Net Leverage Ratio, a minimum Consolidated Interest Coverage Ratio, and a maximum Consolidated Senior Secured Net Leverage Ratio.

Consolidated Net Leverage Ratio: The Consolidated Net Leverage Ratio (“Net Leverage Ratio”) is the ratio of consolidated funded indebtedness, as defined in the Credit Facility, on the last day of each fiscal quarter to the sum of the four previous consecutive fiscal quarters’ consolidated EBITDA, as defined in the Credit Facility. As modified by the Seventh Amendment, this ratio generally may not exceed 5.00 to 1.00. The Net Leverage Ratio may increase, at our option, to 5.50 to 1.00 following an acquisition having aggregate consideration greater than $150.0 million and occurring within a specified time period following the Seventh Amendment Effective Date, defined below. The option to increase this ratio may be elected no more than one time during any consecutive 24 month period over the term of the Credit Facility, and lasts for four consecutive fiscal quarters. As of March 31, 2018, we had not exercised our option to increase the Net Leverage Ratio.

Consolidated Interest Coverage Ratio: The Consolidated Interest Coverage Ratio (“Interest Coverage Ratio”) is the ratio of the sum of our four previous fiscal quarters’ consolidated EBITDA to consolidated interest expense, as defined in the Credit Facility, for the same period. The Interest Coverage Ratio must not be less than 3.00 to 1.00 on the last day of each fiscal quarter. The Interest Coverage Ratio excludes non-cash interest attributable to the Convertible Notes (see Convertible Notes below).

Consolidated Senior Secured Net Leverage Ratio: The Consolidated Senior Secured Net Leverage Ratio (“Senior Leverage Ratio”) is the ratio of consolidated senior secured indebtedness, as defined in the Credit Facility, on the last day of each fiscal quarter to the sum of the four previous consecutive fiscal quarters’ consolidated EBITDA and, as modified by the Seventh Amendment, may not exceed 3.75 to 1.00. At our option, this ratio may be increased to 4.25 to 1.00 for four consecutive fiscal quarters following the completion of an acquisition having aggregate consideration greater than $150.0 million and occurring within a specified time period following the Seventh Amendment Effective Date, defined below. We are not permitted to exercise this option more than one time during any consecutive 24 month period. As of March 31, 2018, we had not exercised our option to increase the Senior Leverage Ratio.

As of March 31, 2018, we were in compliance with the covenants under our Credit Facility.

Seventh Amendment: On March 12, 2018 (“Seventh Amendment Effective Date”), we entered into the seventh amendment (“Seventh Amendment”) to the Credit Facility. This amendment allowed for an increase of $150.0 million in available credit under our Revolving Facility, consequently providing aggregate commitments for revolving loans up to $350.0 million. Among other modifications, the Seventh Amendment provided for an increase in the maximum Net Leverage Ratio and Senior Leverage Ratio to 5.00 to 1.00 and 3.75 to 1.00, respectively. The Seventh Amendment also modified the Accordion Feature definition to allow for incremental commitments which would not cause our Senior Leverage Ratio to exceed 3.50 to 1.00. We incurred debt issuance costs in the amount of $1.1 million related to the execution of this amendment.

As of March 31, 2018, we had $300.0 million of available credit under our Revolving Facility. We incur commitment fees on the unused portion of the Revolving Facility.

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Principal outstanding, and unamortized debt issuance costs for the Term Loans, were as follows at March 31, 2018 and December 31, 2017:

	March 31, 2018			December 31, 2017		
	Term Loan	Delayed Draw Term Loan	Revolving Facility	Term Loan	Delayed Draw Term Loan	Revolving Facility
	(in thousands)					
Principal outstanding	$119,590	$197,500	$50,000	$120,356	$198,750	$50,000
Unamortized issuance costs	(217)	(767)	—	(233)	(821)	—
Unamortized discount	(173)	(457)	—	(185)	(490)	—
Carrying value	$119,200	$196,276	$50,000	$119,938	$197,439	$50,000

Unamortized debt issuance costs for the Revolving Facility were $1.6 million and $0.6 million at March 31, 2018 and December 31, 2017, respectively, and are included in the line "Other assets" in the Condensed Consolidated Balance Sheets.

Future maturities of principal under the Term Loans are as follows for the years ending December 31, in thousands:

	Term Loans
2018	$12,100
2019	16,133
2020	28,232
2021	32,266
Thereafter	228,359
	$317,090

Convertible Notes

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

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

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

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

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

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

We may not redeem the Convertible Notes prior to their maturity date, and no sinking fund is provided for them. If we undergo a fundamental change, as described in the Indenture, subject to certain conditions, holders may require us to

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repurchase for cash all or any portion of their Convertible Notes. The fundamental change repurchase price is equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. If holders elect to convert their Convertible Notes in connection with a make-whole fundamental change, as described in the Indenture, the Company will, to the extent provided in the Indenture, increase the conversion rate applicable to the Convertible Notes.

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

The Indenture does not contain any financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness, or the issuance or repurchase of securities by us or any of our subsidiaries. The Indenture contains customary events of default with respect to the Convertible Notes and provides that upon certain events of default occurring and continuing, the Trustee may, and the Trustee at the request of holders of at least 25% in principal amount of the Convertible Notes shall, declare all of principal and accrued and unpaid interest, if any, of the Convertible Notes to be due and payable. In case of certain events of bankruptcy, insolvency or reorganization, involving us or a significant subsidiary, all of the principal of and accrued and unpaid interest on the Convertible Notes will automatically become due and payable.

In accounting for the issuance of the Convertible Notes, the Company separated the Convertible Notes into liability and equity components. We allocated $282.5 million of the Convertible Notes to the liability component, and $62.5 million to the equity component. The excess of the principal amount of the liability component over its carrying amount is amortized to interest expense over the term of the Convertible Notes using the effective interest method. The equity component will not be remeasured as long as it continues to meet the conditions for equity classification. We incurred issuance costs of $9.8 million related to the Convertible Notes. Issuance costs were allocated to the liability and equity components based on their relative values. Issuance costs attributable to the liability component are being amortized to interest expense over the term of the Convertible Notes, and issuance costs attributable to the equity component are included along with the equity component in stockholders' equity.

The net carrying amount of the Convertible Notes at March 31, 2018 and December 31, 2017, was as follows:

	March 31, 2018	December 31, 2017
	(in thousands)	
Liability component:		
Principal amount	$345,000	$345,000
Unamortized discount	(54,033)	(56,557)
Unamortized debt issuance costs	(6,921)	(7,244)
	$284,046	$281,199
Equity component, net of issuance costs and deferred tax:	$61,390	$61,390

The following table sets forth total interest expense related to the Convertible Notes for the three months ended March 31, 2018:

	Three Months Ended March 31, 2018
	(in thousands)

Contractual interest expense	$ 1,294
Amortization of debt discount	2,524
Amortization of debt issuance costs	323
	$ 4,141
Effective interest rate of the liability component	5.87 %

No interest expense related to the Convertible Notes was incurred for the three months ended March 31, 2017, as the Convertible Notes were issued during the second quarter of 2017.

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Convertible Note Hedges and Warrants

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

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

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

The Note Hedges are transactions that are separate from the terms of the Convertible Notes and the Warrants, and holders of the Convertible Notes and the Warrants have no rights with respect to the Note Hedges. The Warrants are similarly separate in both terms and rights from the Note Hedges and the Convertible Notes. As of March 31, 2018, no Note Hedges or Warrants had been exercised.

8. Stock-based Expense

During the three months ended March 31, 2018, the Company made the following grants of time-based restricted stock:

Three Months Ended March 31, 2018	Vesting
814,678	Shares vest ratably over a period of twelve quarters beginning on the first day of the second calendar quarter immediately following the grant date.
3,600	Shares fully vested on the first day of the calendar quarter immediately following the grant date.

During the three months ended March 31, 2018, we granted 517,364 shares of restricted stock that become eligible to vest based on the achievement of certain market-based conditions, as described below:

Three Months Ended March 31, 2018	Condition to Become Eligible to Vest
129,341	After the grant date and prior to July 1, 2021, the average closing price per share of our common stock equals or exceeds $60.89 for twenty consecutive trading days.
129,341	After the grant date and prior to July 1, 2021, the average closing price per share of our common stock equals or exceeds $66.98 for twenty consecutive trading days.
129,341	After the grant date and prior to July 1, 2021, the average closing price per share of our common stock equals or exceeds $73.07 for twenty consecutive trading days.
129,341	After the grant date and prior to July 1, 2021, the average closing price per share of our common stock equals or exceeds $85.24 for twenty consecutive trading days.

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

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

The Company capitalized $0.2 million of stock-based expense for software development costs during the three months ended March 31, 2018.

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9. Commitments and Contingencies
Lease Commitments
The Company leases office facilities and equipment for various terms under long-term, non-cancellable operating lease agreements. The leases expire at various dates through 2028 and provide for renewal options. The agreements generally require the Company to pay for executory costs such as real estate taxes, insurance, and repairs. At March 31, 2018, minimum annual rental commitments under non-cancellable operating leases were as follows for the years ending December 31, in thousands:

2018	$11,529
2019	13,775
2020	11,599
2021	10,910
2022	9,336
Thereafter	46,121
	$103,270

Guarantor Arrangements
We have agreements whereby we indemnify our officers and directors for certain events or occurrences while the officer or director is or was serving at our request in such capacity. The term of the indemnification period is for the officer or director’s lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have a director and officer insurance policy that limits our exposure and enables us to recover a portion of any future amounts paid. As a result of our insurance policy coverage, we believe the estimated fair value of these indemnification agreements is minimal. Accordingly, we had no liabilities recorded for these agreements as of March 31, 2018 or December 31, 2017.
In the ordinary course of our business, we include standard indemnification provisions in our agreements with clients. Pursuant to these provisions, we indemnify our clients for losses suffered or incurred in connection with third-party claims that our products infringed upon any U.S. patent, copyright, trademark, or other intellectual property right. Where applicable, we generally limit such infringement indemnities to those claims directed solely to our products and not in combination with other software or products. With respect to our products, we also generally reserve the right to resolve any such claims by designing a non-infringing alternative, by obtaining a license on reasonable terms, or by terminating our relationship with the client and refunding the client’s fees.
The potential amount of future payments to defend lawsuits or settle indemnified claims under these indemnification provisions is unlimited in certain agreements; however, we believe the estimated fair value of these indemnification provisions is minimal, and, accordingly, we had no liabilities recorded for these agreements as of March 31, 2018 or December 31, 2017.
Litigation
From time to time, in the normal course of our business, we are a party to litigation matters and claims. Litigation can be expensive and disruptive to our normal business operations. Moreover, the results of complex legal proceedings are difficult to predict and our view of these matters may change in the future as the litigation and events related thereto unfold. We expense legal fees as incurred. Insurance recoveries associated with legal costs incurred are recorded when they are deemed probable of recovery.
On February 23, 2015, we received from the Federal Trade Commission (“FTC”) a Civil Investigative Demand consisting of interrogatories and a request to produce documents relating to our compliance with the FCRA. We responded to the request and requests for additional information by the FTC. On November 2, 2017, the FTC staff informed us of its belief that there is a basis for claims that could include monetary and injunctive relief against us for failing to follow reasonable procedures to assure maximum possible accuracy of our tenant screening reports. We believe that our business practices did not, and do not, violate the FCRA or any other laws, and we intend to vigorously defend our position. We have had ongoing discussions with the FTC to attempt to resolve the matter. However, we cannot be certain that the matter will be resolved as a result of these discussions.
At March 31, 2018 and December 31, 2017, we had accrued amounts for estimated settlement losses related to legal matters. The Company does not believe there is a reasonable possibility that a material loss exceeding amounts

already recognized may have been incurred as of the date of the balance sheets presented herein.

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

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10. Net Income per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by using the weighted average number of common shares outstanding, including potential dilutive shares of common stock assuming the dilutive effect of outstanding stock options and restricted stock using the treasury stock method. Weighted average shares from common share equivalents in the amount of 659,745 and 729,637 for the three months ended March 31, 2018 and 2017, respectively, were excluded from the dilutive shares outstanding because their effect was anti-dilutive.

For purposes of considering the Convertible Notes in determining diluted net income per share, it is the current intent of the Company to settle conversions of the Convertible Notes through combination settlement, which involves repayment of the principal portion in cash and any excess of the conversion value over the principal amount (the "conversion premium") in shares of our common stock. Therefore, only the impact of the conversion premium will be included in total dilutive weighted average shares outstanding using the treasury stock method. The dilutive effect of the conversion premium is shown in the table below.

The Warrants sold in connection with the issuance of the Convertible Notes will not be considered in calculating the total dilutive weighted average shares outstanding until the price of the Company's common stock exceeds the strike price of $57.58 per share, as described in Note 7. When the price of the Company's common stock exceeds the strike price of the Warrants, the effect of the additional shares that may be issued upon exercise of the Warrants will be included in total dilutive weighted average shares outstanding using the treasury stock method. The Note Hedges purchased in connection with the issuance of the Convertible Notes are considered to be anti-dilutive and therefore do not impact the Company's calculation of diluted net income per share. Refer to Note 7 for further discussion regarding the Convertible Notes.

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

	Three Months Ended March 31,	
	2018	2017
	(in thousands, except per share amounts)	
Numerator:		
Net income	$10,901	$8,195
Denominator:		
Basic:		
Weighted average common shares used in computing basic net income per share	81,166	78,263
Diluted:		
Add weighted average effect of dilutive securities:		
Stock options and restricted stock	2,332	3,123
Convertible Notes	1,319	—
Weighted average common shares used in computing diluted net income per share	84,817	81,386
Net income per share:		
Basic	$0.13	$0.10
Diluted	$0.13	$0.10

11. Income Taxes

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

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

On December 22, 2017, the Tax Cuts and Jobs Act (“Tax Reform Act”) was enacted into law which changed U.S. tax law, including, but not limited to: (1) reducing the U.S. federal corporate income tax rate from 35% to 21% (2) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries (3) generally eliminating U.S. federal corporate income taxes on dividends from foreign subsidiaries (4) capitalizing U.S. R&D expenses which are amortized over five years and (5) other changes affecting how foreign and domestic earnings are taxed. Due to the complexities involved in

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accounting for the enactment of the new law, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of US GAAP in situations where a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Act. At December 31, 2017, we recorded provisional estimates in accordance with SAB 118, including a provisional determination of the impact of the change in corporate tax rates on our deferred tax balances, and a provisional estimate of the amount of transition tax associated with the mandatory deemed repatriation of foreign earnings. We did not make any changes to our provisional estimates during the quarter ended March 31, 2018. We will continue to analyze the impact of the Tax Reform Act as additional guidance is provided by the IRS and state taxing authorities. Additional impacts will be recorded as they are identified during the measurement period provided for in SAB 118.

The Tax Reform Act includes a provision to tax global intangible low-taxed income (“GILTI”) of foreign subsidiaries and a base erosion anti-abuse tax (“BEAT”) measure that taxes certain payments between a U.S. corporation and its foreign subsidiaries. These provisions of the Tax Reform Act were effective for the Company beginning January 1, 2018. The FASB Staff Q&A, Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. Given the complexity of the GILTI provisions, the Company is still evaluating the effects of the GILTI provisions and have not yet determined our accounting policy. At March 31, 2018, because we are still evaluating the GILTI provisions and our analysis of future taxable income that is subject to GILTI, we have included GILTI related to current year operations only in our estimated annual effective tax rate and have not provided additional GILTI on deferred items.

Our effective income tax rate was (2.8)% and 9.0% for the three months ended March 31, 2018 and 2017, respectively. Our effective rate is lower than the statutory rate for the three months ended March 31, 2018, primarily because of excess tax benefits from stock-based compensation of $4.2 million recognized as a discrete item, as required by ASU 2016-09. The effective tax rate was lower than the statutory rate for the three months ended March 31, 2017, primarily because of excess tax benefits from stock-based compensation of $2.7 million recognized as a discrete item.

As a result of our adoption of ASU 2014-09, on January 1, 2018, we recorded a net deferred tax liability of $0.8 million, with a corresponding increase to accumulated deficit.

12. Fair Value Measurements

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

The prescribed fair value hierarchy is as follows:

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

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

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

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

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

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

Although the Company has determined that the majority of the inputs used to value its swap agreements fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its swap agreements utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by the Company and its counterparties. The Company

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has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its swap agreements' positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its swap agreements. As a result, the Company determined that its valuation of the swap agreements in its entirety is classified in Level 2 of the fair value hierarchy.

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

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

Significant unobservable inputs used in the contingent consideration fair value measurements included the following at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Discount rates	16.3 %	16.3 %
Volatility rates	25.0 %	24.0 %
Risk free rate of return	1.9 %	1.6 %

The following tables disclose the assets and liabilities measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017, by the fair value hierarchy levels as described above:

	Fair value at March 31, 2018			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Assets:				
Interest rate swap agreements	$1,529	$ —	$1,529	$—
Liabilities:				
Contingent consideration related to the acquisition of:				
Axiometrics	104	—	—	104
Total liabilities measured at fair value	$104	$ —	$—	$104

	Fair value at December 31, 2017			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Assets:				
Interest rate swap agreements	$1,329	$ —	$1,329	$—
Liabilities:				
Contingent consideration related to the acquisition of:				
AssetEye	247	—	—	247
Axiometrics	167	—	—	167
Total liabilities measured at fair value	$414	$ —	$—	$414

There were no transfers between Level 1 and Level 2, or between Level 2 and Level 3 measurements during the three months ended March 31, 2018.

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Changes in the fair value of Level 3 measurements were as follows for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Balance at beginning of period	$414	$541
Initial contingent consideration	—	812
Settlements through cash payments	(247)	—
Net (gain) loss on change in fair value	(63)	163
Balance at end of period	$104	$1,516

Gains and losses recognized on the change in fair value of our Level 3 measurements are reflected in the line, "General and administrative" in the accompanying Condensed Consolidated Statements of Operations.

Financial Instruments

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

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

Revolving Facility: Due to its short-term nature and market-indexed interest rates, we concluded that the carrying value of the Revolving Facility approximated its fair value at March 31, 2018.

Term Loans: The fair value of the Term Loans was estimated by discounting future cash flows using prevailing market interest rates on debt with similar creditworthiness, terms, and maturities. We concluded that this fair value measurement should be categorized within Level 2.

Convertible Notes: We estimated the fair value of the Convertible Notes based on quoted market prices as of the last trading day for the three months ended March 31, 2018; however, the Convertible Notes have only a limited trading volume and as such, this fair value estimate is not necessarily the value at which the Convertible Notes could be retired or transferred. We concluded this measurement should be classified within Level 2.

The fair value and carrying value of the Term Loans and Convertible Notes were as follows at March 31, 2018 and December 31, 2017:

	March 31, 2018		December 31, 2017	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	(in thousands)			
Term Loans	$312,497	$315,476	$303,806	$317,377
Convertible Notes	466,613	284,046	430,301	281,199

The carrying value of the Term Loans and Convertible Notes are reflected net of unamortized discount and issuance costs in our Condensed Consolidated Balance Sheets.

13. Stockholders' Equity

In May 2014, our board of directors approved a share repurchase program authorizing the repurchase of up to $50.0 million of our outstanding common stock for a period of up to one year after the approval date. Shares repurchased under the plan are retired. Our board of directors approved a one year extension of this program in both 2015 and

2016. On April 28, 2017, our board of directors again approved a one year extension of the share repurchase program. The terms of this extension permit the repurchase of up to $50.0 million of our common stock during the period commencing on the extension day and ending on May 4, 2018.

There was no repurchase activity during the three months ended March 31, 2018 and 2017.

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14. Derivative Financial Instruments

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

The effective portion of changes in the fair value of the Swap Agreements is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in the fair value of the Swap Agreements is recognized directly in earnings. Amounts reported in accumulated other comprehensive income related to the Swap Agreements will be reclassified to interest expense as interest payments are made on our variable-rate debt. The Company estimates that an additional $0.9 million will be reclassified as a decrease of interest expense during the twelve-month period ending March 31, 2019.

As of March 31, 2018, the Swap Agreements were still outstanding. The table below presents the notional and fair value of the Swap Agreements as well as their classification in the Condensed Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017:

	Balance Sheet Location	Notional	Fair Value
		(in thousands)	
Derivatives designated as cash flow hedging instruments:			
Swap agreements as of March 31, 2018	Other assets	$75,000	$1,529
Swap agreements as of December 31, 2017	Other assets	$75,000	$1,329

As of March 31, 2018, the Company has not posted any collateral related to the Swap Agreements. If the Company had breached any of the Swap Agreement's default provisions at March 31, 2018, it could have been required to settle its obligations under the Swap Agreements at their termination value of $1.5 million.

The tables below present the amount of gains and losses related to the effective and ineffective portions of the Swap Agreements and their location in the Condensed Consolidated Statements of Operations and the Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2018 and 2017, in thousands:

	Effective Portion			Ineffective Portion	
Derivatives Designated as Cash Flow Hedges	Gain (Loss) Recognized in OCI	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income
Three months ended March 31, 2018:					
Swap agreements, net of tax	$258	Interest expense and other	$ 99	Interest expense and other	$ (16)
Three months ended March 31, 2017:					
Swap agreements, net of tax	$93	Interest expense and other	$ (21)	Interest expense and other	$ (18)

15. Investments

Compstak

In August 2016, we acquired a minority interest in Compstak, Inc. ("Compstak"), which is an unrelated company that specializes in the aggregation of commercial lease data. The shares we acquired represent an ownership interest of less than 20%. We evaluated our relationship with Compstak and determined we do not have significant influence over its operations nor is it economically dependent upon us. The carrying value of this investment at both March 31, 2018 and December 31, 2017 was $3.0 million and is included in "Other assets" in the accompanying Condensed Consolidated Balance Sheets.

WayBlazer

In January 2018, we paid $2.0 million in cash in return for a convertible promissory note (“Note”) from WayBlazer, Inc. (“WayBlazer”), which is an unrelated company that specializes in an artificial intelligence platform for the travel industry. The Note bears interest at 8% per annum and matures in December 2020. The Note is convertible into WayBlazer’s common stock shares upon a qualified financing event, as defined in the Note. If converted, the shares would represent an approximate 8% ownership interest. This investment is included in “Other assets” in the accompanying Condensed Consolidated Balance Sheets.

We also entered into a strategic development agreement (“Development Agreement”) with WayBlazer for the development of property management applications. Under the terms of the development Agreement, we will pay direct

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development costs, and a license fee to use any property management applications developed. The initial license term is five years. At the end of the license term, the Company has the right to purchase a perpetual license for the applications.

16. Subsequent Events

ClickPay

On April 19, 2018, we entered into an acquisition agreement, by which we acquired substantially all of the outstanding membership units of NovelPay, LLC (“NovelPay”), other than those owned by ClickPay Services, Inc. On the same day, we also entered into an agreement and plan of merger, by which we acquired all of the outstanding stock of ClickPay Services, Inc. (collectively with NovelPay, “ClickPay”). Under the acquisition agreement, certain holders retained a portion of their units representing approximately 12% of the membership units of NovelPay, subject to put rights that may be exercised by the holders after September 1, 2018 and call rights that may be exercised by RealPage after October 1, 2018. The exercise price of the put rights and call rights is the same as the per unit price of the membership units purchased at the closing.

The combined purchase price, assuming exercise of the put or call rights, is approximately $218.5 million, consisting of a cash payment of $142.2 million and $76.3 million in shares of our common stock, subject to a working capital adjustment and a holdback of a portion of the purchase price to serve as security in respect of the indemnification and post-closing purchase price adjustments. The holdback will be payable on or shortly after the first and second anniversary dates of the acquisition date.

ClickPay provides for an electronic payment platform servicing resident units across multiple segments of real estate, which offers integrated payment services to increase operational efficiencies for property owners and managers. The acquisition of ClickPay broadens our presence in the real estate industry, and solidifies the integration of our leasing platform with third-party property management systems.

Due to the timing of this acquisition, certain disclosures required by ASC 805, including the allocation of the purchase price, have been omitted because the initial accounting for the business combination was incomplete as of the filing date of this report. Such information will be included in the Company's subsequent Form 10-Q.

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

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (which Sections were adopted as part of the Private Securities Litigation Reform Act of 1995). Statements preceded by, followed by, or that otherwise include the words “anticipates,” “believes,” “could,” “seeks,” “estimates,” “expects “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “will,” “would,” or similar expressions and the negativ terms are generally forward-looking in nature and not historical facts. These forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause our actual results, performance, or achievements to be materially different from any anticipated results, performance, or achievements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section entitled “Risk Factors” in Part II, Item 1A of this report. You should carefully review the risks described herein and in the other documents we file from time to time with the Securities and Exchange Commission (“SEC”), including our Annual Report on Form 10-K for fiscal year 2017 previously filed with the SEC on March 1, 2018. You should not place undue reliance on forward-looking statements herein, which speak only as of the date of this report. Except as required by law, we disclaim any intention, and undertake no obligation, to revise any forward-looking statements, whether as a result of new information, a future event, or otherwise.

Overview

We are a leading global provider of software and data analytics to the real estate industry. Clients use our platform of solutions to improve operating performance and increase capital returns. By leveraging data as well as integrating and streamlining a wide range of complex processes and interactions among the rental real estate ecosystem, our platform helps our clients improve financial and operational performance and prudently place and harvest capital.

The substantial majority of our revenue is derived from sales of our on demand software solutions and are sold pursuant to subscription license agreements. We also derive revenue from our professional and other services. For our insurance-based solutions, we earn revenue based on a commission rate that considers earned premiums; agent commission; incurred losses; and profit retained by our underwriting partner. Our transaction-based solutions are priced based on a fixed rate per transaction. We sell our solutions through our direct sales organization and derive substantially all of our revenue from sales in the United States.

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

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base. We believe these factors present us with significant opportunities to generate revenue through sales of additional data analytics and on demand software solutions.

Our company was formed in 1998 to acquire Rent Roll, Inc., which marketed and sold on premise property management systems for the conventional and affordable multifamily rental housing markets. In June 2001, we released OneSite, our first on demand property management system. Since 2002, we have expanded our platform of solutions to include property management, leasing and marketing, resident services, and asset optimization capabilities. In addition to the multifamily markets, we now serve the single family, senior living, student living, military housing, commercial, hospitality, and vacation rental markets. Since July 2002, we have completed over 40 acquisitions of complementary technologies to supplement our internal product development and sales and marketing efforts and expand the scope of our solutions, the types of rental housing and vacation rental properties served by our solutions, and our client base. In connection with this expansion and these acquisitions, we have committed greater resources to developing and increasing sales of our platform of data analytics and on demand solutions. As of March 31, 2018, we had approximately 5,700 employees.

Solutions and Services

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

Our platform consists of four primary categories of solutions: Property Management, Leasing and Marketing, Resident Services, and Asset Optimization. These solutions provide complementary asset performance and investment decision support; risk mitigation, billing and utility management; resident engagement, spend management, operations and facilities management; and lead generation and lease management capabilities that collectively enable our clients to manage all the stages of the renter life cycle. Each of our solution categories includes multiple product centers that provide distinct capabilities that can be bundled as a package or licensed separately. Each product center integrates with a central repository of lease transaction data, including prospect, renter, and property data. In addition, our open architecture allows third-party applications to access our solutions using our RealPage Exchange platform.

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

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

Property Management

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

Leasing and Marketing

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

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Center, Websites & Syndication, MyNewPlace, Lead2Lease CRM, and Resident Screening. In 2017, we acquired On-Site and Intelligent Lease Management (ILM), two platforms for property managers and renters that offer solutions to complement our existing leasing and marketing solutions. Our integration of these platforms, which we intend to complete over time, is expected to enhance our existing leasing and marketing solutions.

Resident Services

Our resident services solutions provide a platform to optimize the transactional and social experience of prospects and renters, and enhance a property's reputation. These solutions facilitate core renter management business processes including utility billing, renter payment processing, service requests, lease renewal, renter's insurance, and consulting and advisory services. In connection with our On-Site acquisition, we acquired Deposit IQ, a subsidiary of On-Site, which added additional solutions to our platform. Our resident services solution category consists of five primary solutions: Resident Utility Management, Resident Payments, Resident Portal, Contact Center Maintenance, and Renter's Insurance.

Asset Optimization

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

Professional Services

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

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

Recent Developments

Credit Facility

In March 2018, we executed the Seventh Amendment to our 2014 Credit Facility. This amendment allowed for an increase of $150.0 million in available credit under our Revolving Facility, consequently providing aggregate commitments for revolving loans up to $350.0 million. Among other modifications, the Seventh Amendment provided for an increase in the maximum Net Leverage Ratio and Senior Leverage Ratio to 5.00 to 1.00 and 3.75 to 1.00, respectively. The Seventh Amendment also modified the Accordion Feature definition to allow for incremental commitments which would not cause our Senior Leverage Ratio to exceed 3.50 to 1.00.

Refer to Note 7 of the accompanying Condensed Consolidated Financial Statements for applicable definitions, further discussion of this amendment, and other terms and conditions of the Credit Facility.

Current Acquisition Activity

No acquisitions were completed during the three months ended March 31, 2018.

ClickPay

In April 2018, we entered into an acquisition agreement, by which we acquired substantially all of the outstanding membership units of NovelPay, LLC ("NovelPay"), other than those owned by ClickPay Services, Inc. On the same day, we also entered into an agreement and plan of merger, by which we acquired all of the outstanding stock of ClickPay Services, Inc. (collectively with NovelPay, "ClickPay"). Under the acquisition agreement, certain holders retained a portion of their units representing approximately 12% of the membership units of NovelPay, subject to put rights that may be exercised by the holders after September 1, 2018 and call rights that may be exercised by RealPage after October 1, 2018. The exercise price of the put rights and call rights is the same as the per unit price of the membership units purchased at the closing.

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The combined purchase price, assuming exercise of the put or call rights, is approximately $218.5 million, consisting of a cash payment at closing of $142.2 million and $76.3 million in shares of our common stock, subject to a working capital adjustment and a holdback of a portion of the purchase price to serve as security in respect of the indemnification and post-closing purchase price adjustments. The holdback will be payable on or shortly after the first and second anniversary dates of the acquisition date.

Other Event

During May 2018, we learned that we were the subject of a targeted email phishing campaign that led to a business email compromise, pursuant to which an unauthorized party gained access to an external third party system used by a subsidiary we acquired in 2017. The incident resulted in the diversion of approximately $8 million of funds intended for disbursement to three clients. We immediately notified relevant financial institutions and certain government agencies of the incident and restored all funds to the client accounts. No client consumer data was compromised.

We immediately engaged a leading forensics firm to investigate the incident. The intrusion was limited to the external third party system used by our subsidiary that we were migrating to our core platform. Although the investigation is ongoing, there is no evidence at this time that this event involved access to any other systems, including operational, security or proprietary risk management systems, whether corporate or client-facing. We have taken action to remediate the security weakness that gave rise to the incident. While certain remedial actions have been completed, we continue to actively plan for and implement additional control procedures.

This incident did not have an impact on our business, cash flows, financial condition or results of operations for the three months ended March 31, 2018. We maintain insurance coverage to limit our losses related to criminal and network security events. During the three months ended June 30, 2018, we expect to take a charge related to the diverted funds and other associated expenses offset by a receivable for amounts deemed probable of recovery from applicable insurance coverage. Presently, we have determined that such net charge will not be material to our 2018 financial results.

Key Business Metrics

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

	Three Months Ended March 31,	
	2018	2017
	(in thousands, except dollar per unit data and percentages)	
Revenue:		
Total revenue	$201,301	$152,919
On demand revenue	$193,300	$146,213
On demand revenue as a percentage of total revenue	96.0 %	95.6 %
Non-GAAP total revenue	$201,614	$153,624
Non-GAAP on demand revenue	$193,613	$146,918
Adjusted EBITDA	$54,161	$37,078
Ending on demand units	13,173	11,112
Average on demand units	13,088	11,050
On demand annual client value	$779,446	$596,159
Annualized on demand revenue per average on demand unit	$59.17	$53.65

On demand revenue: This metric represents the GAAP revenue derived from license and subscription fees relating to our on demand software solutions, typically licensed over one year terms; commission income from sales of renter’s insurance policies; and transaction fees for certain of our on demand software solutions. We consider on demand

revenue to be a key business metric because we believe the market for our on demand software solutions represents the largest growth opportunity for our business.
On demand revenue as a percentage of total revenue: This metric represents on demand revenue for the period presented divided by total revenue for the same period. We use on demand revenue as a percentage of total revenue to measure our

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success executing our strategy to increase the penetration of our on demand software solutions and expand our recurring revenue streams attributable to these solutions. We expect our on demand revenue to remain a significant percentage of our total revenue although the actual percentage may vary from period to period due to a number of factors, including the timing of acquisitions; professional and other revenues; and on premise perpetual license sales and maintenance fees.

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

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

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Total revenue	$201,301	$152,919
Acquisition-related and other deferred revenue adjustments	313	705
Non-GAAP total revenue	$201,614	$153,624

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

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

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
On demand revenue	$193,300	$146,213
Acquisition-related and other deferred revenue adjustments	313	705
Non-GAAP on demand revenue	$193,613	$146,918

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

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

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Net income	$10,901	$8,195
Acquisition-related and other deferred revenue adjustments	313	705
Depreciation, asset impairment, and loss on disposal of assets	7,818	6,675
Amortization of intangible assets	16,384	7,789
Acquisition-related expense	1,007	1,210

Costs arising from Hart-Scott-Rodino review process	—	481
Interest expense, net	7,721	1,120
Income tax (benefit) expense	(301)	811
Stock-based expense	10,318	10,092
Adjusted EBITDA	$54,161	$37,078

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

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

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

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

Non-GAAP Financial Measures

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

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

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

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

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

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

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

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

Costs arising from Hart-Scott-Rodino review process: This item consists of direct costs incurred related to reviews by the United States Federal Trade Commission and Department of Justice of our 2017 acquisitions of LRO and On-Site under the Hart-Scott-Rodino Antitrust Improvements Act. We believe that these costs are not reflective of our ongoing operations or our normal acquisition activity. We believe exclusion of these costs facilitates a more accurate comparison of our results across periods.

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

Key Components of Our Results of Operations

Revenue

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

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

Professional and other revenue: Revenue from professional and other services consists of consulting and implementation services; training; and other ancillary services. We complement our solutions with professional and other services for our clients willing to invest in enhancing the value or decreasing the implementation time of our solutions. Our professional and other services are typically priced as time and materials engagements. Professional and other revenue also includes revenues generated from sub-meter installation services under our resident utility management solutions, and our on premise solutions.

Cost of Revenue

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

Operating Expenses

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

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

Sales and marketing: Sales and marketing expense consists primarily of personnel costs for our sales, marketing, and business development employees and executives; information technology; travel and entertainment; and marketing programs. Marketing programs consist of amounts paid for product marketing, renter’s insurance; other advertising; trade shows; user

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conferences; public relations; and industry sponsorships and affiliations. In addition, sales and marketing expense includes amortization of certain purchased intangible assets, including client relationships; key vendor and supplier relationships; and finite-lived trade names, obtained in connection with our acquisitions.

General and administrative: General and administrative expense consists of personnel costs for our executives, finance and accounting, human resources, management information systems, and legal personnel. In addition, general and administrative expense includes fees for professional services, including legal, accounting, and other consulting services; information technology and facilities costs; and acquisition-related costs, including direct costs incurred to complete our acquisitions and changes in the fair value of our acquisition-related contingent consideration obligations.

Critical Accounting Policies and Estimates

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

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

- Revenue recognition;
- Business combinations;
- Stock-based expense;
- Income taxes, including deferred tax assets and liabilities; and
- Capitalized product development costs.

Please refer to our Annual Report on Form 10-K filed with the SEC on March 1, 2018 for a discussion of such policies.

Recently Adopted Accounting Standards

We adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), on January 1, 2018 using the modified retrospective method. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings at the beginning of 2018. Comparative information from prior year periods has not been restated and continues to be reported under the accounting standards in effect for those periods. The cumulative effects of the changes made to our condensed consolidated January 1, 2018 balance sheet for the adoption of the new revenue standard were as follows:

	Balance at December 31, 2017	Adjustments due to ASU 2014-09	Balance at January 1, 2018
	(in thousands)		
Assets			
Accounts receivable, less allowance for doubtful accounts	$124,505	$ (7,925)	$116,580
Other current assets	6,622	2,771	9,393
Deferred tax assets, net	44,887	(780)	44,107
Other assets	11,010	4,459	15,469
Liabilities			
Current portion of deferred revenue	116,622	(3,696)	112,926
Stockholders’ Equity			
Accumulated deficit	(75,046)	2,221	(72,825)

Adoption of the new revenue standard resulted in changes to our accounting policies for revenue recognition, certain variable considerations, and commissions expense. The adoption of the new revenue standard did not have a significant effect on our revenue; however, it did have an impact on the timing of when we expense commission costs incurred to obtain a contract and the reserves we establish for variable consideration from credits or other pricing accommodations we provide our clients. We expect the effect of the new revenue standard to be immaterial to our revenue on an ongoing basis. The primary effect to our net income on an ongoing basis relates to the reserve for credit accommodations and deferral of incremental commission costs incurred to obtain new contracts. Under the new revenue standard, we accrue for credit accommodations in our reserve during the month of billing and credits reduce this reserve when issued. Further, we now initially defer commission costs and amortize these costs to expense over a period of benefit that we have determined to be three years.

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See Note 4 for additional required disclosures related to the impact of adopting the new revenue standard and our accounting for costs to obtain a contract.

Results of Operations

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

Condensed Consolidated Statements of Operations

	Three Months Ended March 31,			
	2018	2018	2017	2017
	(in thousands, except per share and ratio amounts)			
Revenue:				
On demand	$193,300	96.0 %	$146,213	95.6 %
Professional and other	8,001	4.0	6,706	4.4
Total revenue	201,301	100.0	152,919	100.0
Cost of revenue[(1)]	76,660	38.1	63,042	41.2
Gross profit	124,641	61.9	89,877	58.8
Operating expenses:				
Product development[(1)]	29,040	14.4	20,387	13.3
Sales and marketing[(1)]	50,241	25.0	35,147	23.0
General and administrative[(1)]	27,090	13.5	24,251	15.9
Total operating expenses	106,371	52.9	79,785	52.2
Operating income	18,270	9.0	10,092	6.6
Interest expense and other, net	(7,670)	(3.8)	(1,086)	(0.7)
Income before income taxes	10,600	5.2	9,006	5.9
Income tax (benefit) expense	(301)	(0.1)	811	0.5
Net income	$10,901	5.3 %	$8,195	5.4 %
Net income per share attributable to common stockholders:				
Basic	$0.13		$0.10	
Diluted	$0.13		$0.10	
Weighted average shares used in computing net income per share attributable to common stockholders:				
Basic	81,166		78,263	
Diluted	84,817		81,386	
(1) Includes stock-based expense as follows:				
Cost of revenue	$835		$853	
Product development	2,163		1,879	
Sales and marketing	3,541		3,128	
General and administrative	3,779		4,232	

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Comparison of the Three Months Ended March 31, 2018 and 2017.

Revenue

	Three Months Ended March 31,				
	2018	2017	Change	% Change	
	(in thousands, except per unit data and percentages)				
Revenue:					
On demand	$193,300	$146,213	$47,087	32.2	%
Professional and other	8,001	6,706	1,295	19.3	
Total revenue	$201,301	$152,919	$48,382	31.6	
Non-GAAP on demand revenue	$193,613	$146,918	$46,695	31.8	
Ending on demand units	13,173	11,112	2,061	18.5	
Average on demand units	13,088	11,050	2,038	18.4	
On demand annual client value	$779,446	$596,159	$183,287	30.7	
Annualized on demand revenue per average on demand unit	$59.17	$53.65	$5.52	10.3	%

The change in total revenue for the three months ended March 31, 2018, as compared to the same period in 2017, was due to the following:

On demand revenue: During the three months ended March 31, 2018, on demand revenue increased $47.1 million, or 32.2%, as compared to the same period in 2017. This increase was attributable to incremental revenue from our 2017 acquisitions and growth across our platform of solutions, most significantly in resident services. Annualized on demand revenue per average on demand unit as of March 31, 2018, increased year-over-year by 10.3%, driven by revenue from our 2017 acquisitions and the consistent organic growth of our resident services, property management, and asset optimization solutions.

On demand revenue generated by our property management solutions increased year-over-year by $5.0 million, or 12.3%, during the three months ended March 31, 2018. This increase was primarily driven by the growth of our spend management solutions, as well as adoption of our OneSite property management solutions.

On demand revenue from our resident services solutions continued to experience significant growth, increasing by $16.2 million, or 26.6%, during the three months ended March 31, 2018, as compared to the same period in 2017. Resident services benefited from strong growth in our resident utility management solutions, primarily attributable to incremental revenue from our acquisition of AUM in the second quarter of 2017, and the continued growth of our payments solutions.

On demand revenue from our leasing and marketing solutions for the three months ended March 31, 2018, increased by $11.6 million, or 41.7%, as compared to the same period in 2017. This increase was largely attributable to incremental revenue from our acquisition of On-Site in the third quarter of 2017.

On demand revenue derived from our asset optimization solutions grew $14.3 million, or 83.7%, during the three months ended March 31, 2018, as compared to the same period in 2017. This growth was attributable to incremental revenue from our acquisition of LRO in the fourth quarter of 2017 and, to a lesser extent, our acquisition of Axiometrics in the first quarter of 2017, as well as growth of our business intelligence solutions.

Professional and other revenue: Professional and other revenue increased year-over-year by $1.3 million during the three months ended March 31, 2018, driven by growth from our sub-meter services, including our 2017 acquisition of AUM, and the effect of our adoption of ASC 606.

On demand unit metrics: As of March 31, 2018, one or more of our on demand solutions was utilized in the management of 13.2 million rental property units, representing a year-over-year net increase of 2.1 million units, or 18.5%. This increase was primarily due to our acquisitions completed in 2017, which accounted for approximately 11.8% of total ending on demand units, as well as solid organic unit growth. On demand units managed by our clients renewed at an average rate of 96.6% over a trailing twelve-month period ended March 31, 2018.

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Cost of Revenue

	Three Months Ended March 31,			
	2018	2017	Change	% Change
	(in thousands, except percentages)			
Cost of revenue	$69,068	$55,617	$13,451	24.2 %
Stock-based expense	835	853	(18)	(2.1)
Depreciation and amortization	6,757	6,572	185	2.8
Total cost of revenue	$76,660	$63,042	$13,618	21.6 %

Cost of revenue: During the three months ended March 31, 2018, cost of revenue, excluding stock-based expense, depreciation, and amortization, increased $13.5 million, as compared to the same period in 2017. Personnel expense increased year-over-year during the three month period ending March 31, 2018, by $6.2 million, primarily attributable to employees gained in our 2017 acquisitions and investments to support our ongoing organic growth. Year-over-year increases in direct costs of $4.5 million during the three-month period ended March 31, 2018, were driven by incremental costs from our recent acquisitions and higher transaction volume from our payment processing solutions. During the three months ended March 31, 2018, our gross margin increased over the prior year quarter from 58.8% to 61.9%. This margin expansion was primarily driven by synergies achieved related to our 2017 acquisitions, more efficiently leveraging our fixed costs such as IT, and also the result of revenue mix where client adoption has shifted to higher margin product solutions.

Operating Expenses

	Three Months Ended March 31,			
	2018	2017	Change	% Change
	(in thousands, except percentages)			
Product development	$25,539	$16,978	$8,561	50.4 %
Stock-based expense	2,163	1,879	284	15.1
Depreciation	1,338	1,530	(192)	(12.5)
Total product development expense	$29,040	$20,387	$8,653	42.4 %

Product development: Product development expense, excluding stock-based expense and depreciation, increased $8.6 million for the three months ended March 31, 2018, as compared to the same period in 2017. Incremental headcount from our recent acquisitions and investments to support our product and innovation initiatives contributed to a year-over-year increase in personnel expense of $6.4 million. Platform and technology infrastructure investments, as well as incremental costs from recent acquisitions, drove a year-over-year increase of $1.9 million during the three-month period.

Total product development expense as a percent of total revenues for the first quarter increased from 13.3% in 2017 to 14.4% in 2018, exhibiting margin compression primarily driven by our platform and infrastructure investments, and incremental costs from our recent acquisitions.

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	Three Months Ended March 31,			
	2018	2017	Change	% Change
	(in thousands, except percentages)			
Sales and marketing	$32,911	$27,331	$5,580	20.4 %
Stock-based expense	3,541	3,128	413	13.2
Depreciation and amortization	13,789	4,688	9,101	194.1
Total sales and marketing expense	$50,241	$35,147	$15,094	42.9 %

Sales and marketing: Sales and marketing expense, excluding stock-based expense, depreciation, and amortization, increased year-over-year by $5.6 million during the three months ended March 31, 2018, as compared to the same period in 2017. Personnel expense increased $3.5 million between the respective periods, reflecting incremental headcount from our 2017 acquisitions and investment in our sales force and product marketing to further increase productivity. This increase was partially offset by lower commission expenses due to the adoption of ASC 606. Marketing program costs increased year-over-year during the three-month period ended March 31, 2018, by $1.0 million, reflecting investments to accelerate client demand across our portfolio of solutions.

Total sales and marketing expense as a percentage of total revenue for the first quarter increased from 23.0% in 2017 to 25.0% in 2018, driven by higher amortization expense from our 2017 acquisitions during the current period. Excluding the impact of this incremental amortization expense, sales and marketing expense declined as a percentage of revenue due to scale built in our sales and marketing engine and lower sales commissions from the adoption of ASC 606.

	Three Months Ended March 31,			
	2018	2017	Change	% Change
	(in thousands, except percentages)			
General and administrative	$21,935	$18,369	$3,566	19.4 %
Stock-based expense	3,779	4,232	(453)	(10.7)
Depreciation	1,376	1,650	(274)	(16.6)
Total general and administrative expense	$27,090	$24,251	$2,839	11.7 %

General and administrative: General and administrative expense for the three months ended March 31, 2018, excluding stock-based expense and depreciation, increased $3.6 million, as compared to the same period of 2017. This increase was primarily driven by personnel expense for the three-month period increasing $2.5 million year-over-year, reflecting incremental headcount from our recent acquisitions and investments to support our continued growth. Professional fees increased year-over-year by $1.9 million due to costs of ongoing legal matters.

Total general and administrative expense as a percentage of total revenue decreased from 15.9% to 13.5% for the three months ended March 31, 2017 and 2018, respectively, primarily driven by scale across our administrative functions, partially offset by incremental costs from acquisitions and legal fees.

Stock-based Expense

	Three Months Ended March 31,			
	2018	2017	Change	% Change
	(in thousands, except percentages)			
Stock-based expense	$10,318	$10,092	$ 226	2.2 %

Stock-based expense for the three months ended March 31, 2018 remained consistent as compared to the same period of 2017.

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Depreciation and Amortization Expense

	Three Months Ended March 31,			
	2018	2017	Change	% Change
	(in thousands, except percentages)			
Depreciation expense	$6,876	$6,651	$225	3.4 %
Amortization expense	16,384	7,789	8,595	110.3
Total depreciation and amortization expense	$23,260	$14,440	$8,820	61.1 %

Depreciation and amortization expense increased $8.8 million during the three months ended March 31, 2018, as compared to the same period of 2017. Higher amortization expense was driven by the addition of finite-lived intangible assets in connection with our 2017 acquisitions.

Interest Expense and Other, Net

	Three Months Ended March 31,			
	2018	2017	Change	% Change
	(in thousands, except percentages)			
Interest expense	$(7,756)	$(1,120)	$(6,636)	592.5 %
Interest income	35	—	35	100.0
Other income	51	34	17	50.0
Total interest expense and other, net	$(7,670)	$(1,086)	$(6,584)	606.3 %

Interest expense and other, net for the three months ended March 31, 2018, increased year-over-year by $6.6 million. This increase was primarily due to $4.1 million of interest and amortization expense related to our Convertible Notes. Interest expense related to our Credit Facility also increased $2.2 million year-over-year, as a result of additional borrowings under the Term Loans and Revolving Facility in support of our 2017 acquisitions.

Provision for Taxes

We compute our provision for income taxes on a quarterly basis by applying an estimated annual effective tax rate to income from recurring operations and by calculating the tax effect of discrete items recognized during the quarter. Our effective income tax rate was (2.8)% and 9.0% for the three months ended March 31, 2018 and 2017, respectively. Our effective rate was lower than the statutory rate for the three months ended March 31, 2018, primarily because of excess tax benefits from stock compensation of $4.2 million recognized as a discrete item, as required by ASU 2016-09. The effective rate was lower than the statutory rate for the three months ended March 31, 2017, primarily because of excess tax benefits from stock-based compensation of $2.7 million recognized as a discrete item.

Liquidity and Capital Resources

Our primary sources of liquidity as of March 31, 2018, consisted of $101.6 million of cash and cash equivalents, $300.0 million available under the Revolving Facility, amounts available under the Credit Facility's Accordion Feature, and $5.0 million of working capital (excluding $101.6 million of cash and cash equivalents and $110.0 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, acquisitions, and debt service will continue to be our principal needs for liquidity over the near term. We made capital expenditures of $12.7 million during the three months ended March 31, 2018. Due to anticipated expenditures related to our international growth, our recent acquisitions, investments related to those acquisitions, and data content and analytics investments, we expect capital expenditures to be approximately 6% of total revenue during the year ending December 31, 2018. We expect our capital expenditure rate to decrease to 5% of total revenue over the next few years. In addition, we have made several acquisitions in which a portion of the cash purchase price is payable at various times through 2021, with a majority of the deferred cash obligations payable during 2018. We expect to fund these obligations from cash provided by operating activities or funds available under our Credit Facility.

In April 2018, we entered into an acquisition agreement, by which we acquired substantially all of the outstanding membership units of NovelPay, LLC ("NovelPay"), other than those owned by ClickPay Services, Inc. On the same day, we also entered into an agreement and plan of merger, by which we acquired all of the outstanding stock of ClickPay

Services, Inc. (collectively with NovelPay, “ClickPay”). Under the acquisition agreement, certain holders retained a portion of their units representing approximately 12% of the membership units of NovelPay, subject to put rights that may be exercised by the holders after September 1, 2018 and call rights that may be exercised by RealPage after October 1, 2018. The exercise price of

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the put rights and call rights is the same as the per unit price of the membership units purchased at the closing. The combined purchase price, assuming exercise of the put or call rights, is approximately $218.5 million consisting of a cash payment of $142.2 million and $76.3 million in shares of our common stock, subject to a working capital adjustment and a holdback of a portion of the purchase price to serve as security in respect of the indemnification and post-closing purchase price adjustments. The holdback will be payable on or shortly after the first and second anniversary dates of the acquisition date. This acquisition was financed using cash on hand and funds available under our Credit Facility.

We believe that our existing cash and cash equivalents, working capital (excluding deferred revenue and cash and cash equivalents), and our cash flows from operations are sufficient to fund our operations, working capital requirements, and planned capital expenditures; and to service our debt obligations for at least the next twelve months. Our future working capital requirements will depend on many factors, including our rate of revenue growth, the timing and size of future 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 that could require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us, or at all.

As of December 31, 2017, we had gross federal and state NOL carryforwards of $172.5 million and $60.2 million, respectively. Our federal and state NOL carryforwards may be available to offset potential payments of future income tax liabilities. If unused, the gross federal NOLs will begin to expire in 2024 and the state NOLs will begin to expire in 2018. Total gross state NOLs expiring in the next five years is approximately $19.1 million.

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

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Net cash provided by operating activities	$70,771	$46,983
Net cash used in investing activities	(14,460)	(76,028)
Net cash used in financing activities	(7,405)	(3,499)

Net Cash Provided by Operating Activities

During the three months ended March 31, 2018, net cash provided by operating activities consisted of net income of $10.9 million, net non-cash adjustments to net income of $36.8 million, and a net inflow of cash from changes in working capital of $23.1 million. Non-cash adjustments to net income primarily consisted of depreciation and amortization expense of $23.3 million, stock-based expense of $10.3 million, and amortization of debt discount and issuance costs of $3.0 million. These items were partially offset by income tax-related items of $1.2 million.

Changes in working capital during the three months ended March 31, 2018, included net cash inflows from customer deposits of $16.3 million, primarily attributable to the timing of cash settlements for previously initiated resident transactions related to our payments solutions, and accounts receivable of $15.6 million, which is primarily due to timing of client billing and collections. These items were partially offset by net cash outflows from changes in other current assets of $4.8 million and deferred revenue of $3.0 million.

Net Cash Used in Investing Activities

During the three months ended March 31, 2018, we used $14.5 million of net cash in investing activities, consisting of $12.7 million for capital expenditures and $1.8 million for the purchase of our investment in WayBlazer. Capital expenditures during the period primarily included capitalized software development costs and expenditures to support our information technology infrastructure.

Net Cash Used in Financing Activities

During the three months ended March 31, 2018, the net cash used in our financing activities primarily consisted of activity under our stock-based expense plans of $3.5 million, primarily attributable to shares repurchased from employees to cover their cost of taxes upon vesting of restricted stock, payments on our Term Loans and Revolving Facility of $2.0 million, and $1.1 million of costs incurred in connection with the amendment to the Credit Facility.

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Contractual Obligations, Commitments, and Contingencies

The following table summarizes, as of March 31, 2018, our minimum payments, including interest when applicable, for long-term debt and other obligations for the next five years and thereafter:

	Payments Due by Period				
	Total	Less Than 1 year	1-3 years	3-5 years	More Than 5 years
	(in thousands)				
Convertible Notes [1]	$368,934	$ 3,881	$10,350	$354,703	$ —
Term Loans [2]	363,577	20,810	69,201	273,566	—
Revolving Facility [3]	58,599	1,509	4,456	52,634	—
Operating lease obligations	103,270	11,529	25,374	20,246	46,121
Acquisition-related liabilities [4]	50,862	36,758	13,104	1,000	—
	$945,242	$ 74,487	$122,485	$702,149	$ 46,121

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

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

(3) Represents the $50.0 million of principal amount outstanding and excludes unamortized debt issuance costs reflected in our Consolidated Balance Sheets. These amounts also include the anticipated interest obligations of our Revolving Facility, which were estimated using a LIBOR forward rate curve.

(4) Represents undiscounted amounts payable for our deferred cash obligations, excluding potential reductions related to the seller's indemnification obligations, and the estimated fair value for our contingent consideration obligations.

Credit Facility

On September 30, 2014, we entered into an agreement for a secured credit facility to refinance our outstanding revolving loans. The credit facility agreement was subsequently amended during 2016, 2017 and the first quarter of 2018 (inclusive of these amendments, the "Credit Facility"). For more information regarding these amendments, refer to our 2017 Form 10-K and Note 7 of the accompanying Condensed Consolidated Financial Statements. The Credit Facility matures on February 27, 2022, and includes the following:

Revolving Facility: The Credit Facility provides $350.0 million in aggregate commitments for revolving loans, with sublimits of $10.0 million for the issuance of letters of credit and $20.0 million for swingline loans ("Revolving Facility").

Term Loan: In February 2016, we originated a term loan in the original principal amount of $125.0 million under the Credit Facility ("Term Loan"). We make quarterly principal payments of $0.8 million, which will increase to $1.5 million beginning on June 30, 2018, and to $3.1 million beginning on June 30, 2020.

Delayed Draw Term Loan: In December 2017, we drew funds of $200.0 million available under the delayed draw term loan ("Delayed Draw Term Loan"). Subsequent to disbursal of the Delayed Draw Term Loan funds, we began making quarterly principal payments on the Delayed Draw Term Loan equal to an initial amount of $1.3 million. The quarterly principal payments increase to $2.5 million beginning on June 30, 2018, and to $5.0 million beginning on June 30, 2020.

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

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Accordion Feature: The Credit Facility also allows us, subject to certain conditions, to request additional term loans or revolving commitments up to an aggregate principal amount of $150.0 million, plus an amount that would not cause our Senior Leverage Ratio to exceed 3.50 to 1.00.

The Credit Facility contains customary events of default, subject to customary cure periods for certain defaults, that include, among others, non-payment defaults, covenant defaults, material judgment defaults, bankruptcy and insolvency defaults, cross-defaults to certain other material indebtedness, defaults for non-compliance with the Employee Retirement Income Security Act (“ERISA”), inaccuracy of representations and warranties and a change in control default. In the event of a default, the obligations under the Credit Facility could be accelerated, the applicable interest rate under the Credit Facility could be increased, the loan commitments could be terminated, our subsidiaries that have guaranteed the Credit Facility could be required to pay the obligations in full and our lenders would be permitted to exercise remedies with respect to all of the collateral that is securing the Credit Facility, including substantially all of our and our subsidiary guarantors’ assets. Any such default that is not cured or waived could have a material adverse effect on our liquidity and financial condition.

Refer to Note 7 of the accompanying Condensed Consolidated Financial Statements for a complete discussion of the Credit Facility, including its terms and conditions.

Convertible Notes

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

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

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

Refer to Note 7 of the accompanying Condensed Consolidated Financial Statements for a complete discussion of these transactions and their accounting implications.

Share Repurchase Program

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

There was no repurchase activity during the three months ended March 31, 2018 and 2017.

Other Contractual Obligations

In addition to the contractual obligations discussed above, certain of our business acquisitions include provisions for the payment of deferred and contingent cash obligations. Deferred cash obligations are generally subject to adjustments specified in the underlying acquisition agreement related to the seller's indemnification obligations, and payment of contingent cash obligations is dependent upon the acquired business achieving agreed-upon operational or financial targets in the post-acquisition period. We had deferred cash obligations, net of unamortized discounts and sellers' indemnification obligations, of $46.6 million and $47.0 million and contingent cash obligations of $0.1 million and $0.4 million at March 31, 2018 and December 31, 2017, respectively. Deferred and contingent cash obligations related to our acquisitions have payment dates extending through 2021.

Other than the matters discussed above, there have been no other material changes outside normal operations in our contractual obligations from our disclosures within our Form 10-K for the year ended December 31, 2017.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

We had cash and cash equivalents of $101.6 million and $69.3 million at March 31, 2018 and December 31, 2017, respectively. We hold cash and cash equivalents for working capital purposes. We do not have material exposure to market risk with respect to investments, as our investments consist primarily of highly liquid investments purchased with original maturities of three months or less.

We had $317.1 million and $319.1 million outstanding under our Term Loans at March 31, 2018 and December 31, 2017, respectively. The Term Loans are reflected net of unamortized debt issuance costs of $1.6 million and $1.7 million at March 31, 2018 and December 31, 2017, respectively, in the accompanying Condensed Consolidated Balance Sheets. At our option, amounts borrowed under the Credit Facility accrue interest at a per annum rate equal to either LIBOR, plus a margin ranging from 1.25% to 2.25%, or the Base Rate, plus a margin ranging from 0.25% to 1.25%. The base LIBOR rate is, at our discretion, equal to either one, two, three, or six month LIBOR. The Base Rate is defined as the greater of Wells Fargo's prime rate, the Federal Funds Rate plus 0.50%, or one month LIBOR plus 1.00%. If the applicable variable interest rates changed by 50 basis points, our annual interest expense as of March 31, 2018 would change by approximately $1.5 million.

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) and Rule 15d-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we carried out an evaluation, with the participation of our management, and under the supervision of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2018. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's controls required for preventing and timely detecting improper fund transfers with respect to an external third party system used by a subsidiary acquired by the Company in 2017 were not effective as of such date, resulting in a material weakness in the Company's internal control over financial reporting. For additional information, see Note 1 to the Condensed Consolidated Financial Statements.

Management has determined that the material weakness did not result in a misstatement in the Condensed Consolidated Financial Statements as of March 31, 2018, and has determined that the financial statements and other information included in the Condensed Consolidated Financial Statements as of March 31, 2018 present fairly in all material respects the Company's financial condition, results of operations and cash flows at and for the periods presented in accordance with accounting principles generally accepted in the United States ("GAAP").

Changes in Internal Controls

In connection with the identified material weakness, we have begun the implementation of the remedial measures described below. However, there were no significant changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Remediation Plans and Other Information

Management has taken immediate action to begin remediating the material weakness identified. While certain remedial actions have been completed, the Company continues to actively plan for and implement additional control procedures. These remediation efforts, outlined below, are intended to further address the identified material weakness.

Since identifying the material weakness in internal control over financial reporting, the Company has engaged a leading forensics firm to investigate the incident that the material weakness in internal control over financial reporting failed to prevent or detect. To remediate the material weakness, management has implemented or intends to implement the following measures:

- continue adoption and rollout of multifactor authentication;
- ensure compensating controls are adequate and effective for third party systems; and
- increase internal communications to enhance security awareness regarding, among other things, phishing identification, business email use, password protection and storage.

Remediation of the material weakness in internal controls is among management’s highest priorities. Management will periodically assess the progress and sufficiency of the ongoing initiatives and make adjustments as and when necessary. Management understands that improvement and maintenance of internal controls is a continuing responsibility.

Inherent Limitations of Internal Controls

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

On February 23, 2015, we received from the Federal Trade Commission (“FTC”) a Civil Investigative Demand consisting of interrogatories and a request to produce documents relating to our compliance with the FCRA. We responded to the request and requests for additional information by the FTC. On November 2, 2017, the FTC staff informed us of its belief that there is a basis for claims that could include monetary and injunctive relief against us for failing to follow reasonable procedures to assure maximum possible accuracy of our tenant screening reports. We believe that our business practices did not, and do not, violate the FCRA or any other laws, and we intend to vigorously defend our position. We have had ongoing discussions with the FTC to attempt to resolve the matter. However, we cannot be certain that the matter will be resolved as a result of these discussions.

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

Item 1A. Risk Factors.

Financial 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 market acceptance;

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

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

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

The growth in the size, dispersed geographic locations, complexity and diversity of our business and the expansion of our product lines and client base has placed, and our anticipated growth may continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. We continue to experience growth in the number of employees and on demand clients. We had approximately 5,700 employees and over 12,400 on demand clients as of March 31, 2018. In addition, we have grown and expect to continue to grow through acquisitions. Our ability to effectively manage our anticipated future growth will depend on, among other things, the following:

- successfully supporting and maintaining a broad range of current and emerging solutions;
- identifying suitable acquisition targets and efficiently managing the closing of acquisitions and the integration of targets into our operations;

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- maintaining continuity in our senior management and key personnel;
- attracting, retaining, training and motivating our employees, particularly technical, client service and sales personnel;
- enhancing our financial and accounting systems and controls;
- enhancing our information technology infrastructure, processes and controls;
- successfully completing system upgrades and enhancements; and
- managing expanded operations in geographically dispersed locations.

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

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

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

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

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

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

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

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

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method in accounting for the shares issuable upon conversion of the Convertible Notes, then our diluted earnings per share would be adversely affected.

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

We have acquired new technology and domain expertise through multiple acquisitions, including our most recent acquisitions of ClickPay, LRO, On-Site, PEX, AUM, Axiometrics, eSupply, AssetEye and NWP. We expect to continue making acquisitions in the future. The success of our future acquisition strategy will depend on our ability to identify, negotiate, complete and integrate acquisitions. Acquisitions are inherently risky, and any acquisitions we complete may not be successful. Any acquisitions we pursue involve numerous risks, including the following:

- difficulties in integrating and managing the operations and technologies of the companies we acquire;
- diversion of our management's attention from normal daily operations of our business;
- our inability to maintain the clients, the key employees, the key business relationships and the reputations of the businesses we acquire;
- our inability to generate sufficient revenue from acquisitions to offset our increased expenses associated with acquisitions;
- difficulties in predicting or achieving the synergies between acquired businesses and our own businesses;
- our responsibility for the liabilities of the businesses we acquire, including, without limitation, liabilities arising out of their failure to maintain effective data security, data integrity, disaster recovery and privacy controls prior to the acquisition, or their infringement or alleged infringement of third-party intellectual property, contract or data access rights prior to the acquisition;
- difficulties in complying with new markets or regulatory standards to which we were not previously subject;
- delays in our ability to implement internal standards, controls, procedures and policies in the businesses we acquire; and
- adverse effects of acquisition activity on the key performance indicators we use to monitor our performance.

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

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

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

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

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

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

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

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

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

- decreasing demand for leasing and marketing solutions;
- reducing the number of occupied sites and units on which we earn revenue;
- preventing our clients from expanding their businesses and managing new properties;
- causing our clients to reduce spending on our solutions;
- subjecting us to increased pricing pressure in order to add new clients and retain existing clients;
- causing our clients to switch to lower-priced solutions provided by our competitors or internally developed solutions;
- delaying or preventing our collection of outstanding accounts receivable; and
- causing payment processing losses related to an increase in client insolvency.

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

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

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges or opportunities, including the need to develop new solutions or enhance our existing solutions, enhance our operating infrastructure or acquire businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant ownership dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. In 2017 and the first quarter of 2018, we amended our Credit Facility to increase our borrowing capacity, and in 2017 we completed a convertible debt offering in which we sold $345.0 million of Convertible Notes. Future debt financing could increase our interest expense and 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.

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

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

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

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

Our Credit Facility also contains, subject in each case to customary exceptions and qualifications, customary affirmative covenants. We are also required to comply with a maximum Consolidated Net Leverage Ratio, a maximum Consolidated Senior Secured Net Leverage Ratio, and a minimum Consolidated Interest Coverage Ratio. See additional discussion of these requirements in Note 7 to the Condensed Consolidated Financial Statements under Item 1 of this Quarterly Report on Form 10-Q. As of March 31, 2018, we were in compliance with all of the covenants under our Credit Facility.

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

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

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

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

If we fail to remediate our recently identified material weakness or 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 so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with United States generally accepted accounting principles. We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, which requires annual management assessment of the effectiveness of our internal control over financial reporting and a report by our independent auditors. During May 2018, we learned that we were the subject of a targeted email phishing campaign that led to

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a business email compromise pursuant to which an unauthorized party gained access to an external third party system used by a subsidiary that was acquired by us in 2017. As a result, our management determined that we did not maintain an effective control environment because we ineffectively designed and maintained controls required for preventing and timely detecting improper fund transfers from the external third party system used by the subsidiary, and our management determined that these control deficiencies constitute a material weakness. See Note 1 to our Condensed Consolidated Financial Statements herein for additional information regarding this matter. If we fail to remediate this recently identified material weakness or to maintain proper and effective internal controls in the future, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, harm our ability to operate our business and reduce the trading price of our stock.

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

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

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09, as amended by certain supplementary ASU’s released in 2016, replaces all current GAAP guidance on this topic and eliminates all industry-specific guidance. The new revenue recognition standard requires the recognition of revenue when promised goods or services are transferred to clients in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also includes Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers, which requires the deferral of incremental costs of obtaining a contract with a client.

Our adoption of this ASU was effective on January 1, 2018 and required changes in our revenue recognition timing related to commissions paid to our direct sales force, certain client accommodations and our allocation of contract transaction prices. The new standard also requires new revenue disclosures in our consolidated financial statements relating to, among other items, the disaggregation of revenue and contract backlog. We have developed expanded disclosures to meet the new requirements. We have also identified and designed additional controls and updated our accounting policies to support our implementation and ongoing compliance with the new standard. See additional discussion of the adoption of ASU 2014-09 in Note 2 and Note 4 to the Condensed Consolidated Financial Statements under Item 1 of this Quarterly Report on Form 10-Q.

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

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

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

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

In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, a corporation that undergoes an “ownership change” is subject to limitations on its ability to utilize its pre-change net operating losses, or NOLs, to offset future taxable income. Our ability to utilize NOLs of companies that we have acquired or 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.

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

States and some local taxing jurisdictions have differing rules and regulations governing sales and use taxes, and these rules and regulations are subject to varying interpretations that may change over time. We review these rules and regulations periodically and currently collect and remit sales taxes in taxing jurisdictions where we believe we are required to do so. However, additional state and/or local taxing jurisdictions may seek to impose sales or other tax collection obligations on us, including for past sales. A successful assertion that we should be collecting additional sales or other taxes on our solutions could result in substantial tax liabilities for past sales, discourage clients from purchasing our solutions or otherwise harm our business and operating results. This risk may be greater with regard to solutions acquired through acquisitions because the acquired entities may not have had the same practices and procedures that we have in place.

We may also become subject to tax audits or similar procedures in jurisdictions where we already collect and remit sales taxes. A successful assertion that we have not collected and remitted taxes at the appropriate levels may also result in substantial tax liabilities for past sales. Liability for past taxes may also include very substantial interest and penalty charges. Our client contracts provide that our clients must pay all applicable sales and similar taxes. Nevertheless, clients may be reluctant to pay back taxes and may refuse responsibility for interest or penalties associated with those taxes. If we are required to collect and pay back taxes and the associated interest and penalties, and if our clients fail or refuse to reimburse us for all or a portion of these amounts, we will incur unplanned expenses that may be substantial. Moreover, imposition of such taxes on our solutions going forward will effectively increase the cost of such solutions to our clients and may adversely affect our ability to continue to sell those solutions to existing clients or to gain new clients in the areas in which such taxes are imposed.

Changes to applicable U.S. or foreign tax laws and regulations may have a material adverse effect on our business, financial condition and results of operations.

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 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.

The Tax Cuts and Jobs Act (“Tax Reform Act”), which was signed into law on December 22, 2017, contains significant changes to the U.S. federal income tax laws, the full consequences of which have not yet been determined. As a result of the enacted reduction in the federal corporate income tax rate, we recorded a non-cash adjustment to revalue our net deferred tax assets, with a corresponding charge to earnings in the fourth quarter of 2017. This one-time revaluation was based on our current knowledge, interpretation, and understanding of the Tax Reform Act and its impact to our business. If we are required to further adjust the value of our deferred tax assets and/or recognize a deferred tax liability for non-U.S. earnings, we may be required to record additional charges to earnings, which could have could have a material adverse effect on our business, financial condition, and results of operations.

The ultimate impact of the Tax Reform Act may differ materially from our estimates, due to changes in the interpretations and assumptions made by us as well as additional regulatory and accounting guidance that may be issued and actions we may take as a result of the Tax Reform Act.

Operational Risks Related to Our Business

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

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

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

We generally license our solutions pursuant to client agreements with a term of one year or longer. The pricing of the agreements is typically based on a price per unit basis. Our clients have no obligation to renew these agreements after their term expires, or to renew these agreements at the same or higher annual contract value. In addition, under specific circumstances, our clients have the right to cancel their client agreements before they expire, for example, in the event of an uncured breach by us, or in some circumstances, upon the sale or transfer of a client property, by giving 30 days' notice or paying a cancellation fee. In addition, clients often purchase a higher level of professional services in the initial term than they do in renewal terms to ensure successful activation. As a result, our ability to grow is dependent in part on clients purchasing additional solutions or increasing the number of units they own or manage after the initial term of their client agreement. Though we maintain and analyze historical data with respect to rates of client renewals, upgrades and expansions, those rates may not accurately predict future trends in renewal of on demand units. Our clients' on demand unit renewal rates may decline or fluctuate for a number of reasons, including, but not limited to, their level of satisfaction with our solutions, our pricing, our competitors' pricing, reductions in our clients' spending levels or reductions in the number of on demand units managed by our clients. If our clients cancel or amend their agreements with us during their term, do not renew their agreements, renew on less favorable terms or do not purchase additional solutions or professional services in renewal periods, our revenue may grow more slowly than expected or decline and our profitability may be harmed.

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

On demand revenue that is derived from products that help owners and managers lease and market apartments, such as certain products in LeaseStar and LeasingDesk, may decrease as occupancy rates rise. We have also experienced, and expect to continue to experience, some number of consolidations of our clients with other parties. In addition, if one of our clients is consolidated with another client, the acquiring client may have negotiated lower prices for our solutions or may use fewer of our solutions than the acquired client. In each case, the consolidated entity may attempt to negotiate lower prices for using our solutions as a result of the entity's increased size. These consolidations may cause us to lose on demand units or require us to reduce prices as a result of enhanced client leverage, which could cause our financial performance and operating results to be adversely affected.

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

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

- our failure to develop new or additional solutions;
- our inability to market our solutions in a cost-effective manner to new clients or in new vertical or geographic markets;
- our inability to expand our sales to existing clients;
- our inability to build and promote our brand; and
- perceived or actual security, integrity, reliability, quality or compatibility problems with our solutions.

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

material adverse effect on our operating results.
If we are unable to successfully develop or acquire and sell enhancements and new solutions, our revenue growth will be harmed and we may not be able to meet profitability expectations.
The industry in which we operate is characterized by rapidly changing client requirements, technological developments and evolving industry standards. Our ability to attract new clients and increase revenue from existing clients will depend in large part on our ability to successfully develop, bring to market and sell enhancements to our existing solutions and new

solutions that effectively respond to the rapid changes in our industry. Any enhancements or new solutions that we develop or acquire may not be introduced to the market in a timely or cost-effective manner and may not achieve the broad market acceptance necessary to generate the revenue required to offset the operating expenses and capital expenditures related to development or acquisition. If we are unable to timely develop or acquire and sell enhancements and new solutions that keep pace with the rapid changes in our industry, our revenue will not grow as expected and we may not be able to maintain or meet profitability expectations.

Any disruption of service at our data centers or other facilities could interrupt or delay our clients' access to our solutions, which could harm our operating results.

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

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

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

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

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

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

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

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

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

We compete in a number of markets including accounting software, property management software for multifamily, single family and commercial solutions, vertically-integrated cloud computing services, software-enabled value-added services including applicant screening, insurance, relationship management (“CRM”), marketing and web portals, Internet listing services, utility billing and energy management, revenue management, multifamily housing and commercial real estate market research, spend management, payment processing, affordable housing compliance and audit services and vacation rentals. The markets for many of our solutions are 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 could result in pricing pressures, reduced sales and reduced margins. Often we compete to sell our solutions against existing systems that our potential clients have already made significant expenditures to install.

Our competitors vary depending on our product and service. Certain competitors compete with us in a number of areas, including Yardi, Inc., Entrata, Inc., MRI Software LLC, AppFolio, Inc., and CoStar Group, Inc. Other competitors compete with us with respect to a single product or category of products. We compete in various markets, with different competitive considerations in these various markets. In many of our markets we compete with a number of providers, including those who market specifically to multifamily, single family, and commercial real estate owners and property managers as well as other providers. In addition, many of our existing or potential clients have developed or may develop their own solutions that may be competitive with our solutions. We also may face competition for potential acquisition targets from our competitors who are seeking to expand their offerings.

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

- develop superior products or services, gain greater market acceptance and expand their offerings more efficiently or more rapidly;
- adapt to new or emerging technologies and changes in client requirements more quickly;
- take advantage of acquisition and other opportunities more readily;

- adopt more aggressive pricing policies, such as offering discounted pricing for purchasing multiple bundled products;
- devote greater resources to the promotion of their brand and marketing and sales of their products and services; and
- devote greater resources to the research and development of their products and services.

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

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

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

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

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

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

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

We rely on third-party providers in connection with the delivery of our solutions. Such providers include, but are not limited to, computer hardware and software vendors, database and data providers and cloud hosting providers. We utilize equipment, software and services from Amazon Web Services, a division of Amazon, Inc., Microsoft Corporation, salesforce.com, Avaya, Inc., Twilio, Inc., Palo Alto Networks, Inc., F5 Networks, Inc., EMC Corporation and various other third party providers. Our OneSite Accounting service relies on a software-as-a-service, or SaaS, accounting system developed and maintained by a third-party service provider. We host this application in our data centers and provide supplemental

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development resources to extend this accounting system to meet the unique requirements of the rental housing industry. Our shared cloud portfolio reporting service utilizes software licensed from IBM. We expect to utilize additional service providers as we expand our platform. Although the third-party technologies and services that we currently require are commercially available, such technologies and services may not continue to be available on commercially reasonable terms, or at all. Any loss of the right to use any of these technologies or services could result in delays in the provisioning of our solutions until alternative technology is either developed by us, or, if available, is identified, obtained and integrated, and such delays could harm our business. It also may be time consuming and costly to enter into new relationships. Additionally, any errors or defects in the third-party technologies we utilize or delays or interruptions in the third-party services we rely on could result in errors, failures or disruptions of our services, which also could harm our business.

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

We rely on several large payment processing organizations to enable us to provide payment processing services to our clients, including electronic funds transfers, or EFT, check services, bank card authorization, data capture, settlement and merchant accounting services and access to various reporting tools. We also rely on third-party hardware manufacturers to manufacture the check scanning hardware our clients utilize to process transactions. Some of these organizations and service providers are competitors who also directly or indirectly sell payment processing services to clients in competition with us. With respect to these organizations and service providers, we have significantly less control over the systems and processes than if we were to maintain and operate them ourselves. In some cases, functions necessary to our business are performed on proprietary third-party systems and software to which we have no access. We also generally do not have long-term contracts with these organizations and service providers. Accordingly, the failure of these organizations and service providers to renew their contracts with us or fulfill their contractual obligations and perform satisfactorily could result in significant disruptions to our operations and adversely affect operating results. In addition, businesses that we have acquired, or may acquire in the future, typically rely on other payment processing service providers. We may encounter difficulty converting payment processing services from these service providers to our payment processing platform. If we are required to find an alternative source for performing these functions, we may have to expend significant money, time and other resources to develop or obtain an alternative, and if developing or obtaining an alternative is not accomplished in a timely manner and without significant disruption to our business, we may be unable to fulfill our responsibilities to clients or meet their expectations, with the attendant potential for liability claims, damage to our reputation, loss of ability to attract or maintain clients.

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

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

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

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

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to perform these activities will not result in claims against us, which could expose us to potential litigation, damage to our reputation and material harm to our business.

There can be no certainty that the measures we have taken to protect our software platform and service infrastructure, our confidential and proprietary information and the privacy and integrity of our clients', their current or prospective renters' and business partners' data are adequate to prevent or remedy unauthorized access to our system. Because techniques used to obtain unauthorized access to, or to sabotage, systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures. Experienced computer programmers seeking to intrude or cause harm, or hackers, have penetrated our service infrastructure in the past and are likely to attempt to do so in the future. Hackers may consist of sophisticated organizations, competitors, governments or individuals who launch targeted attacks to gain unauthorized access to our systems and financial assets. A hacker who is able to penetrate our service infrastructure could misappropriate proprietary or confidential information or financial assets or cause interruptions in our services. For example, during May 2018, we learned we were the subject of a targeted email phishing campaign that led to a business email compromise, pursuant to which an unauthorized party gained access to an external third party system used by a subsidiary that was acquired by us in 2017. The incident resulted in the successful diversion of approximately $8 million of funds intended for disbursement to three clients. RealPage immediately notified its relevant financial institutions and certain government agencies of the incident and restored all funds to the client accounts. Although we believe recovery can be achieved through the continued efforts by relevant financial institutions and government agencies coupled with applicable insurance coverage, there can be no assurance of recovery or the timing of any such recovery.

We might be required to expend significant capital and resources to protect against, or to remedy, problems caused by hackers (including the May 2018 incident described above), 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 clients and potential clients perceive vulnerabilities, the market perception of the effectiveness of our security measures could be harmed, we could lose sales and clients and our business could be materially harmed.

Our business is subject to the risks of international operations.

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

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

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

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

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

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, or our inability to successfully integrate certain new members of our management, could adversely affect our business. Our future success also will depend on our ability to attract, retain and motivate highly skilled software developers, marketing and sales personnel, technical support and product development personnel in the United States and internationally. All of our employees work for us on an at-will basis. Competition for these types of personnel is intense, particularly in the software industry. As a result, we may be unable to attract or retain qualified personnel. Our inability to attract and retain the necessary personnel could adversely affect our business.

Legal and Regulatory Risks Related to Our Business

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

In connection with our electronic payment processing services, we process renter payments and subsequently submit these renter payments to our clients after varying clearing times established by RealPage. These payments are settled through our sponsor banks, and in the case of EFT, our Originating Depository Financial Institutions, or ODFIs. The renter payments that we process for our clients at our sponsor banks are identified in our Consolidated Balance Sheets as restricted cash and the corresponding liability for these renter payments is identified as client deposits. Our electronic payment processing business and related maintenance of custodial accounts subjects us to a number of risks, including, but not limited to:

- liability for client costs related to disputed or fraudulent transactions if those costs exceed the amount of the client reserves we have during the clearing period or after renter payments have been settled to our clients;
- electronic processing limits on the amount of custodial balances that any single ODFI, or collectively all of our ODFIs, will underwrite;
- reliance on sponsor banks, card payment processors and other payment service provider partners to process electronic transactions;
- failure by us or our sponsor banks to adhere to applicable laws and regulatory requirements or the standards of the electronic payments rules and regulations and other rules and regulations that may impact the provision of electronic payment services;
- continually evolving and developing laws and regulations governing payment processing and money transmission, the application or interpretation of which is not clear in some jurisdictions;
- incidences of fraud, a security breach or our failure to comply with required external audit standards;
- our inability to increase or modify our fees at times when sponsor banks, electronic payment partners or associations increase their transaction processing fees or impose restrictions on the type, structure or amount of fees we can charge;
- repricing actions taken by card associations or payment networks or imposed as a result of governmental regulation or due to competitive pressures, which could negatively impact the prices we can charge customers for our services; and
- inconsistent and conflicting laws, regulations and card association or payment network rules that may result in fee structures that cause consumer confusion, complaints or litigation.

If any of these risks related to our electronic payment processing business were to materialize, our business or financial results could be negatively affected. Although we attempt to structure and adapt our payment processing operations to comply with these complex and evolving laws and regulations, our efforts may not guarantee compliance. In the event that we are found to be in violation of these legal requirements, we may be subject to monetary fines, cease and desist orders, mandatory product changes, or other penalties that could have an adverse effect on our results of operations. Additionally, with respect to the processing of EFTs, we are exposed to financial risk and EFTs between a renter and our client may be returned for various reasons such as insufficient funds or stop payment orders. These returns are charged back to the client by us. However, if we or our sponsor banks are unable to collect such amounts from the client’s account or if the client refuses or is unable to reimburse us for the chargeback, we bear the risk of loss for the amount of the transfer. While we have not experienced material losses resulting from chargebacks in the past, there can be no assurance that we will not experience significant losses from chargebacks in the future. Any increase in chargebacks not paid by our clients may adversely affect our financial condition and results of operations.

We entered into a service provider agreement with a financial institution merchant service provider under which we are a registered independent sales organization, or ISO, of the merchant service providers. The merchant service provider acts as a merchant acquiring bank for processing our client credit card and debit card payments (“Card Payments”), and we serve as an ISO. As an ISO, we assume the underwriting risk for processing Card Payments on behalf of our clients. If we experience excessive chargebacks, either we or the merchant service provider has the authority to cease client card processing services, and such events could result in a material adverse effect on our revenues, operating income, and reputation.

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

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

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

Because certain solutions we provide depend on access to client data, decreased access to this data or the failure to comply with the evolving laws and regulations governing privacy of data, cloud computing and cross-border data transfers, or the failure to address privacy concerns applicable to such data, could harm our business.

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

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

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

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

The software and technology industries are characterized by the existence of a large number of patents, copyrights, trademarks and trade secrets and by frequent litigation based on allegations of infringement, misappropriation, misuse and other violations of intellectual property rights. We have received in the past, and may receive in the future, communications from third parties claiming that we have infringed or otherwise misappropriated the intellectual property rights or terms of use of others. Our technologies may not be able to withstand any third-party claims against their use. Since we currently have a limited number of patents, we may not be able to use patent infringement as a defensive strategy in such litigation. Additionally, although we have licensed from other parties proprietary technology covered by patents, we cannot be certain that any such patents will not be challenged, invalidated or circumvented. If such patents are invalidated or circumvented, this may allow existing and potential competitors to develop products and services that are competitive with, or superior to, our solutions.

Many of our client agreements require us to indemnify our clients for certain third-party claims, such as intellectual property infringement claims, which could increase our costs of defending such claims and may require that we pay damages if

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there were an adverse ruling or settlement related to any such claims. These types of claims could harm our relationships with our clients, may deter future clients from purchasing our solutions or could expose us to litigation for these claims. Even if we are not a party to any litigation between a client and a third party, an adverse outcome in any such litigation could make it more difficult for us to defend our intellectual property in any subsequent litigation in which we are a named party.

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

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

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

Our success depends 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 a limited number of issued patents and pending patent applications, and we may be unable to obtain patent protection in the future. In addition, if any patents are issued in the future, they may not provide us with any competitive advantages, may not be issued in a manner that gives us the protection that we seek and may be successfully challenged by third parties. Unauthorized parties may attempt to copy or otherwise obtain and use the technologies underlying our solutions. Monitoring unauthorized use of our technologies is difficult, and we do not know whether the steps we have taken will prevent unauthorized use of our technology. If we are unable to protect our proprietary rights, we may find ourselves at a competitive disadvantage to others who have not incurred the substantial expense, time and effort required to create similar innovative products.

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

We customarily enter into agreements with our employees, contractors and certain parties with whom we do business to limit access to, use of, and disclosure of our confidential and proprietary information. The legal and technical steps we have taken, however, may not prevent unauthorized use or the reverse engineering of our technology. Moreover, we may be required to release the source code of our software to third parties under certain circumstances. For example, some of our client agreements provide that if we cease to maintain or support a certain solution without replacing it with a successor solution, then we may be required to release the source code of the software underlying such solution. In addition, others may independently develop technologies that are competitive to ours or infringe our

intellectual property. Moreover, it may be difficult or practically impossible to detect copyright infringement or theft of our software code. Enforcement of our intellectual property rights also depends on our legal actions being successful against these infringers, but these actions may not be successful, even when our rights have been infringed. Furthermore, the legal standards relating to the validity, enforceability and scope of protection of intellectual property rights in Internet-related industries are uncertain and still evolving.
Additionally, as we sell our solutions internationally, effective patent, trademark, service mark, copyright and trade secret protection may not be available or as robust in every country in which our solutions are available. As a result, we may not be able to effectively prevent competitors outside the United States from infringing or otherwise misappropriating our intellectual property rights, which could reduce our competitive position and ability to compete or otherwise harm our business.

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

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

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

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

On February 23, 2015, we received from the Federal Trade Commission ("FTC") a Civil Investigative Demand consisting of interrogatories and a request to produce documents relating to our compliance with the FCRA. We responded to the request and requests for additional information by the FTC. On November 2, 2017, the FTC staff informed us of its belief that there is a basis for claims that could include monetary and injunctive relief against us for failing to follow reasonable procedures to assure maximum possible accuracy of our tenant screening reports. We believe that our business practices did not, and do not, violate the FCRA or any other laws, and we intend to vigorously defend our position. We have had ongoing discussions with the FTC to attempt to resolve the matter. However, we cannot be certain that the matter will be resolved as a result of these discussions.

Litigation, enforcement actions and other legal proceedings, regardless of their outcome, may result in substantial costs and may divert management's attention and our resources, which may harm our business, overall financial condition and operating results. In addition, legal claims that have not yet been asserted against us may be asserted in the future. Although we maintain insurance, there is no guarantee that such insurance will be available or sufficient to cover any such legal proceedings or claims. For example, insurance may not cover such legal proceedings or claims or the insurer may withhold or dispute coverage of such legal proceedings or claims on various grounds, including by alleging such coverage is beyond the scope of such policies, that we are not in compliance with the terms of such insurance policies or that such policies are not in effect, even after proceeds under such insurance policies have been received by us. In addition, insurance may not be sufficient for one or more such legal proceedings or claims and may not continue to be available on terms acceptable to us, or at all. A legal proceeding or claim brought against us that is uninsured or under-insured could result in unanticipated costs, thereby harming our operating results.

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

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

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

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

On February 23, 2015, we received from the Federal Trade Commission ("FTC") a Civil Investigative Demand consisting of interrogatories and a request to produce documents relating to our compliance with the FCRA. We responded to the request and requests for additional information by the FTC. On November 2, 2017, the FTC staff informed us of its belief that there is a basis for claims that could include monetary and injunctive relief against us for failing to follow reasonable procedures to assure maximum possible accuracy of our tenant screening reports. We believe that our business practices did not, and do not, violate the FCRA or any other laws, and we intend to vigorously defend our position. We have had ongoing discussions with the FTC to attempt to resolve the matter. However, we cannot be certain that the matter will be resolved as a result of these discussions.

We believe increased regulation is likely in the area of data privacy, and laws and regulations applying to the solicitation, collection, processing or use of personally identifiable information or consumer information could affect our clients' ability to use and share data, potentially reducing demand for our on demand software solutions. In October 2015, the European Court of Justice invalidated the U.S.-EU Safe Harbor framework, which had been the primary compliance mechanism for establishing data transfers outside of the European Economic Area in accordance with the European Union's Data Protection Directive 95-46 EC. In July 2016, the U.S. and European Union entered into a new compliance framework, (the "Privacy Shield"), which was intended to replace the U.S.-EU Safe Harbor framework. The Privacy Shield is subject to review by European courts, and this creates some uncertainty regarding compliance with applicable privacy laws and regulations. While alternative compliance options exist, the long-term viability of the overall compliance framework remains in question, which could result in increased regulation, cost of compliance and limitations on data transfers for both our clients and us. Beginning in May 2018, the General Data Protection Regulation ("GDPR") will become effective in the European Union. The GDPR imposes new requirements upon companies in the EU or operating in the EU regarding the handling of personal data. If we are unable to meet the requirements of applicable privacy laws and regulations, the Privacy Shield or GDPR with respect to our services subject to these provisions, we may incur monetary or other penalties which could harm our business or financial condition.

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

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

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

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

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

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

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 24.9% of our common stock as of March 31, 2018. Of such amount, Stephen T. Winn, our President, Chief Executive Officer and Chairman of the Board, and entities beneficially owned by Mr. Winn held an aggregate of approximately 22.7% of our common stock as of March 31, 2018. This significant concentration of ownership may adversely affect the trading price of our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. Mr. Winn and entities beneficially owned by Mr. Winn may exert significant influence over our management and affairs and matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership may have the effect of delaying or preventing a change of control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change of control would benefit our other stockholders.

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

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

- variations in our operating results or in expectations regarding our operating results;
- variations in operating results of similar companies;
- changes in our financial guidance and how our actual results compare to such guidance;
- changes in the estimates of our operating results or changes in recommendations by any research analysts that elect to follow our common stock;
- announcements of technological innovations, new solutions or enhancements, acquisitions, strategic alliances or agreements by us or by our competitors;

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- announcements by competitors regarding their entry into new markets, and new product, service and pricing strategies;
- marketing, advertising or other initiatives by us or our competitors;
- increases or decreases in our sales of products and services for use in the management of units by clients and increases or decreases in the number of units managed by our clients;
- threatened or actual litigation;
- major changes in our board of directors or management;
- recruitment or departure of key personnel;
- 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 expense under applicable accounting standards; and
- adoption or modification of regulations, policies, procedures or programs applicable to our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. If we do not pay cash dividends, you would receive a return on your investment in our common stock only if the market price of our common stock has increased when you sell your shares. In addition, the terms of our credit facilities currently restrict our ability to pay dividends. See additional discussion under the Dividend Policy heading of Part II, Item 5 of our Annual Report on Form 10-K filed with the SEC on March 1, 2018.

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

(c) Purchases of Equity Securities

The following table provides information with respect to repurchases of our common stock made during the three months ended March 31, 2018, by RealPage, Inc. or any “affiliated purchaser” of RealPage, Inc. as defined in Rule 10b-18(a)(3) under the Exchange Act:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [1]
January 1, 2018 through January 31, 2018	—	$ —	—	$44,894,113
February 1, 2018 through February 28, 2018	—	—	—	44,894,113
March 1, 2018 through March 31, 2018	—	—	—	44,894,113
	—	$ —	—	$44,894,113

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

Item 6. Exhibits.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.
Date: May 10, 2018

RealPage, Inc.

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

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EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Date	Number	Included Herewith
2.1	Acquisition Agreement dated April 19, 2018 by and among Registrant and each of the holders of outstanding membership units of NovelPay LLC, a Delaware limited liability company, other than those owned by ClickPay Services, Inc., a Delaware corporation, and NP Representative, LLC, a Delaware limited liability company, solely in its capacity as the Sellers' Representative*				X
2.2	Agreement and Plan of Merger by and among Registrant, RP Newco XXIII Inc., a Delaware corporation and wholly-owned subsidiary of Registrant, RP Newco XXIV Inc., a Delaware corporation and wholly-owned subsidiary of Registrant, ClickPay Services, Inc., a Delaware corporation and NP Representative, LLC, a Delaware limited liability company, solely in its capacity as the Sellers' Representative*				X
3.1	Amended and Restated Certificate of Incorporation of the Registrant	S-1/A	7/26/2010	3.2	
3.2	Amended and Restated Bylaws of the Registrant	S-1/A	7/26/2010	3.4	
4.1	Form of Common Stock certificate of the Registrant	S-1/A	7/26/2010	4.1	
4.2	Shareholders' Agreement among the Registrant and certain stockholders, dated December 1, 1998, as amended July 16, 1999 and November 3, 2000	S-1	4/29/2010	4.2	
4.3	Second Amended and Restated Registration Rights Agreement among the Registrant and certain stockholders, dated February 22, 2008	S-1	4/29/2010	4.3	
4.4	Indenture between the Registrant and Wells Fargo Bank, National Association, dated May 23, 2017	10-Q	8/4/2017	4.4	
4.5	Form of Global Note to represent the 1.50% Convertible Senior Notes due 2022, of the Registrant	10-Q	8/4/2017	4.5	
4.6	Form of Warrant Confirmation in connection with 1.50% Convertible Senior Notes due 2022, of the Registrant	10-Q	8/4/2017	4.6	
4.7	Form of Call Option Confirmation in connection with 1.50% Convertible Senior Notes due 2022, of the Registrant	10-Q	8/4/2017	4.7	
10.1	Seventh Amendment to Credit Agreement, Incremental Amendment and Amendment to Collateral Agreement among the Registrant, certain subsidiaries of the Registrant party thereto, the lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent, dated March 12, 2018				X
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**				X
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act				X

	of 2002**	
101.INS	Instance	X
101.SCH	Taxonomy Extension Schema	X
101.CAL	Taxonomy Extension Calculation	X
101.LAB	Taxonomy Extension Labels	X
101.PRE	Taxonomy Extension Presentation	X
101.DEF	Taxonomy Extension Definition	X

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* Exhibits, schedules and annexes have been omitted pursuant to Item 601(b)(2) of Regulation S-K and will be furnished to the Securities and Exchange Commission upon request.

** Furnished herewith.